Corporate Information

Board of Directors

Mr. Fernando Garcia		Chairman
Mr. M. Imran Malik		Chief Executive
Mr. M. G. Middleton		Director
Mr. Carlos Gomez		Director
Mr. Muhammad Ali Malik		Director
Mr. Fakir Syed Aijazuddin		Director
Mr. Ijaz Ahmad Chaudhry		Director
Mr. Shahid Anwar	(Nominee of NIT)	Director
Mr. Shamshad Ahmad	(Nominee of NIT)	Director

Audit Committee

Mr. Fakir Syed Aijazuddin	Chairman
Mr. Ijaz Ahmad Chaudhry	Member
Mr. Carlos Gomez	Member

Company Secretary

Mr. S. M. Ismail

Auditors

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants,
Mall View Building, 4-Bank Square,
P.O. Box No. 104, Lahore.

Legal Advisor

Surridge & Beecheno
60 Shahrah-e-Quaid-e-Azam,
Ghulam Rasool Building,
Lahore.

Stock Exchange Listing

Bata Pakistan Limited is listed on Karachi and Lahore Stock Exchanges.

The Company's shares are quoted in leading Newspapers under "Leather and Tannery" sector.

Bankers

Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
Bank Al Habib Limited
National Bank of Pakistan Limited
Atlas Bank Limited

Registered Office

Batapur, G. T. Road, P.O. Batapur,
Lahore.

Share Registrar

Corplink (Pvt.) Ltd.
Wings Arcade, 1-K Commercial Area,
Model Town, Lahore.

Factories

Batapur

G.T. Road, P.O. Batapur, Lahore.

Maraka

26 - Km, Multan Road, Lahore.

Liaison Office

138 C-II Commercial Area,
P.E.C.H.S., Tariq Road, Karachi.

Key Operating Highlights

Year		2009	2008	2007	2006	2005	2004
Financial Position							
Authorized capital	Rs. '000s	**100,000**	100,000	100,000	100,000	100,000	100,000
Paid up capital	Rs. '000s	**75,600**	75,600	75,600	75,600	75,600	75,600
Shareholders' equity	Rs. '000s	**1,960,727**	1,435,695	973,040	697,563	618,182	545,606
Total assets	Rs. '000s	**3,061,997**	2,276,936	1,873,011	1,414,731	1,365,181	1,274,908
Property, Plant and equipment	Rs. '000s	**582,411**	548,222	409,363	332,726	282,645	266,487
Provision for gratuity	Rs. '000s	**69,196**	62,780	67,403	66,610	67,836	66,322
Current assets	Rs. '000s	**2,409,258**	1,652,271	1,398,003	1,013,982	1,019,177	961,057
Current liabilities	Rs. '000s	**979,146**	734,907	808,720	628,422	658,696	643,619
Trading Results							
Sales	Rs. '000s	**6,428,490**	5,106,578	3,964,187	2,989,474	2,543,344	2,279,556
Gross profit	Rs. '000s	**2,672,213**	2,164,146	1,637,053	1,112,821	937,406	835,834
Operating profit	Rs. '000s	**848,205**	691,095	571,912	262,586	184,469	183,578
Profit before tax	Rs. '000s	**813,022**	663,822	503,999	166,820	128,535	178,197
Profit after tax	Rs. '000s	**585,512**	477,775	358,637	109,621	83,916	121,872
Distribution							
Interim Cash dividend - paid	%	**-**	-	60.00	-	-	30.00
Final Cash dividend - proposed	%	**120.00**	80.00	20.00	50.00	40.00	15.00
Financial Ratios and Values							
Gross profit	%	**41.57**	42.38	41.30	37.22	36.86	36.67
Operating profit	%	**13.19**	13.53	14.43	8.78	7.25	8.05
Profit before tax	%	**12.65**	13.00	12.71	5.58	5.05	7.82
Profit after tax	%	**9.11**	9.36	9.05	3.67	3.30	5.35
Return on equity	%	**29.86**	33.28	36.86	15.71	13.57	22.34
Price earning ratio	Times	**12.64**	11.82	10.23	8.90	8.11	4.40
Dividend yield	%	**1.23**	1.07	1.65	3.88	4.44	6.34
Earnings per share	Rs.	**77.45**	63.20	47.44	14.50	11.10	16.12
Interest cover	Times	**24.11**	25.34	22.54	6.03	4.21	9.96
Debt: equity ratio	Times	**0.00:1**	0.00:1	0.00:1	0.00:1	0.35:1	0.31:1
Current ratio	Times	**2.46:1**	2.25:1	1.73:1	1.61:1	1.55:1	1.49:1
Average stock turns - value	Times	**2.94**	2.88	3.13	2.84	2.80	2.65
Debtors turnover	Times	**270.84**	54.03	16.31	23.10	8.05	7.30
Average collection period	Days	**1**	7	22	16	45	50
Property, plant and equipment turnover	Times	**11.04**	9.31	9.68	8.98	9.00	8.55
Break up value per share	Rs.	**259.36**	189.91	128.71	92.27	81.77	72.17
Market price per share	Rs.	**979.00**	747.00	485.45	129.00	90.00	71.00
Market capitalization	Rs.'000s	**7,401,240**	5,647,320	3,670,002	975,240	680,400	536,760
Other information							
Permanent employees	Number	**2,652**	2,712	2,792	2,912	3,226	3,265
Retail outlets	Number	**369**	365	366	373	385	372
Wholesale depots	Number	**12**	12	12	12	21	21
Installed capacity	Pairs '000s	**9,303**	8,737	9,350	12,450	14,700	17,700
Actual production	Pairs '000s	**10,394**	9,476	8,286	10,398	10,669	12,306
Capacity utilization	%	**111.73**	108.46	88.62	83.52	72.58	69.53
Capital expenditure	Rs.'000s	**119,255**	214,200	127,970	91,515	57,689	44,218
Contribution to the National Exchequer	Rs.'000s	**555,950**	453,885	456,538	303,328	408,437	466,331

DIRECTORS' REPORT TO THE MEMBERS

Your Directors have pleasure in submitting their report and financial statements of the Company for the year ended 31 December 2009.

1. The Chairman's Review on page 24 to 27 deals with the year's activities, financial affairs and future prospects of the Company, the contents of which are endorsed by the directors.

2. Financial results

The financial results of the Company are as under:

	Rs. ('000)
Profit before taxation	813,022
Less: Provision for taxation	
Current	220,450
Prior years	2,866
Deferred	4,194
	227,510
Profit after tax	585,512
To this must be added	
Unappropriated profit brought forward from last year	479,612
Profit available for appropriations	1,065,124
To this the following must be deducted:	
Final dividend 2008 @ Rs. 8.00 per share	60,480
Transfer to general reserve	418,000
	478,480
Leaving an unappropriated profit to be carried forward to next year	586,644

The directors in their meeting held on 18 February 2010 have proposed a final cash dividend @ Rs. 12.00 per share - (2008: Final @ Rs. 8.00 per share) and transfer to general reserve amounting to Rs. 494 million for approval of members in the Annual General Meeting to be held on 22 April 2010.

3. Earning per share -Basic and diluted

Earning per share for the year ended 31 December, 2009 was Rs. 77.45 as against Rs. 63.20 of preceding year.

4. The pattern of shareholding

The pattern of shareholding as on 31 December 2009 and its disclosure according to the requirement of Code of Corporate Governance is annexed to this report.

5. Auditors

The present Auditors, Messrs Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, retire and offer themselves for re-appointment. The Board of Directors, on recommendation of Audit Committee, proposes the re-appointment of Messrs Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, for the year ending 31 December 2010.

6. Statement pursuant to clause XIX of Corporate Governance

The Company had complied with all the requirements of the Code of Corporate Governance as required by the listing regulations.

Accordingly, the Directors are pleased to confirm the following:

a) The financial statements together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984. These statements present fairly the Company's state of affairs, the results of its operations, cash flow and changes in equity.

b) Proper books of account of the Company have been maintained.

c) Appropriate accounting policies have been consistently applied in the preparation of financial statements and accordingly estimates are based on reasonable and prudent judgment.

d) International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure there from, if any, has been adequately disclosed.

e) The system of internal controls is sound in design and has been effectively implemented and is being consistently reviewed by the internal audit.

f) There are no significant doubts upon the Company's ability to continue as a going concern.

g) There has been no material departure from the best practices of corporate governance as detailed in listing regulations of Stock Exchanges in Pakistan.

h) Key operating and financial data of last six years is annexed to this report.

i) Statement of compliance with the Code of Corporate Governance is annexed.

j) Value of assets of Provident Fund Trusts was Rupees ('000) 1.262,206 as on 31 December 2009 as per its audited accounts. The value of assets includes accrued interest.

k) Attendance at four meetings of the Board of Directors held during the year under review was as under:

Name of Director	Meetings Attended
Mr. Fernando Garcia	-
Mr. M. Imran Malik	4
Mr. M. G. Middleton	2
Mr. Carlos Gomez	2
Mr. Muhammad Ali Malik	4
Mr. Fakir Syed Aijazuddin	3
Mr. Ijaz Ahmad Chaudhry	3
Mr. Shahid Anwar	4
Mr. Shamshad Ahmad	4
Resigned / Retired	
Mr. Jorge Carbajal	-
Mr. Salahuddin Niazi	2

l) No trading in the shares of the Company was carried out by the Directors, CEO, CFO and Company Secretary, their spouses and minor children.

m) The Audit Committee met four times during the year under reference. The Audit committee reviewed the quarterly, half yearly and annual financial statements before submission to the Board and their publication. CFO, Head of Internal Audit and a representative of external auditors attended the meetings where issues relating to accounts and audit were discussed. The Audit Committee also reviewed internal audit findings and held separate meetings with internal and external auditors as required under the Code of Corporate Governance. The Audit Committee also discussed with the external auditors their letter to the management. Related Parties Transactions were also placed before the Audit Committee prior to approval of the Board.

n) Outstanding taxes and levies are given in the relevant notes to the audited financial statements.

o) An orientation course was arranged for the Directors to acquaint them with their duties & responsibilities and enable them to manage affairs of the Company on behalf of the shareholders.

p) No material changes and commitments affecting the financial position of the Company have occurred between the end of the financial year to which these financial statements relate and the date of directors' report.

7. Related party transactions

The transactions with the related parties and associated undertakings were made at arm's length prices.

On behalf of the
BOARD OF DIRECTORS

M. IMRAN MALIK
CHIEF EXECUTIVE

Batapur
LAHORE: 18 February 2010

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Bata Pakistan Limited (the Company) as at 31 December 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 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;

   (ii) the expenditure incurred during the year was for the purpose of the company's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 31 December 2009 and of the profit, cash flows and changes in equity for the year then ended; and

(d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

ERNST & YOUNG FORD RHODES SIDAT HYDER
CHARTERED ACCOUNTANTS

LAHORE: 18 February 2010

BALANCE SHEET
AS AT 31 DECEMBER 2009

	Note	2009	2008
		(Rupees in'000)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	**582,411**	548,222
Long term investments	7	**35,830**	30,650
Long term deposits and prepayments	8	**34,498**	45,793
		652,739	624,665
CURRENT ASSETS			
Stores and spares	9	**768**	140
Stock in trade	10	**1,281,862**	1,274,289
Trade debts - unsecured	11	**23,735**	94,518
Advances - unsecured	12	**3,191**	893
Deposits, short term prepayments and other receivables	13	**65,209**	67,472
Mark - up accrued		**3,851**	-
Short term investment	14	**350,000**	-
Tax refunds due from Government	15	**219,393**	126,007
Cash and bank balances	16	**461,249**	88,952
		2,409,258	1,652,271
TOTAL ASSETS		**3,061,997**	2,276,936
SHARE CAPITAL AND RESERVES			
Authorized share capital	17.1	**100,000**	100,000
Issued, subscribed and paid up capital	17.2	**75,600**	75,600
Reserves			
Capital reserve	18	**483**	483
Revenue reserves	19	**1,884,644**	1,359,612
		1,885,127	1,360,095
		1,960,727	1,435,695
NON-CURRENT LIABILITIES			
Long term deposits	20	**35,830**	30,650
Deferred liability - employee benefits	21	**69,196**	62,780
Deferred taxation	22	**17,098**	12,904
		122,124	106,334
CURRENT LIABILITIES			
Trade and other payables	23	**907,760**	663,818
Mark - up accrued		**-**	2,364
Short term borrowings	24	**-**	-
Provision for taxation	25	**71,386**	68,725
		979,146	734,907
CONTINGENCIES AND COMMITMENTS	26		
TOTAL EQUITY AND LIABILITIES		**3,061,997**	2,276,936

The annexed notes from 1 to 44 form an integral part of these financial statements.

Chief Executive **Director**

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009	2008
		(Rupees in'000)	
SALES	27	**6,428,490**	5,106,578
COST OF SALES	28	**3,756,277**	2,942,432
GROSS PROFIT		**2,672,213**	2,164,146
DISTRIBUTION COST	29	**1,367,249**	1,048,173
ADMINISTRATIVE EXPENSES	30	**403,640**	334,398
OTHER OPERATING EXPENSES	31	**65,757**	103,588
		1,836,646	1,486,159
OTHER OPERATING INCOME	32	**12,638**	13,108
OPERATING PROFIT		**848,205**	691,095
FINANCE COSTS	33	**35,183**	27,273
PROFIT BEFORE TAXATION		**813,022**	663,822
TAXATION	34	**227,510**	186,047
PROFIT AFTER TAXATION		**585,512**	477,775
EARNINGS PER SHARE - BASIC AND DILUTED	35	**Rs. 77.45**	Rs. 63.20

The annexed notes from 1 to 44 form an integral part of these financial statements.

Chief Executive **Director**

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009	2008
		(Rupees in'000)	
CASH GENERATED FROM OPERATIONS			
Profit before taxation		813,022	663,822
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation of property, plant & equipment		82,270	66,134
Provision for gratuity		8,386	4,402
Loss on disposal of property, plant and equipment		1,041	3,723
Profit on short term investment		(3,851)	-
Finance cost		35,183	27,273
		123,029	101,532
Operating profit before working capital changes		936,051	765,354
Working capital adjustments:			
(Increase) / decrease in current assets:			
Stores and spares		(628)	(140)
Stock in trade		(7,573)	(504,293)
Trade debts - unsecured		70,783	148,561
Advances - unsecured		(2,299)	2,589
Deposits, short term prepayments and other receivables		2,262	(22,318)
Tax refunds due from Government		(93,386)	(37,428)
		(30,841)	(413,029)
(Decrease) / increase in current liabilities:			
Trade and other payables		246,926	(44,198)
Cash generated from operations		1,152,136	308,127
Finance costs paid		(37,545)	(25,572)
Income tax paid		(223,639)	(200,139)
Gratuity paid		(1,970)	(9,025)
		(263,154)	(234,736)
Net increase / (decrease) in long term deposits		16,475	(1,514)
Net cash generated from operating activities		905,457	71,877
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	(121,176)	(214,200)
Proceeds from sale of property, plant and equipment	6.5	3,676	5,484
Increase in long term investments		(5,180)	(6,802)
Net cash used in investing activities		(122,680)	(215,518)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(60,480)	(15,120)
Net cash used in financing activities		(60,480)	(15,120)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		722,297	(158,761)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		88,952	247,713
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	36	811,249	88,952

The annexed notes from 1 to 44 form an integral part of these financial statements.

Chief Executive **Director**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital	Capital reserve	General reserve	Unappropriated profits	Total
	----------	----------	Rupees in '000	----------	----------
Balance as at 31 December 2007	75,600	483	582,000	314,957	973,040
Final dividend for 2007 @ Rs. 2.00 per share	-	-	-	(15,120)	(15,120)
Transfer to general reserve for 2007	-	-	298,000	(298,000)	-
Net profit for the year	-	-	-	477,775	477,775
Balance as at 31 December 2008	**75,600**	**483**	**880,000**	**479,612**	**1,435,695**
Final dividend for 2008 @ Rs. 8.00 per share	-	-	-	(60,480)	(60,480)
Transfer to general reserve for 2008	-	-	418,000	(418,000)	-
Net profit for the year	-	-	-	585,512	585,512
Balance as at 31 December 2009	**75,600**	**483**	**1,298,000**	**586,644**	**1,960,727**

The annexed notes from 1 to 44 form an integral part of these financial statements.

Chief Executive **Director**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

1. LEGAL STATUS AND OPERATIONS

Bata Pakistan Limited (the Company) is a public limited company incorporated in Pakistan and is quoted on Lahore and Karachi Stock Exchanges. The registered office of the Company is situated at Batapur, Lahore. The principal activity of the Company is manufacturing and sale of footwear of all kinds along with sale of accessories and hosiery items. The parent Company of Bata Pakistan Limited is Bafin B.V., Nederland, whereas the ultimate parent is Compass Limited, Bermuda.

2. STATEMENT OF COMPLIANCE

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

2.2 Standards, interpretations and amendments to published approved accounting standards.

2.2.1 Amendments to published standards effective in 2009

The Company has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009.

	Standard or Interpretation	Effective date (periods beginning on or after)
IAS - 1	Presentation of Financial Statements (Revised)	01 January 2009
IAS - 23	Borrowing Costs (Revised)	01 January 2009
IAS - 27	Consolidated and separate Financial Statements - Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendment)	01 January 2009
IAS - 29	Financial Reporting in Hyperinflationary Economies	01 July 2008
IAS - 32	Financial Instruments - Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation	01 January 2009
IFRS - 2	Share Based Payments Amendments regarding Vesting Conditions and Cancellations	01 January 2009
IFRS - 7	Financial Instruments: Disclosures	01 July 2008
IFRS - 7	Financial Instruments: Fair Value Disclosures (Amendment)	01 January 2009
IFRS - 8	Operating Segments	01 January 2009
IFRIC - 9	Re-measurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement	01 July 2008
IFRIC - 13	Customer Loyalty Programmes	01 July 2008
IFRIC - 15	Agreements for the Construction of Real Estate	01 January 2009
IFRIC - 16	Hedges of Net Investment in Foreign Operation	01 October 2008

The principal effects of these are as follows:

IAS 1 Presentation of Financial Statements (Revised)

This standard introduces a profit and loss account: presenting all items of income and expense recognized in the income statement, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Company has adopted the single statement approach.

IFRS 7 Financial instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company’s financial instruments and the nature and extent of risks arising from those financial instruments.

The new standard requires qualitative risk disclosures including information processes an entity uses to manage and quantitative data about the exposure to each type of risk arising from financial instruments. It requires enhanced disclosures about fair value measurement and liquidity risk. The amendment results in only additional disclosures and there are no impacts on profit for the year. The new disclosures are included throughout the financial statements.

IFRIC 13 Customer Loyalty Programmes

This IFRIC requires points/credits of customer loyalty programmes to be accounted for as a separate component of sales transaction in which they are granted. A portion of fair value of the consideration received is then allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed as stated in note 23.2.

Other than the above, there is not likely to be any significant impact of the new standards and amendments.

2.2.2 Standards issued but not yet effective

The following revised standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after dates published below:

	Standard or Interpretation	Effective date (periods beginning on or after)
IAS - 27	Consolidated and Separate Financial Statements (Amendment)	01 July 2009
IAS - 39	Financial Instruments: Recognition and measurement: Eligible hedged items: (Amendment)	01 July 2009
IFRS - 2	Share-based Payments: Amendments Relating to Group Cash-settled Share-based Payment Transactions	01 January 2010
IFRS - 3	Business Combinations (Revised)	01 July 2009
IFRIC - 17	Distributions of Non-cash Assets to owners	01 July 2009
IFRIC - 18	Transfers of assets from customers	01 July 2009
IFRIC - 19	Extinguishing Financial Liabilities with Equity Instruments	01 July 2010

In addition to the above, the IASB's annual improvements project published in April 2009, contains a number of amendments which would generally be applicable for financial periods beginning on or after 1 January 2010. These include changes in terminology and accounting requirements. The Company expects that adoption of standards and improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

3. BASIS OF PREPARATION

3.1 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except that certain employee benefits are recognized on the basis mentioned in note 5.1. In these financial statements, except for cash flow statement, all the transactions have been accounted for on accrual basis.

3.2 PRESENTATION CURRENCY

These financial statements are presented in Pak Rupee, which is the Company's functional currency.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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 evaluated and are based on historical experience and other factors involving a higher degree of expectations of future events that are believed to be reasonable under the circumstances.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if revision affects both current and future periods. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

4.1 Employee benefits

The cost of defined benefit retirement plan (gratuity) is determined using actuarial valuations (projected unit credit method) performed by independent actuaries. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. All assumptions are reviewed at each reporting date.

4.2 Taxation

In making the estimate for income tax payable by the Company, the Company takes into account the applicable tax laws and the decision by appellate authorities on certain issues in the past.

4.3 Useful lives, residual values, pattern of flow of economic benefits and impairment

Estimates with respect to depreciable lives, residual values, and pattern of flow of economic benefits are based on the analysis of the management of the Company. Further, as explained in Note 5.4, the Company reviews the value of the assets for possible impairments on an annual basis. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

4.4 Provision for obsolescence of stores and spares

Provision for obsolescence of stores and spares is made on the basis of management's estimate of net realizable value and ageing analysis prepared on an item-by-item basis.

4.5 Provision for doubtful debts

The Company reviews its trade and other receivables at each reporting date to assess whether provision should be recorded in profit and loss account. Especially, judgment by management is required in the estimation of the amount and timing of future cash flows while determining the extent of provision required. Such estimates are based on assumption about a number of factors including credit history of counter party. Actual cash flows may differ resulting in subsequent changes to the provisions.

Other areas where estimates and judgments are involved have been disclosed in respective notes to the financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 Employee benefits

Defined benefit plan

A defined benefit involves a defined amount of gratuity that an employee will receive on retirement, which is usually dependent on one or more factors such as age, years of service and compensation.

The company operates an un-funded gratuity scheme covering all employees, excluding managerial staff. The entitlement to gratuity is determined as follows:

a) For employees, who are members of the provident fund scheme, the provision is calculated with reference to 3 weeks' basic salary for each completed year of service.

b) For employees, who are not members of the provident fund scheme, provision is based on 30 days gross highest salaries/wages drawn during the year for each completed year of service.

Actuarial valuation of defined benefit scheme is conducted annually and the most recent valuation was carried out as of 31 December 2009 using projected unit credit method.

The Company's policy with regards to recognition of actuarial gains / losses is to follow minimum recommended approach as defined in IAS 19. These gains and losses are recognized over the expected average remaining working lives of the employees.

The defined benefit asset or liability comprises the present value of defined benefit obligation less unrecognized past service cost.

Defined contribution plan

The Company operates a recognized provident fund scheme for its employees. Equal monthly contributions by the Company and employees at the rates of 8% and 10% of the basic salary are made to employees' provident fund and managerial staff provident fund, respectively.

5.2 Taxation

Current

The charge for current taxation is provided on taxable income relatable to local sales at current rate of tax after recognizing tax credit, rebates and exemptions available, if any. In case of import and export of shoes, the current taxation is provided on the basis of presumptive tax regime in accordance with the provisions of the Income Tax Ordinance, 2001.

Deferred

Deferred income tax is provided using the balance sheet liability method for all temporary differences at the balance sheet date between tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liability is recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, carry forward unused tax credits and unused tax losses, if any, to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference, carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax asset 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 assets to be utilized.

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

Sales Tax

Revenues, expenses and assets are recognized net of the amount of sales tax except;

- Where the sales tax incurred on purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of expense as applicable.

- Receivables and payable that are stated with the amount of sales tax included.

The net amount of sales tax receivable from, or payable to, the taxation authority is included as part of receivable or payable in the financial statements.

5.3 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except land which is stated at cost.

Deprecation is charged to income applying reducing balance method at the rates prescribed in note 6 of these financial statements to write off the cost over the useful lives of these assets. Depreciation on additions to property, plant and equipment is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other expenditure in the form of normal repair and maintenance is charged to profit and loss account as and when incurred.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

Capital work in progress

Capital work in progress represents expenditure on property, plant and equipment in course of construction, installation and in transit. Transfers are made to relevant category of property, plant and equipment as and when assets are available for use. Capital work in progress is stated at cost, less any identified impairment loss.

5.4 Impairment of non-financial assets

At each balance sheet date, the carrying amount of assets is reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense in the profit and loss account as incurred. The recoverable amount is higher of an asset's fair value less cost to sell and value in use.

When conditions giving rise to impairment loss subsequently reverse, impairment loss is reversed and carrying amount of the asset is increased to the revised recoverable amount. Revised carrying amount is limited to carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of impairment loss is immediately recognized in profit and loss.

5.5 Operating leases

Asset leased out under operating lease represents the Company's rubber factory that has been leased out to a third party for processing of the Company's products and are included in fixed assets of the Company under the head plant and machinery as referred to in note 6. These are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment.

5.6 Intangibles

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the profit and loss account when the asset is derecognized.

5.7 Investments

These represent investments with fixed maturity in respect of which Company has the positive intent and ability to hold till maturity. These are initially recognized at cost including transaction costs and are subsequently carried at amortized cost.

5.8 Stores and spares

These have been valued on the following basis subject to an estimated obsolescence reserve.

Purchased	-	at weighted average cost.
In transit	-	at actual cost.

5.9 Stock in trade

These are stated at lower of cost and net realizable value. The methods used for calculation of cost are as follows:

Raw material

Own production	-	at weighted average cost.
Purchased	-	at weighted average cost.
In transit	-	at actual cost.

Work in process - at production cost

Finished goods

Own production	-	at production cost on first in first out (FIFO) basis.
Purchased	-	at actual cost on first in first out (FIFO) basis.
In transit	-	at actual cost

Cost is calculated as the cost of materials, direct labour and appropriate production overheads estimated based on normal capacity levels. Net realizable vale is based on estimated selling price in the ordinary course of business less estimated cost to completion and estimated cost necessary to make the sale.

5.10 Provision for doubtful debts

A provision for doubtful debts / other receivables is based on management's assessment of customers' outstanding balances and credit worthiness. The amount of the provision is recognized in the profit and loss account. Trade debts and other receivables are written off when considered irrecoverable.

5.11 Contingencies and commitments

Contingent liabilities are 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.

- There is a 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.

5.12 Foreign currency transactions and translations

Foreign currency transactions are recorded at the rate of exchange approximating those prevailing on the dates of transactions. Monetary assets and liabilities in foreign currency are reported in Pak rupees at the rate of exchange approximating those prevailing at the balance sheet date. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

Foreign exchange gains and losses are presented in the profit and loss account within " other operating income" and " other operating expenses" respectively.

5.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of borrowings using the effective interest method.

5.14 Provisions

Provisions are recognized when the company has a present obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is made using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

5.15 Revenue recognition

(i) Sale of goods - Wholesale

The Company manufactures, imports and sells a range of footwear products in the wholesale market. Sales of goods are recognized when the Company has delivered products to the wholesaler.

(ii) Sale of goods - Retail

The Company operates a chain of retail outlets for selling shoes and other products. Sales are recognized when product is sold to the customer. Sales are usually in cash or by credit card.

(iii) Loyalty Programmes

IFRIC 13 requires customer loyalty credits to be accounted for as separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed.

(iv) Profit on investments

Profit on investments is accounted for on accrual basis using effective interest method.

(v) Profit on savings bank accounts

Profit on savings bank accounts is accounted for on accrual basis.

(vi) Operating lease arrangement

Rental income is recognized on accrual basis over the period of lease agreement.

5.16 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits with banks, other short term deposits with original maturities of three months or less and bank overdrafts.

For the purposes of cash flow statement, cash and cash equivalents comprise of cash in hand, cash in transit and bank balances.

5.17 Financial Instrument

Recognition and measurement

All the financial assets and liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. All the financial assets and liabilities are initially measured at fair value of consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost as the case may be.

Major categories of financial assets represent investments, advances, deposits, trade debts, other receivables and cash and bank balances.

Financial liabilities are classified according to substance of the contractual arrangements entered into and mainly comprise of creditors, accrued expenses and other payables.

The Company derecognizes financial assets or a portion of financial assets when, and only when, the Company loses control of the contractual rights that comprise the financial asset or portion of financial asset. A financial liability or part of financial liability is derecognized from the balance sheet when, and only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Any gain / (loss) on the recognition and de-recognition of the financial assets and liabilities is included in the profit and loss for the period in which they arise.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in profit and loss account.

Held-to-maturity investments represent financial instruments which the Company has the positive intent and ability to hold to maturity. These are measured at amortized cost using the effective interest method, less any impairment.

5.18 Offsetting of financial assets and financial liabilities

A financial asset and liability is offset against each other and the net amount is reported in the balance sheet if the company has a legally enforceable right to set off the recognized amounts and intends either to settle on net basis or to realize the asset and settle the liability simultaneously. Corresponding income from the financial asset and charge on the financial liability is also off set.

5.19 Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of the impairment may include indicators that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Company first assesses whether objective evidence of impairment exists or not.

The amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the profit and loss account.

5.20 Related party transactions

Transactions involving related parties arising in the normal course of business are conducted at arm's length price on the same terms and conditions as third party transactions using comparable uncontrolled price method.

Parties are said to be related if they are able to influence the operating and financial decisions of the Company and vice versa.

5.21 Dividend and appropriation to reserves

Dividend and other appropriation to reserves are recognized in the financial statements in the period in which these are approved.

6. PROPERTY, PLANT AND EQUIPMENT

	Note	2009	2008
		(Rupees in'000)	
Operating assets	6.1	**580,490**	548,222
Capital work-in-progress	6.2	**1,921**	-
		582,411	548,222

6.1 Operating assets

DESCRIPTION	2009 COST As at 01 Jan 2009	Additions	Disposals/ Adjustments	As at 31 Dec. 2009	ACCUMULATED DEPRECIATION As at 01 Jan 2009	Disposals	Charge for the year	As at 31 Dec. 2009	BOOK VALUE As at 31 Dec. 2009	Rate%
					(Rupees in '000)					
Land										
Freehold	2,508	-	-	2,508	-	-	-	-	2,508	-
Leasehold with super structure	35	-	-	35	-	-	-	-	35	-
Buildings on freehold land										
Factory	65,313	-	(2)	65,311	50,501	(2)	1,481	51,980	13,331	10
Others	71,443	822	-	72,265	36,685	-	1,752	38,437	33,828	5
Plant and machinery	422,295	12,539	(21,360)	413,474	287,113	(18,790)	14,060	282,383	131,091	10
Boiler	2,967	-	-	2,967	2,651	-	32	2,683	284	10
Gas installations	1,063	27	-	1,090	916	-	16	932	158	10
Office equipment	4,587	382	-	4,969	2,540	-	224	2,764	2,205	10
Computers	41,763	8,891	(357)	50,297	22,710	(158)	6,058	28,610	21,687	25
Furniture, fixtures and fittings	514,502	95,355	(3,559)	606,298	180,304	(1,675)	57,595	236,224	370,074	15
Vehicles	12,403	1,239	(2,191)	11,451	7,237	(2,127)	1,052	6,162	5,289	20
	1,138,879	119,255	(27,469)	1,230,665	590,657	(22,752)	82,270	650,175	580,490	

DESCRIPTION	2008 COST As at 01 Jan 2008	Additions	Disposals/ Adjustments	As at 31 Dec. 2008	ACCUMULATED DEPRECIATION As at 01 Jan 2008	Disposals	Charge for the year	As at 31 Dec. 2008	BOOK VALUE As at 31 Dec. 2008	Rate%
					(Rupees in '000)					
Land										
Freehold	2,508	-	-	2,508	-	-	-	-	2,508	-
Leasehold with super structure	35	-	-	35	-	-	-	-	35	-
Buildings on freehold land										
Factory	62,651	2,662	-	65,313	49,048	-	1,453	50,501	14,812	10
Others	61,072	10,371	-	71,443	35,311	-	1,374	36,685	34,758	5
Plant and machinery	408,684	49,368	(35,757)	422,295	305,214	(29,406)	11,305	287,113	135,182	10
Boiler	2,967	-	-	2,967	2,616	-	35	2,651	316	10
Gas installations	1,063	-	-	1,063	899	-	17	916	147	10
Office equipment	4,218	837	(468)	4,587	2,755	(413)	198	2,540	2,047	10
Computers	33,272	11,357	(2,866)	41,763	20,626	(2,579)	4,663	22,710	19,053	25
Furniture, fixtures and fittings	380,990	137,676	(4,164)	514,502	135,907	(1,650)	46,047	180,304	334,198	15
Vehicles	10,474	1,929	-	12,403	6,195	-	1,042	7,237	5,166	20
	967,934	214,200	(43,255)	1,138,879	558,571	(34,048)	66,134	590,657	548,222	

6.2 Capital work-in-progress

	Note	2009	2008
		(Rupees in '000)	
Pland and machinery		34	-
Advance for software development	6.2.1	162	-
Vehicles		1,725	-
		1,921	-

6.2.1 The total amount of Rs. ('000) 162 relates to payment of first installment (50% of the total amount) made for development and implementation of Purchase Order Processing, Production Tracking and Inventory Control softwares. It is to be classified as intangible asset on completion.

6.3 Included in plant and machinery above are amounts aggregating to Rs. ('000) 14,355 (2008: Rs. ('000) 15,950) representing net book value of assets held by third party under an operating lease arrangement. The Company out sourced the operations of its Rubber Factory to The Unique Rubber Kraft (TURK) in 2008. These assets are part of the factory leased out.

6.4 Allocation of depreciation expense

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

	Note	2009	2008
		(Rupees in '000)	
Cost of sales	28	15,581	12,803
Distribution cost	29	61,283	48,957
Administrative expenses	30	5,406	4,374
		82,270	66,134

6.5 Disposal of property, plant and equipment

Particulars of buyers	Original cost	Accumulated depreciation	Written down value	Sale proceeds	Gain / (loss)	Mode of disposal
Building						
Scrapped	**2**	**2**	**-**	**-**	**-**	**Scrapped**
Plant and machinery						
M/s Mechanics Engineering Services Canal Bank Road , Lahore.	1,358	1,273	85	517	432	Negotiation
Mr. Ejaz Ahmad Lahore.	34	31	3	6	3	Negotiation
Ex. Employee Mr. Khurrum Yaldarm Batapur, Lahore	187	156	31	47	16	Negotiation
Mr. Malik Muhammad Azam Batapur, Lahore	2,631	2,329	302	170	(132)	Negotiation
Mr. Mian Khalid Waheed & Sons Bund Road, Near Daroghawala, Lahore.	15,021	13,028	1,993	1,085	(908)	Negotiation
Mr. Mansha Atto-Ke-Awan, Batapur, Lahore	1,335	1,247	88	262	174	Negotiation
Scrapped	775	711	64	-	(64)	Scrapped
M/s New Jubilee Insurance Company Limited, Lahore	19	16	3	10	7	Insurance Claim
	21,360	**18,791**	**2,569**	**2,097**	**(472)**	
Computers						
Ex-Employee Miss Fatima Shafqat Bata Pakistan Limited	56	12	44	44	-	Negotiation
M/s New Jubilee Insurance Company Limited, Lahore	56	19	37	44	7	Insurance Claim
Scrapped	245	125	120	-	(120)	Scrapped
	357	**156**	**201**	**88**	**(113)**	
Vehicles						
Employee - Mr. M. Ajmal Khan Manager Branch factory, Maraka.	642	612	30	500	470	Negotiation
Employee - Mr. Malik Sajjad, Batapur, Lahore	1,153	1,126	27	365	338	Negotiation
Mr. M. Ejaz S/o M. Nazir Gujranwala.	396	390	6	315	309	Negotiation
	2,191	**2,128**	**63**	**1,180**	**1,117**	
Furniture, fixtures and fittings						
Employee - Mr. Ikhlaque Ahamad Batapur, Lahore	5	4	1	1	-	Negotiation
Employee - Mr. Abdul Ghaffar Batapur, Lahore	13	11	2	1	(1)	Negotiation
M/s Zeeshan Enterprises Beadon Road, Lahore	40	1	39	40	1	Negotiation
M/s New Jubilee Insurance Company Limited, Lahore	43	7	36	30	(6)	Insurance Claim
M/s New Jubilee Insurance Company Limited, Lahore	29	16	13	33	20	Insurance Claim
Scrapped	488	426	62	-	(62)	Scrapped
M/s New Jubilee Insurance Company Limited, Lahore	137	124	13	206	193	Insurance Claim
M/s New Jubilee Insurance Company Limited, Lahore	2,804	1,086	1,718	-	(1,718)	Insurance Claim
	3,559	**1,675**	**1,884**	**311**	**(1,573)**	
Rs. ('000) - 2009	**27,469**	**22,752**	**4,717**	**3,676**	**(1,041)**	
Rs. ('000) - 2008	43,255	34,048	9,207	5,484	(3,723)	

	Note	2009	2008
		(Rupees in'000)	

7. LONG TERM INVESTMENTS

	Note	2009	2008
Held to maturity at amortized cost			
PLS Term Deposit Receipts	7.1	35,830	30,650

7.1 These deposits are earmarked against the balances due to employees held as securities and personal accounts as stated in note 20. These carry mark-up at the rates ranging from 11.5% to 16.5% (2008: 12% to 16.5%) per annum.

8. LONG TERM DEPOSITS AND PREPAYMENTS

	Note	2009	2008
Security deposits	8.1	12,915	11,175
Prepaid rent	8.2	67,032	84,625
Less: Adjustable within one year		45,449	50,007
		21,583	34,618
		34,498	45,793

8.1 This includes the amounts given as securities to landlords in respect of operating leases of shops.

8.2 Prepaid rent is amortized as rent expense is incurred, in accordance with the terms of rent agreements.

9. STORES AND SPARES

		2009	2008
Stores		1,775	2,218
Spares		22,188	35,628
		23,963	37,846
Less: obsolescence reserve		23,963	37,846
		-	-
Spares in transit		768	140
		768	140

9.1 The Company does not hold any stores and spares for specific capitalization.

10. STOCK IN TRADE

		2009	2008
Raw material			
In hand		117,677	212,189
In transit		87,806	110,789
		205,483	322,978
Goods in process		41,249	59,962
Finished goods			
Own production		343,071	389,925
Purchased		584,647	501,278
		927,718	891,203
In transit		107,412	146
		1,035,130	891,349
		1,281,862	1,274,289

	Note	2009	2008
		(Rupees in'000)	

11. TRADE DEBTS - UNSECURED

	Note	2009	2008
Considered good			
Due from customers		**18,931**	86,364
Due from associated undertakings	11.1	**4,804**	8,154
		23,735	94,518
Considered doubtful			
Due from customers		**-**	-
		23,735	94,518
Less: Provision for doubtful debts	11.2	**-**	-
		23,735	94,518

11.1 Due from associated undertakings - unsecured

		2009	2008
Bata Shoe Company (Sri Lanka)		**3,979**	3,470
Futura Footwear (South Africa) Limited		**825**	-
Bata Shoe Company (Uganda) Limited		**-**	4,684
		4,804	8,154

11.2 No provision for doubtful debts is made because no customers were past due or impaired at the balance sheet date. Further, these customers have no recent history of default. For age analysis of these trade debts, refer to Note 38.2.2

11.3 Maximum aggregate amount due from associated undertakings at the end of any month in the year was Rs. ('000) 9,963 (2008: Rs. ('000) 12,881). No interest has been charged on the amounts due from associated undertakings.

12. ADVANCES - UNSECURED

		2009	2008
Considered good, non-interest bearing			
Advances to employees		**912**	649
Advances to suppliers		**2,279**	244
		3,191	893

13. DEPOSITS, SHORT TERM PREPAYMENTS AND OTHER RECEIVABLES

	Note	2009	2008
Deposits - Considered good			
Custom duty and taxes		**7,067**	2,807
Letters of credit - Margin		**-**	638
Letters of guarantee - Margin		**4,139**	5,592
Others		**3,298**	978
		14,504	10,015
Short term prepayments			
Prepaid rent	8	**45,449**	50,007
Prepaid sales tax		**527**	447
Other Prepaid expenses		**1,566**	1,519
		47,542	51,973
Other receivables			
Considered good			
Export rebates		**1,895**	1,343
Insurance claims		**1,018**	4,063
Others		**250**	78
		3,163	5,484
Considered doubtful			
Advance rent		**1,585**	1,585
Others		**486**	486
		2,071	2,071
Less: Provision for doubtful balances		**(2,071)**	(2,071)
		-	-
		3,163	5,484
		65,209	67,472

	Note	2009	2008
		(Rupees in'000)	

14. SHORT TERM INVESTMENT

These include the following term deposit receipts:

	Rate of return	Period of deposit	2009	2008
Bank AL Habib Limited	11.85%	1 month	**100,000**	-
Habib Metropolitan Bank Limited	11.70%	3 months	**150,000**	-
Habib Bank Limited	12.50%	3 months	**100,000**	-
			350,000	-

15 TAX REFUNDS DUE FROM GOVERNMENT

This represents sales tax paid on raw materials used in zero-rated taxable shoes for which refund claims have been / are being lodged with the Sales Tax Department.

16. CASH AND BANK BALANCES

	2009	2008
Bank balances - in current accounts	**446,646**	64,254
Cash in transit	**12,651**	23,863
Cash in hand	**1,952**	835
	461,249	88,952

17. SHARE CAPITAL

17.1 Authorized share capital

2009	2008		2009	2008
(Number of shares in '000)				
10,000	10,000	Ordinary shares of Rs. 10/- each	**100,000**	100,000
10,000	10,000		**100,000**	100,000

17.2 Issued, subscribed and paid up capital

2009	2008		2009	2008
(Number of shares)				
1,890,000	1,890,000	Ordinary shares of Rs. 10/- each fully paid in cash	**18,900**	18,900
300,000	300,000	Ordinary shares of Rs. 10/- each issued for consideration other than cash	**3,000**	3,000
5,370,000	5,370,000	Ordinary shares of Rs. 10/- each issued as fully paid bonus shares	**53,700**	53,700
7,560,000	7,560,000		**75,600**	75,600

17.2.1 Bafin B.V. (Nederland) (the parent company) held 4,536,000 (2008: 4,536,000) ordinary shares of Rs. 10 each fully paid up.

18. CAPITAL RESERVE

This represents the balance of foreign shareholders' equity in Globe Commercial Enterprises Limited (an associated undertaking) gifted to the Company on its winding up, and is not available for distribution.

19. REVENUE RESERVES

	2009	2008
General Reserve		
Balance as at 01 January	**880,000**	582,000
Transfer from Profit and loss account	**418,000**	298,000
	1,298,000	880,000
Unappropriated profit	**586,644**	479,612
	1,884,644	1,359,612

	Note	2009	2008
		(Rupees in'000)	

20. LONG TERM DEPOSITS

Employees' securities and personal accounts		35,830	30,650

20.1 This represents the securities deposited by the employees in accordance with the terms of employment and the amounts credited on account of commission etc. to the sales staff. Interest at the rate of 9% (2008: 10.5%) per annum is being paid on the monthly outstanding balances.

20.2 In accordance with provisions of Section 226 of the Companies Ordinance, 1984, this amount has been invested in PLS Term Deposit Receipts and is shown separately as long term investments in Note 7.

21. DEFERRED LIABILITY - EMPLOYEE BENEFITS

21.1 Provision for gratuity - un-funded defined benefit plan

The amount recognized in the balance sheet is as follows:

	2009	2008
Present Value of defined benefit obligation	56,926	52,843
Less: Non - vested past service cost to be recognized in later periods	-	(340)
Add: Actuarial gains to be recognized in later periods	12,270	10,277
	69,196	62,780

21.2 The amount recognized in the profit and loss account is as follows:

	2009	2008
Current service cost	574	635
Interest cost	7,926	6,235
Actuarial gains recognized during the year	(454)	(2,925)
Non-vested past service cost charge	340	457
	8,386	4,402

21.3 Movement in the net liability recognized in the balance sheet is as follows:

	2009	2008
Opening liability	62,780	67,403
Amount recognized during the year	8,386	4,402
Payments made by the Company during the year	(1,970)	(9,025)
Closing liability	69,196	62,780

21.4 Principal actuarial assumptions

The principal actuarial assumptions used in the actuarial valuation of this scheme by applying projected unit credit method as on 31 December are as follows:

	2009	2008
Contribution rates	As per Rules	As per Rules
Expected rate of salary increase in future years	11%	14%
Discount rate	12%	15%
Average expected remaining working life time of employees	11 Years	11 Years
Expected mortality rate	EFU (61-66) Mortality table	EFU (61-66) Mortality table

21.5 Historical information

As at 31 December	2009	2008	2007	2006	2005
			(Rupees in '000)		
Present value of defined benefit obligation	69,196	62,780	67,403	66,610	67,836
Experience adjustments on plan liabilities	12,270	10,278	5,851	3,539	3,079

	Note	2009	2008
		(Rupees in'000)	

22. DEFERRED TAXATION

Deferred tax liabilities			
Accelerated tax depreciation		**50,429**	48,848
Deferred tax assets			
Provision for:			
Gratuity		**(24,219)**	(21,973)
Doubtful debts		**(725)**	(725)
Obsolescence of stores and spares		**(8,387)**	(13,246)
		(33,331)	(35,944)
Net deferred tax liability		**17,098**	12,904

23. TRADE AND OTHER PAYABLES

	Note	2009	2008
Creditors		**465,341**	388,253
Due to associated undertakings	23.1	**148,220**	17,419
		613,561	405,672
Accrued liabilities	23.2	**193,374**	149,947
Advances from customers		**3,189**	5,771
Due to provident fund trust		**5,728**	7,060
Deposits	23.3	**22,276**	20,275
Workers' profit participation fund	23.4	**43,688**	35,678
Sales tax payable		**968**	-
Taxes deducted at source payable		**12,436**	27,869
Unclaimed dividend		**2,607**	2,350
Other liabilities		**9,933**	9,196
		907,760	663,818

23.1 Due to associated undertakings - unsecured

	2009	2008
Bata Shoe Singapore Pte Limited	**107,240**	39
Bata Brand (Switzerland)	**33,666**	14,844
Global Footwear Services (Singapore)	**2,763**	2,536
Bata Compar S.P.A. (Italy)	**3,987**	-
Bata Marketing Sdn. Bhd., (Malaysia)	**293**	-
Bata Shoe Company (Kenya)	**271**	-
	148,220	17,419

No interest has been paid / accrued on the amounts due to associated undertakings.

23.2 These include an amount of Rs. ('000) 837 (2008: ('000) Nil) in relation to deferred revenue pertaining to Bata Loyalty Cards scheme, which has been launched on pilot basis by the Company.

23.3 Deposits

These represent the security money received from the registered wholesale dealers, agency holders and other customers in accordance with the terms of the contract with them. Deposits from agency holders carry interest at the rate of 9% (2008: 10.5%) per annum. These are repayable on termination / completion of the contract and on returning the Company's property already provided to them. The Company has a right to utilize these deposits in accordance with the terms of the agreements entered with agency holders.

	Note	2009	2008
		(Rupees in'000)	

23.4 Workers' profit participation fund

Balance as at 01 January		**35,678**	27,060
Allocation for the year		**43,688**	35,678
Interest on funds utilized in company's business		**789**	784
		80,155	63,522
Less: Amount adjusted / paid to fund's trustees		**36,467**	27,844
Balance as at 31 December		**43,688**	35,678

24. SHORT TERM BORROWINGS

The credit facilities available to the Company from various commercial banks aggregate to Rs.735 million (2008: 735 million). These include cash finance facilities of Rs 700 million (2008: Rs 700 million) and export finance facility of Rs 35 million (2008: Rs. 35 million).

Mark up on cash finance is based on 1 to 3 month KIBOR plus 0.75% to 2.25% (2008: 3 month KIBOR plus 0.75% to 2.25%) as per agreements with banks. While mark up on export finance is charged at 7.25% (2008: 7.25%) per annum.

In addition, non funded facilities of letters of guarantee and letters of credit amounting to Rs. 235 million (2008: Rs. 235 million) were also provided by these banks. The un-utilized facility for letter of credits and guarantees at year end amounts to Rs.59 million (2008: Rs. 104 million).

These finances are secured against hypothecation of stock in trade, store and spares and receivables of the Company amounting to Rs. 1,194 million (2008: Rs. 1,194 million).

	Note	2009	2008
		(Rupees in'000)	

25. PROVISION FOR TAXATION

Income tax

Balance as at 01 January		**55,449**	86,765
Income tax paid for prior years		**(65,742)**	(89,217)
Provision written back for prior years		**2,866**	(4,479)
		(7,427)	(6,931)
Provision for the year		**220,450**	173,302
		213,023	166,371
Advance tax paid and tax deducted / collected at source		**(157,897)**	(110,922)
		55,126	55,449

Other taxes

Workers' welfare fund

Balance as at 01 January		**13,276**	10,080
Payments / adjustments made for prior years		**(13,276)**	(10,080)
		-	-
Provision for the year		**16,260**	13,276
		16,260	13,276
		71,386	68,725

	Note	2009	2008
		(Rupees in'000)	

26. CONTINGENCIES AND COMMITMENTS

26.1 The Company is contingently liable for:

	Note	2009	2008
Counter Guarantees given to banks		**6,311**	11,358
Indemnity Bonds given to Custom Authorities		**31,319**	28,458
Claims not acknowledged as debts - under appeal		**20,848**	11,454
Law suit by ex-employee - damages for malicious prosecution		**3,000**	3,000
Show cause notices by sales tax department-under appeals	26.1.1	**138,851**	156,972
Show cause notices by income tax department	26.1.2	**3,659**	3,659
		203,988	214,901

26.1.1 The Sales Tax Department has issued show-cause notice followed by an order amounting to Rs.138.851 million (2008: Rs. 159.46 million) for non-payment of sales tax on certain items including disposal of fixed assets, inadmissible input tax claimed on electricity bills of retail outlets, inadmissible input tax adjustment claimed against zero-rated retail supplies and less declaration of output sales tax in returns when compared with final accounts.

The Company has filed an appeal against the order before the Collector Sales Tax (Appeals) which is pending adjudication. The Company has also referred this matter to Federal Board of Revenue (FBR) for resolving the same through 'Alternative Dispute Resolution Committee' (ADRC), which has been duly constituted.

The Company and its legal advisors expect a favorable outcome of the matter and accordingly, no related provision has been made in the accounts.

26.1.2 The Company has received a show-cause notice followed by an order from Federal Board of Revenue (FBR) in respect of inadequacy of advance tax paid by the company for the tax year 2008. The FBR has thus levied additional tax u/s 205 (IB) of the Income Tax Ordinance, 2001 amounting to Rs. 8.566 million.

The Company has provided an amount of Rs. 4.907 million on the basis of tax advisor's opinion and filed a rectification application for the remaining amount. A writ petition has also been filed in the Honorable Lahore High Court in this regard and the management expects a favorable outcome of the matter and accordingly no provision for the remaining amount has been made.

26.2 Commitments in respect of:

	Note	2009	2008
		(Rupees in'000)	
Capital expenditure		**6,612**	-
Letters of credit		**175,641**	130,790
		182,253	130,790

27. SALES

	2009	2008
Shoes and accessories		
Local	**6,790,440**	5,336,211
Export	**207,627**	173,935
	6,998,067	5,510,146
Sundry articles and scrap material	**9,459**	10,960
	7,007,526	5,521,106
Less: Sales tax	**89,228**	71,903
Discounts to dealers and distributors	**416,705**	288,192
Commission to agents / business associates	**73,103**	54,433
	579,036	414,528
	6,428,490	5,106,578

	Note	2009	2008
		(Rupees in'000)	

28. COST OF SALES

	Note	2009	2008
Cost of goods manufactured	28.1	**2,158,350**	1,729,649
Finished goods purchased		**1,741,708**	1,565,219
Add: Opening stock of finished goods		**891,349**	538,913
		4,791,407	3,833,781
Less: Closing stock of finished goods		**1,035,130**	891,349
		3,756,277	2,942,432

28.1 Cost of goods manufactured

	Note	2009	2008
Raw material consumed			
Opening stock		**322,978**	185,887
Add: Purchases		**1,648,409**	1,567,996
		1,971,387	1,753,883
Less: Closing stock		**205,483**	322,978
		1,765,904	1,430,905
Store and spares consumed		**8,638**	6,657
Fuel and power		**76,229**	61,860
Salaries, wages and benefits	28.2	**239,891**	204,261
Repairs and maintenance	28.3	**26,775**	22,594
Insurance		**6,619**	5,335
Depreciation	6.4	**15,581**	12,803
		2,139,637	1,744,415
Add: Opening goods in process		**59,962**	45,196
		2,199,599	1,789,611
Less: Closing goods in process		**41,249**	59,962
		2,158,350	1,729,649

28.2 These include Rs. ('000) 7,489 (2008: Rs. ('000) 7,011) and Rs. ('000) 3,669 (2008: Rs. ('000) 2,227) in respect of contribution to provident fund trust and provision for gratuity respectively.

28.3 This includes write back/ provision for obsolescence of stores and spares amounting to Rs. ('000) 13,883 (2008: Rs. ('000) 3,747).

29. DISTRIBUTION COST

	Note	2009	2008
Salaries and benefits	29.1	**399,874**	335,584
Freight		**88,172**	75,443
Advertising and sales promotion		**105,700**	89,706
Rent		**360,987**	281,848
Insurance		**10,590**	8,454
Trade mark license fee		**150,766**	59,853
Fuel and power		**123,686**	86,490
Repairs and maintenance		**50,420**	45,020
Entertainment		**6,708**	5,289
Business and property taxes		**3,492**	3,302
Excise duty		**5,333**	8,041
Depreciation	6.4	**61,283**	48,957
Miscellaneous		**238**	186
		1,367,249	1,048,173

29.1 These include Rs. ('000) 12,521 (2008: Rs. ('000) 10,917) and Rs. ('000) 3,953 (2008: Rs. ('000) 2,175) in respect of contribution to provident fund trust and provision for gratuity respectively.

	Note	2009	2008
		(Rupees in'000)	

30. ADMINISTRATIVE EXPENSES

	Note	2009	2008
Salaries and benefits	30.1	**210,111**	169,209
Employee welfare		**17,517**	13,712
Fuel and power		**4,585**	2,836
Telephone and postage		**16,713**	13,249
Insurance		**1,279**	1,088
Travelling		**57,026**	50,797
Repairs and maintenance		**16,406**	17,234
Printing and stationery		**16,102**	11,952
Donations and subscription	30.2	**1,575**	1,157
Legal and professional charges		**3,734**	5,585
Business and property taxes		**415**	436
Management service fee		**41,485**	33,251
Depreciation	6.4	**5,406**	4,374
Miscellaneous		**11,286**	9,518
		403,640	334,398

30.1 These include Rs. ('000) 4,311 (2008: Rs. ('000) 3,089) and Rs. ('000) 0.764 (2008: Rs. ('000) Nil) in respect of contribution to provident fund trust and provision for gratuity respectively.

30.2 None of the directors of the company or any of their spouses have any interest in the funds of donees.

31. OTHER OPERATING EXPENSES

	Note	2009	2008
Workers' profit participation fund		**43,688**	35,678
Workers' welfare fund		**16,260**	13,276
Auditors' remuneration	31.1	**4,200**	3,159
Payments under Voluntary Retirement Scheme		**568**	45,263
Loss on fixed assets sold / scrapped	6.5	**1,041**	3,723
Sales tax paid for prior years		**-**	2,489
		65,757	103,588

31.1 Auditors' remuneration

	2009	2008
Statutory audit	**1,800**	1,500
Review of six monthly accounts	**600**	500
Other reviews and certifications	**1,122**	450
Out of pocket expenses	**678**	709
	4,200	3,159

32. OTHER OPERATING INCOME

	2009	2008
Income from financial assets		
Profit on long term investments	**6,146**	4,147
Exchange gain	**888**	6,851
Profit on short term investment	**3,851**	-
Income from non - financial assets		
Rent received	**1,753**	1,538
Excess provision of doubtful balances written back	**-**	572
	12,638	13,108

	Note	2009	2008
		(Rupees in'000)	
33. FINANCE COSTS			
Interest / mark-up on:			
Short term borrowings	24	**1,815**	9,433
Mark up on Workers' profit participation fund		**789**	785
Provident fund trust		**184**	219
Employees / agents' securities and personal accounts		**2,467**	4,504
		5,255	14,941
Bank charges and commission	33.1	**29,928**	12,332
		35,183	27,273

33.1 Included in bank charges and commission is an amount of Rs. ('000) 16,813 (2008: Rs. ('000) 3,500) in respect of excise duty paid on royalty. The Company pays trade mark / royalty fee to Bata Brands S.A.R.L., Switzerland, quarterly on revenue basis.

34. TAXATION

		2009	2008
Current			
For the year		**220,450**	173,302
For prior years		**2,866**	(4,479)
		223,316	168,823
Deferred		**4,194**	17,224
		227,510	186,047
Relationship between tax expenses and accounting profit			
Accounting profit before taxation		**813,022**	663,822
Tax at applicable tax rate of 35% (2008: 35%)		**284,558**	232,338
Tax effect of expenses not allowed for tax		**365**	170
Effect of tax on export sales, imported finished goods and rental income under Final Tax Regime		**(60,279)**	(41,982)
Effect of prior years tax		**2,866**	(4,479)
Tax expense for the year		**227,510**	186,047

35. EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

	Note	2009	2008
Profit after taxation - (Rupees in '000)		**585,512**	477,775
Weighted average number of ordinary shares (in thousands)	17.2	**7,560**	7,560
Earnings per share - basic and diluted (Rupees per share)		**77.45**	63.20

36. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

		2009	2008
Bank balances - in current accounts		**446,646**	64,254
Short term investment		**350,000**	-
Cash in transit		**12,651**	23,863
Cash in hand		**1,952**	835
		811,249	88,952

37. REMUNERATION OF DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the financial statements for the year in respect of remuneration, including all benefits to Chief Executive, Executive Director and Executives of the Company are as follows:

	Chief Executive			Executive Director		Executives	
	2009	2008		2009	2008	2009	2008
				(Rupees in '000)			
		01/03/08 to 31/12/08	01/01/08 to 28/2/08				
Managerial remuneration	**17,607**	11,970	3,952	**11,182**	6,119	**41,610**	35,148
Company's contribution to provident fund	**1,458**	1,047	148	**473**	379	**2,629**	2,273
Perquisites and allowances							
Housing	**-**	-	682	**406**	324	**9,205**	6,201
Leave passage	**1,220**	1,221	590	**341**	-	**-**	580
Conveyance	**-**	-	127	**180**	144	**2,349**	1,820
Medical expenses reimbursed	**78**	75	-	**91**	46	**2,317**	1,698
Utilities	**-**	-	186	**180**	144	**2,349**	1,820
Others	**-**	663	603	**2,305**	215	**7,662**	4,819
	20,363	14,976	6,288	**15,158**	7,371	**68,121**	54,359
Number of persons	**1**	1	1	**2**	1	**29**	22

37.1 Mr. A Carnecky resigned as Chief Executive of the Company with effect from 28 February 2008, and was replaced by Mr. Imran Malik with effect from 01 March 2008.

37.2 In addition to the above, 5 (2008: 5) non executive directors were paid aggregated fee of Rs. ('000) 270 (2008: Rs. ('000) 300) for attending meetings.

37.3 The Chief Executive of the Company is provided with company-maintained car.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

The Company's principal financial liabilities comprise long term deposits and trade and other payables. The main purpose of these financial liabilities is to raise finances for the Company's operations. The Company's financial assets mainly comprise long term investments, security deposits, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Company is exposed to market risk, credit risk and liquidity risk. The Company's Board of Directors (The Board) reviews and agrees policies for the management of these risks. The board has the responsibility for establishment of a financial risk governance frame work. They provide assurance that the financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies.

38.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risks: interest rate risk, currency risk and other price risk such as equity risk.

38.1.1 Interest rate risk exposure

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the short-term debt obligations, which are borrowed at floating interest rates. The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate borrowings and investments.

The Company's exposure to interest rate risk on its financial assets and liabilities is summarized below:

	2009 (Rupees in '000)				2008 (Rupees in '000)			
	Exposed to yield/mark up rate risk		Not exposed to yield/mark up	Total	Exposed to yield/mark up rate risk		Not exposed to yield/mark up	Total
	one year	more than one year			one year	more than one year		
Financial assets								
Long term investments	-	35,830	-	35,830	-	30,650	-	30,650
Long term deposits	-	-	12,915	12,915	-	-	11,175	11,175
Trade debts - unsecured	-	-	23,735	23,735	-	-	94,518	94,518
Advances - unsecured	-	-	3,191	3,191	-	-	893	893
Deposits, short term prepayments	-	-	11,086	11,086	-	-	13,178	13,178
Mark - up accrued	-	-	3,851	3,851	-	-	-	-
Short term investments	350,000	-		350,000	-	-	-	-
Cash and bank balances	-	-	461,249	461,249	-	-	88,952	88,952
	350,000	35,830	516,027	901,857		30,650	208,716	239,366
Financial liabilities								
Long term deposits	-	35,830	-	35,830	-	30,650	-	30,650
Short term borrowings	-	-	-	-	-	-	-	-
Trade and other payables	13,309	-	818,762	832,071	11,332	-	566,428	577,760
Mark - up accrued	-	-	-	-	-	-	2,364	2,364
	13,309	35,830	818,762	867,901	11,332	30,650	568,792	610,774
ON BALANCE SHEET GAP	(336,691)	-	302,735	(33,956)	11,332	-	360,076	371,408
Off Balance Sheet items:								
Counter Guarantees given to banks	-	-	6,311	6,311	-	-	11,358	11,358
Indemnity Bonds given to Custom Authorities	-	-	31,319	31,319	-	-	28,458	28,458
Commitments	-	-	182,253	182,253	-	-	130,790	130,790
	-	-	219,883	219,883	-	-	170,606	170,606
TOTAL	13,309	35,830	1,038,645	1,087,784	11,332	30,650	739,398	781,380
ON BALANCE SHEET GAP	-	-	219,883	219,883	-	-	170,606	170,606

38.1.1.1 Effective interest / markup rates

	Fixed or variable	2009	2008
Financial Assets			
Long term investments	Fixed	11.50 to 16.50%	12 to 16.50%
Short term deposits	Variable	11.70 to 12.50%	-
Financial Liabilities			
Short term borrowings	Variable	13.48 to 16.52%	10.59 to 17.59%
Long term deposits - employees' securities	Fixed	9.00%	10.50%
Deposits - agents	Fixed	9.00%	10.50%
Provident fund trust	Variable	11.50 to 16.50%	9.25 to 14.53%
Workers' profit participation fund	Variable	60.00%	60.00%

38.1.1.2 Interest rate sensitivity

At the reporting date, the Company has following financial instruments exposed to variation in interest rates. A sensitivity analysis of the impact of a reasonable possible variation in market interest rate at the reporting date is as follows.

	Variation in basis points	2009 Effect on Profit Before Tax	2008 Effect on Profit Beofre Tax
		(Rupees in '000)	
Increase in basis points	+100	**400**	-
Decrease in basis points	- 100	**(400)**	-

38.1.1.3 Sensitivity analysis for fixed rate financial instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss account. Therefore, any variation in market interest rate at the reporting date would not have any impact on profit and loss account.

38.1.2 Foreign exchange risk management

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign exchange risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The management has assessed that hedging its foreign currency payables will be more expensive than self assuming the risk. The foreign exchange risk management policy is reviewed each year on the basis of market conditions. The Company is mainly exposed to fluctuations in US Dollar, Euro and Singapore Dollar against Pak Rupee.

38.1.2.1 The assets / liabilities subject to foreign exchange risk are detailed below:

	2009	2008
	(Rupees in'000)	
Financial assets		
Trade debts - Export customers		
US Dollar	**4,804**	9,016
Euro	**-**	6,066
Singapore Dollar	**-**	-
	4,804	15,082
Financial liabilities		
Trade and other Payables - Foreign suppliers		
US Dollar	**112,163**	432
Euro	**35,110**	14,883
Singapore Dollar	**2,763**	2,536
	150,036	17,851

38.1.2.2 Foreign Currency Sensitivity analysis

The following table demonstrates the sensitivity of the Company's profit before tax to a reasonably possible change in exchange rates of the major currencies involved in transactions with the foreign parties, keeping all other variables constant. Range of variation has been taken after considering the variation in year 2009 in the currencies involved.

	Percentage Change in Exchange Rate	2009 Effect on Profit Before Tax	2008 Effect on Profit Beofre Tax
		(Rupees in '000)	
	+ / -	+ / -	+ / -
Variation in USD to PKR	7%	**7,515**	601
Variation in EURO to PKR	10%	**3,511**	882
Variation in Singapore Dollar to PKR	10%	**276**	254

38.1.3 Equity risk

Equity risk is the risk of loss due to susceptibility of equity instruments towards market price risk arising from uncertainties about future values of the investment securities. The Company is not exposed to any equity price risk as the Company does not have any investment in equity shares at the balance sheet date.

38.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date, if counter parties fail to perform their contractual obligations. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Investments are allowed only in liquid securities and only with banks. Given their high credit ratings, management does not expect any counter party to fail to meet its obligation.

The management has a credit policy in place and exposure to credit risk is monitored on a continuous basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Company does not require collateral in respect of financial assets. The Company, however, mitigates any possible exposure to credit risk by taking security deposits from its dealers and distributors as well as by executing formal agreements with them. Out of total financial assets of Rs.('000) 901,857 (2008: Rs. ('000) 239,366). 57.87% of financial assets subject to credit risk are concentrated in six parties (2008: 43.22% in 6 parties).

Following tables summaries the maximum exposure to credit risk at the reporting date:

	2009	2008
	(Rupees in'000)	
Financial assets		
Long term investments	**35,830**	30,650
Long term deposits	**12,915**	11,175
Trade debts - unsecured	**23,735**	94,518
Advances - unsecured	**3,191**	893
Deposits	**11,086**	13,178
Mark up accrued	**3,851**	-
Short term investment	**350,000**	-
Cash at bank	**459,297**	88,117
	899,905	238,531

38.2.1 Long term investments

Financial institution	Ratings Agency	Long Term	Short term	Carrying Values 2009	2008
				(Rupees in '000)	
Habib Metropolitan Bank	PACRA	AA+	A1+	**35,830**	30,650

38.2.2 Trade debts

	Carrying Values 2009	2008
	(Rupees in '000)	
Neither past due nor impaired	**23,735**	84,772
1-30 Days	**-**	1,636
31-60 days	**-**	2,581
61-90days	**-**	2,839
Over 90 days	**-**	2,690
	23,735	94,518

38.2.3 Past due but not impaired

	2009	2008
Past due but not impaired	-	-

38.2.4 Cash at bank

Financial institution	Ratings Agency	Long Term	Short term	2009	2008
				(Rupees in '000)	
Habib Bank Limited	JCR-VIS	AA+	A-1+	**458,750**	53,145
MCB Bank Limited	PACRA	AA+	A1+	**19,010**	136
Habib Metropolitan Bank Limited	PACRA	AA+	A1+	**197,868**	10,394
Bank Al-Habib Limited	PACRA	AA+	A1+	**120,770**	180
Atlas Bank Limited	PACRA	A-	A2	**10**	173
National Bank of Pakistan	JCR-VIS	AAA	A-1+	**238**	226
				796,646	64,254

38.3 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet its commitments associated with financial liabilities as they fall due. Prudence concept requires the management of liquidity risk by maintaining sufficient cash and marketable securities. The Company follows a cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements. The company had short term borrowing facilities available from various Commercial banks aggregating to Rs. 735 million at 31 December 2009 (2008: Rs. 735 million).

The following table shows the maturity profile of the company's financial liabilities:

	2009				
	(Rupees in '000)				
	On demand	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Long term deposits	**35,830**	**-**	**-**	**-**	**35,830**
Trade and other payables	**-**	**907,760**	**-**	**-**	**907,760**
Mark - up accrued	**-**	**-**	**-**	**-**	**-**

	2008				
	(Rupees in '000)				
	On demand	Less than 1 year	1 to 5 years	Over 5 years	Total
Long term deposits	30,650	-	-	-	30,650
Trade and other payables	-	663,818	-	-	663,818
Mark - up accrued	-	2,364	-	-	2,364

38.4 Fair value of the financial instruments

The carrying value of all the financial instruments reflected in the financial statements approximates their fair value. Fair value is measured on the basis of objective evidence at each reporting date.

39 Capital risk management

The Company's policy is to ensure a strong capital base in order to maintain investors', creditors' and market's confidence and to sustain future development of the business. The Board of Directors monitors the returns on capital, which the Company defines as net operating income divided by total shareholders' equity.

The Company's objectives when managing capital are:

a) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for others stakeholders; and

b) to provide an adequate return to shareholders by pricing products commensurately with the level of risk.

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 the industry norms, the Company monitors its capital on the basis of gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the balance sheet less cash and cash equivalent. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt (as defined above).

The debt - to- equity ratio as to 31 December is as follows:

	2009	2008
	(Rupees in '000)	
Net debt	**-**	-
Total equity	**1,960,727**	1,435,695
Capital gearing ratio	**0%**	0%

The Company is not subject to any externally-imposed capital requirements.

40. TRANSACTIONS WITH RELATED PARTIES

40.1 The related parties and associated undertakings comprise parent company, related group companies, provident fund trust, directors and key management personnel. Remuneration of Chief Executive and director is also shown in Note 36. Transactions with related parties during the year are as follows;

Relationship with the Company	Nature of transactions	2009	2008
		(Rupees in'000)	
Associated Companies	Purchase of goods and services	**759,373**	453,367
	Sale of goods and services	**21,045**	19,048
	Trade mark license fee	**150,766**	59,853
	Management service fee & IT charges	**41,486**	33,251
Holding company	Dividend paid	**36,288**	9,072
Staff Retirement Benefits	Contribution to provident fund trusts	**24,322**	21,017
Staff Retirement Benefits	Contribution to gratuity	**1,970**	9,025
Key Management Personnel	Remuneration	**69,599**	66,250

40.2 The company in normal course of business conducts transactions with its related parties. Balances of related parties at the reporting date have been shown under payables and receivables. The Company continues to have a policy, where by, all transactions with related parties and associated undertakings are entered into at arm's length in the light of commercial terms and conditions.

41. CAPACITY AND ACTUAL PRODUCTION

	No. of shifts worked		Installed capacity based on actual shifts worked Pairs in '000		Actual production Pairs in '000	
	2009	2008	**2009**	2008	**2009**	2008
Footwear in pairs						
Rubber and canvas	**-**	1	**1,253**	1,253	**-**	1,156
Leather	**1 to 3**	1 to 3	**5,930**	5,930	**8,243**	6,772
Plastic	**1**	1	**2,120**	1,554	**2,151**	1,548
			9,303	8,737	**10,394**	9,476

41.1 The deviation in actual production from installed capacity is due to rapidly growing trends as the Company has to change major shoe lines in accordance with the market trends. This involves change in manufacturing operations which causes variances not only between the installed capacity and actual production but also between the actual production of any two years.

41.2 Due to lesser demand of rubber and canvas shoes, it was decided to lease-out the rubber plant and related equipment to a shoe processor on operating lease basis.

42. POST BALANCE SHEET EVENTS

The Board of Directors at its meeting held on 18 February 2010 has approved a final dividend @ Rs. 12 per share for the year ended 31 December 2009 amounting to Rs. ('000) 90,720 and transfer to general reserve amounting to Rs. ('000) 494,000 for approval of the members at the Annual General Meeting to be held on 22 April 2010. The financial statements do not reflect the effect of the above events.

43. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors on 18 February, 2010.

44. GENERAL

Figures have been rounded off to the nearest thousand Rupees, unless otherwise stated.

Chief Executive | **Director**