

# 31st ANNUAL REPORT

## FOR THE YEAR ENDED 30 JUNE 2010

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## COMPANY INFORMATION

### BOARD OF DIRECTORS

Shaban Ali G. Kassim	Chairman
Munawar Ali S. Kassim	Chief Executive
Irshad Ali S. Kassim	Vice Chairman
Mariam Shaban Ali	Director
Sakin Noorallah	Director
Shaheen Ali	Director
Shahnawaz Madhani	Director

### COMPANY SECRETARY

Manzooral Natha

### AUDIT COMMITTEE

Shaban Ali G. Kassim  
Sakin Noorallah  
Shahnawaz Madhani

### BANKERS

Soneri Bank Limited  
Habib Bank Limited  
National Bank Limited  
Muslim Commercial Bank Limited  
Habib Metropolitan Bank Limited  
KASB Bank Limited

### AUDITORS/ REGISTRAR AND SHARE TRANSFER OFFICE

Qavi & Co  
Chartered Accountants

T.H.K Associates (Private) Limited  
Ground Floor, State Life building No 3  
Dr Ziauddin Ahmed Road Karachi

NATIONAL TAX NUMBER : 0710857-5  
SALES TAX REGISTRATION NO : 02-02-6907-001-55

### REGISTERED OFFICE

Bc-6, Block-5, Scheme-5, Kehkashan, Clifton, Karachi

### FACTORY

295/311, Deh Halkani, Hub Dam Road, Karachi

### LAHORE OFFICE

4 L, Gulberg 3, Ferozpur Road, Lahore

## NOTICE OF MEETING

Notice is hereby given that the 31st Annual General meeting of the Company will be held at the Registered Office of the Company on Wednesday October 27, 2010 at 4:30 p.m. to transact the following business:

1. To confirm the minutes of the 30th Annual General Meeting held on October 28, 2009.
2. To consider and adopt the Audited Accounts of the Company for the year ended June 30, 2010 along with the Report of the Directors thereon.
3. To appoint Auditors for the year 2011 and fix their remuneration.
4. To elect 7 Directors for a period of three years in accordance with the Companies Ordinance, 1984.

The Directors have fixed the number of elected Directors as 7 (seven). The name of Directors who are retiring are as follows:-

- |                             |                            |
|-----------------------------|----------------------------|
| 1. Mr. Shabanali G. Kassim  | 2. Mr. Irshadali S. Kassim |
| 3. Mr. Munawarali S. Kassim | 4. Mrs. Mariam S. Kassim   |
| 5. Mrs. Sakin Noorullah     | 6. Mrs. Shaheen Ali        |
| 7. Mr. Shahnawaz Madhani    |                            |

5. To transact any other business with the permission of the Chair.

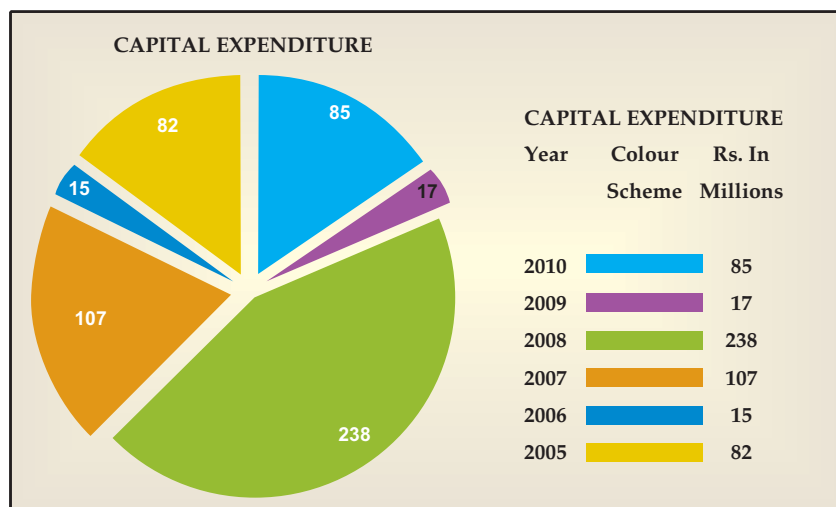
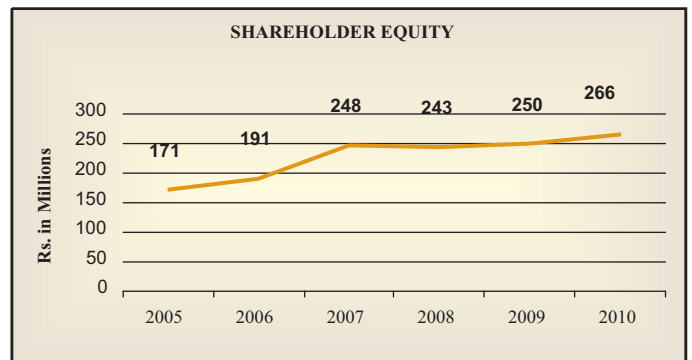
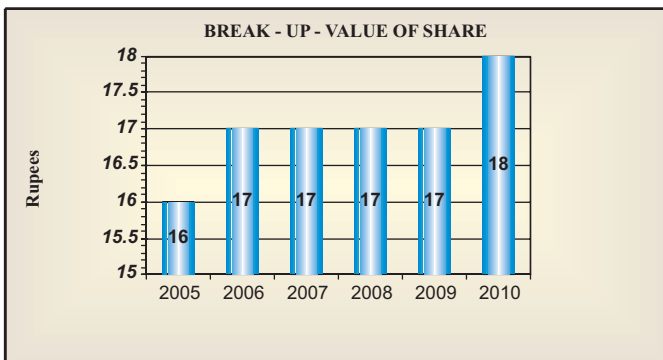
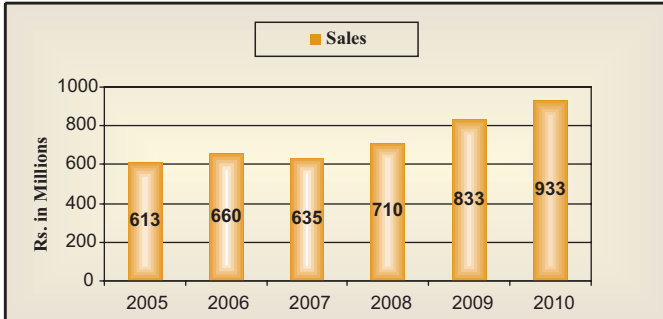
By Order of the Board

Karachi  
October 5, 2010

Manzooral Natha  
Company Secretary

### Notes:

1. The share transfer book of the company will remain closed from October 21, 2010 to October 27 2010 (both days inclusive).
2. A member eligible to attend and vote at the meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. Proxies to be effective must be received by the company not less than 48 hours before the time of holding of the meeting.
3. The beneficial owners of shares recorded in Central Depository Company of Pakistan Limited (CDCPL) are required to bring their National Identity Cards and in case of institutions being the beneficial owner, notarially certified copy of power of attorney or other authority, together with the proof of identity of such nominee, is required for admittance to the meeting of the members.
4. Members are requested to communicate to the company or the Registrar to the company of any change in their address.
5. Any person who seeks to contest election to the office of Director shall file with the company, not later than fourteen days before the date of the meeting a notice of his intention to offer himself for election as a Director together with his consent to act as a Director.



## FINANCIAL HIGHLIGHTS

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Sales	933	833	710	635	660	613	482	504	449	445
Gross Profit	114	130	139	99	136	137	96	99	78	77
Expenses	102	117	106	83	80	70	62	63	57	56
Profit before Taxtation	13	13	33	16	56	67	34	36	21	21
Profit after Taxtation	12	21	8	13	27	35	21	22	17	16
Dividend %	-	-	12.5	12.5	-	15	15	18	17.5	15
Right Shares %	-	-	-	-	33.3	-	-	-	-	-
Earning per Share (Rs.)	0.86	1.46	0.55	1.03	2.2	3.22	1.91	1.99	1.59	1.49

## DIRECTORS' REPORT

### DIRECTORS' REPORT

The Directors of your company are pleased to present the Annual Report with audited financial statements of the Company for the year ended June 30, 2010

### OPERATING RESULTS

During the year ended June 30, 2010; the company have registered growth in Net revenue of Rs. 933.33 million which is 12.08% higher than the net revenue of Rs. 832.72 million for the preceding year. Increase in sales was due to high sale value and volume of ceramics tiles achieved during the year.

Moreover, the company had to reduce selling prices of its products due to stiff competition from imported cheaper Chinese tiles as well as severe competition from local tiles manufacturers. The gross profit for the year has also decreased to Rs.114.44 million against the last year gross profit of Rs.129.97 million due to lower sale value and increased in cost of fuel, power & water charges and other production expenses

### RETAINED EARNINGS

The company managed to earn Profit before tax for the year at Rs. 12.73 million against the profit of Rs.13.17 million for the year 2009 and after tax profit of Rs 12.49 million as against the profit of Rs 21.24 million of last year.

### EARNING PER SHARE

Earning per share for the year ended 30th June, 2010 was Rs.0.86 as compared to Rs.1.46 for the last year.

Un-appropriated profit to be carried forward is Rs 120.242 M

### FUTURE OUTLOOK

It is expected that future demand of ceramics tiles would increase as a result of economic improvement forecasted globally. Post flood and recent increase in construction activities would also raise demand of Ceramic Tiles. There is a wider gap between demand and supply. However selling price of the products would remain under pressure due to import of large quantities of ceramics tiles into the country at competitive rates To discourage dumping of ceramics tiles and protect local industry, a case has been filed for imposing of anti dumping duties on import of ceramics tiles

The company is expecting better efficiency in production due to installation of new Kiln which will commence production this year. Increase in production shall reduce cost of production. The Company shall continue its focus on consumer preferences and expand its market share by introducing new innovative designs.

## CODE OF CORPORATE GOVERNANCE

The Directors of the company have reviewed the Code of Corporate Governance and are pleased to state that

- " The financial statement, prepared by the management of your company present fairly its state of affairs, the results of its operation, cash flow and changes in equity.
- " Proper books of accounts of the company have been maintained.
- " Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- " The International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- " The system of internal control is sound in design and has been effectively implemented and monitored.
- " The Company has the ability to continue as a going concern; and
- " There has been no deviation from the best practices of Corporate Governance, as detailed in the listing regulations.

## NUMBER OF BOARD MEETINGS HELD

During the year under review four meetings of the Board of Directors were held. Attendance is as follows: -

1.	Mr. Shaban Ali G. Kassim	2
2.	Mr. Irshad Ali S. Kassim	4
3.	Mr. Munawar Ali S. Kassim	4
4.	Mrs. Mariam S.G. Kassim	2
5.	Ms. Shaheen Ali	1
6.	Mrs. Sakin Noorallah	1
7.	Mr. Shahnawaz Madhani	4

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

## EMPLOYEES RELATION

The management would like to place on record its appreciation for the positive attitude of the Labour Union during the year under review and we look forward to its support in issues mutually

## AUDITORS

The present auditors M/s. Qavi & Co., Chartered Accountants have completed audit for the financial year ended 30th June, 2010 and shall retire on the conclusion of the 31st Annual General Meeting of the company. Being eligible for reappointment, they have offered themselves for re-appointment. Based on Audit Committee's proposal the Board of Directors recommends their reappointment for the year ending June 30, 2011. The external auditors have been given satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan.



#### **PATTERN OF SHARE HOLDING**

Pattern of share holding as at June 30, 2010 is annexed.

#### **APPRECIATION**

The Directors take this opportunity to thank all the foreign and local suppliers of plant & machinery and raw material, government agencies, shareholders, and staff/employees etc. for their cooperation and contribution towards the progress of the company. We would also like to thank banks and financial institutions and customers for the confidence reposed by them on the company.

**MUNAWAR ALI S. KASSIM**  
**CHIEF EXECUTIVE**



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## **Karam Ceramics Limited**

### **Vision Statement**

- To become leading Ceramic manufacturing Industry in Pakistan with complete unit of Tiles and Floor Tiles.

### **Mission Statement**

- To produce unique designs, cost effective and durable product so as to compete with the imported tiles.

### **Corporate Goal**

- Increase market share in Pakistan and export to other countries.

### **Overall Corporate Strategy**

- Maintain quality management system i.e. ISO 9002.
- Contain cost and improve quality by automation of production line and training to personnel.

### **RANGE OF PRODUCTS**

#### **COLOURED & DECORATIVE /EFFECT GLAZED WALL TILES**

- 15cm x 15cm      20cm x 20cm
- 20cm x 30cm
- 25cm x 25cm      25cm x 33cm
- 30cm x 30cm
- 40cm x 40cm

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with Code of Corporate Governance as contained in Regulation No. 37 of the listing regulations of the Karachi Stock Exchange of the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The company has applied the principles contained in the Code in the following manner:

1. The company encourages representation of independent no-executive directors and directors representing minority interest on its board of directors. The company has requested the financial institutions to nominate their representative on the board but so far no nomination has been received. As soon as the nomination is received the nominee shall be appointed as an independent non-executive director.
2. The directors have conformed that none of them is serving as a director in more than ten listed companies, including Karam Ceramics Limited.
3. All the resident directors of the Company are registered as tax payers and none of them has defaulted in payment of loan to banking company, a DFI or an NBF. None of them is a member of a stock exchange.
4. The company has prepared a Statement of Ethics and Business practices which has been signed by all the directors and employees of the company
5. The board has developed a vision and mission statement and an overall corporate strategy, and significant policies of the company.
6. All the powers of the Board have been duly exercised and decisions in material transactions, including appointment and term and conditions of employment of the Chief Executive Officer (CEO) and an executive director have been taken by the Board
7. The meetings of the Board were presided over by the Chairman and the Board met 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.
8. The Directors' Report of the year ended June 30, 2010 has been prepared in compliance with requirements of the Code and fully describes the salient matters required to be disclosed.
9. The financial statements of the company were duly endorsed by the CEO and CFO before approval of the Board.
10. 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.

11. The company has complied with all the corporate and financial reporting requirements of the Code.
12. The Board has formed Audit Committee. It comprises three members of whom two are non-executive directors.
13. The meetings of the Audit Committee were held as least once every year quarter prior to approval of interim and final results of the company and as required by the code. The term of reference of the committee have been formed and advised to the committee for compliance.
14. The Board has setup an effective internal audit department for the company and is involved in the internal audit function on a full time basis.
15. The statutory auditors of the company have conformed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with international Federation of Accountants(IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
16. The statutory auditors or the persons associated with them have not been appointed to provide other services except in a accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
17. We confirm that all other material principles contained in the code have been complied with.

Chief Executive

On behalf of Board of Directors



## Review Report to the Members on Statement of Compliance with the Best Practice 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 30 June 2010 prepared by the Board of Directors of **KARAM CERAMICS LIMITED** ("the Company") to comply with the listing Regulation of the Karachi, Lahore & Islamabad Stock Exchanges, where the Company is Listed.

The responsibility for compliances 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 preliminary to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develops an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii a) of Listing Regulations 35 notified by the Karachi, Lahore and Islamabad Stock Exchanges requires 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 of approval of 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 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 30 June, 2010.

**DATE: SEPTEMBER 27,2010**  
**Karachi**

Qavi & Co.  
Chartered Accountants  
Engagement Partner: Khalid Anwer

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of KARAM CERAMICS LIMITED as at 30 June 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as described in Note 2.5 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 comprehensive income, 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 30 June 2010 and of the profit, its cash flows and changes in the equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

DATE: SEPTEMBER 27,2010  
Karachi

Qavi & Co.  
Chartered Accountants  
Engagement partner: Khalid Anwer

## BALANCE SHEET AS AT JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b>Share Capital and Reserves</b>			
Authorized			
15,000,000 ordinary shares of Rs. 10 each		<u>150,000,000</u>	<u>150,000,000</u>
Issued, subscribed and paid-up capital	4	145,486,760	145,486,760
Unappropriated Profit		<u>120,242,736</u>	<u>104,169,442</u>
		265,729,496	249,656,202
Surplus on revaluation of fixed assets	5	43,566,530	47,144,432
<b>Non-Current Liabilities</b>			
Long term financing	6	231,657,111	229,128,580
Retirement benefit obligation	7	57,533,381	57,380,830
		289,190,492	286,509,410
Deferred taxation	8	104,389,426	113,313,841
<b>Current Liabilities</b>			
Trade and other payables	9	102,024,667	76,539,743
Mark up accrued on loans		7,637,269	9,398,720
Short term borrowings	10	3,916,366	58,055,880
Provision for taxation		8,546,580	-
Current portion of long term financing		82,521,337	42,708,000
		204,646,218	186,702,343
Contingencies and commitments	11	-	-
		<u>907,522,163</u>	<u>883,326,228</u>

## BALANCE SHEET

### AS AT JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Property, plant and equipment	12	609,619,688	674,215,678
Capital work in progress	13	84,702,580	-
Long term deposits		875,788	875,788
<b>Current Assets</b>			
Stores and spares	14	8,086,556	7,187,459
Stock in trade	15	128,900,010	123,939,137
Trade debts - unsecured considered good		23,340,631	20,425,201
Loans and advances	16	5,727,355	3,667,874
Income tax refundable		4,383,223	72,774
Short-term prepayments and current account balances with statutory authorities	17	31,654,905	28,626,559
Cash and bank balances	18	10,231,427	24,315,758
		<b>212,324,107</b>	<b>208,234,762</b>
		<b>907,522,163</b>	<b>883,326,228</b>

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

Chief Executive

Director

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
Net Sales	19	933,333,387	832,723,855
Cost of sales	20	<b>(818,887,530)</b>	<b>(702,745,724)</b>
<b>Gross Profit</b>		<b>114,445,857</b>	129,978,131
Selling and distribution expenses	21	<b>(57,650,095)</b>	(53,456,527)
Administrative expenses	22	<b>(16,227,539)</b>	(15,579,049)
		<b>(73,877,634)</b>	(69,035,576)
Other operating charges	23	<b>(4,228,252)</b>	(8,020,879)
Financial charges	24	<b>(35,455,881)</b>	(40,006,484)
		<b>(39,684,133)</b>	(48,027,363)
Other operating income	25	<b>11,842,978</b>	256,020
<b>Profit before taxation</b>		<b>12,727,068</b>	13,171,212
Taxation	26	<b>(231,677)</b>	8,067,389
<b>Profit after taxation</b>		<b>12,495,392</b>	21,238,601
<b>Earnings per share</b>	27	<b>0.86</b>	1.46

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

Chief Executive

Director



## STATEMENT OF COMPREHENSIVE INCOME

For the Year ended June 30, 2010

	Note	2010 Rupees	2009 Rupees
Profit after taxation		12,495,392	21,238,601
<b>Other comprehensive income</b>			
Incremental depreciation transfer from surplus on revaluation of fixed assets (net of deferred tax)		3,577,902	3,975,447
<b>Total comprehensive income for the period</b>		16,073,294	25,214,048

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

Chief Executive

Director

## CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2010

	2010 Rupees	2009 Rupees
Profit before taxation	12,727,068	13,171,212
<b>Adjustments for:</b>		
Depreciation	64,813,988	71,470,398
Provision for staff gratuity	3,676,298	8,506,207
Charge for workers' profit participation fund	683,516	707,369
Charge for workers' welfare fund	259,736	268,800
Finance cost	35,455,881	40,006,484
Profit on sale of fixed assets	-	(228,082)
Return on deposits	(13,014)	(27,938)
	104,876,405	120,703,238
<b>(Increase) /Decrease in operating assets</b>		
Stores and spares	(899,097)	(6,415,924)
Stock in trade	(4,960,873)	(79,534,128)
Trade debts	(2,915,430)	31,322,604
Loans & advances	(1,207,918)	223,576
Short-term prepayments and current account balances with statutory authorities	211,008	(14,454,007)
	(9,772,311)	(68,857,879)
<b>Increase/ (Decrease) in operating liabilities</b>		
Short term running finance	(54,139,514)	25,014,253
Trade & other payables	25,517,841	11,682,576
	(28,621,673)	36,696,829
<b>Cash generated from operations</b>	79,209,490	101,713,400
Finance cost paid	(37,217,329)	(31,439,869)
Income tax paid	(8,401,365)	(5,162,011)
Gratuity paid	(3,523,747)	(7,242,004)
Workers' profit participation fund paid	(707,369)	(493,451)
Workers' welfare fund paid	(878,312)	(658,387)
	(50,728,122)	(44,995,722)
Net cash generated from operating activities	28,481,367	56,717,678
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Sale proceeds of fixed assets disposed during the period	-	433,000
Additions to fixed assets	(218,000)	(7,267,703)
Capital expenditure incurred	(84,702,580)	-
Return on deposits	13,014	27,938
Net cash used in investing activities	(84,907,566)	(6,806,765)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Directors loan	3,425,500	5,663,272
Long term loan received	133,625,000	48,600,595
Long term loan paid	(45,311,336)	(60,090,566)
Bills payable against long term loan	30,001,427	(40,255,889)
Long term deposits and prepayments	-	30,000
Payment of supplier credit loan	(79,398,723)	-
Dividend paid	-	(13,975,536)
Net cash used in financing activities	42,341,868	(60,028,124)
Net (decrease)/increase in cash and bank balances	(14,084,331)	(10,117,212)
<b>Cash and bank balances at beginning of the period</b>	24,315,758	34,432,970
<b>Cash and bank balances at end of the period</b>	10,231,427	24,315,758

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

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2010

	Share Capital	Unappropriated Profit (Rupees)	Total
Balance as at June 30, 2008	145,486,760	97,141,239	242,627,999
<b>Appropriation:</b>			
Final dividend for the year ended 30-06-08	-	(18,185,845)	(18,185,845)
Total comprehensive income for the year ended June 30, 2009	-	25,214,048	25,214,048
Balance as at June 30, 2009	145,486,760	104,169,442	249,656,202
<b>Appropriation:</b>			
Final dividend for the year ended 30-06-09	-	-	-
Total comprehensive income for the year ended June 30, 2010	-	16,073,293	16,073,293
	-	16,073,293	16,073,293
Balance as at June 30, 2010	145,486,760	120,242,736	265,729,495

Chief Executive

Director

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 1 STATUS AND NATURE OF BUSINESS

Karam Ceramics Limited was incorporated in Pakistan on April 8, 1979 as a public limited company under the Companies Act, 1913 (now Companies Ordinance, 1984). The shares of the company are quoted on Karachi Stock Exchange. The registered office of the Company is situated at BC-6, Block-5, Kehkashan, Clifton, Karachi, Pakistan and principal office is situated at 295/311, Deh Halkani, Hub Dam Road, Manghpoir, Karachi. The principal activity of the company is to manufacturing of tiles.

### 2 BASIS OF PREPARATION

#### 2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) 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 BASIS OF MEASUREMENT

The financial statements have been prepared under the historical cost convention except that the non current assets are stated at the revalued amounts and derivative financial instruments are measured at fair values.

#### 2.3 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency and rounded to the nearest rupees.

#### 2.4 USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amount of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates underlying the assumptions are reviewed on an ongoing basis. 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 the revision and future periods if the revision affects both current and future periods. Judgments made by the management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with significant risk of material judgment in the next year are discussed in note 32 to these financial statements.

## 2.5 CHANGES IN ACCOUNTING POLICIES

Starting 1 July 2009, the Company has changed its accounting policies in the following areas:

- 2.5.1 "Revised IAS 1 Presentation of Financial Statements (2007)" became 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 a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company has opted to present two statements; a profit and loss account and a statement of comprehensive income.
- 2.5.2 During the year the company has changed the policy of recognizing actuarial gain / loss arise on actuarial valuation, which was carried out as on June 30, 2009. The company has adopted paragraph 93 instead of paragraph 92 (previously adopted by the company) of IAS -19 for charging actuarial gain / loss. Paragraph 93 of IAS 19 states that an entity may adopt any systematic method that results in faster recognition of actuarial gains / losses. The Board of directors of the company have decided to realized actuarial gain arised on actuarial valuation over two year basis as disclosed in note 7 of financial statements.

Comparative information has been re-presented so that it is in conformity with the revised / new standards. Since the change in accounting policies only affect presentation / disclosures of financial statements, there is no impact on profit for the year and earnings per share.

## 2.6 OTHER ACCOUNTING DEVELOPMENT

Disclosures pertaining to fair values and liquidity risk for financial instruments

The Company has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments. However, the Company does not have any items to report under these levels.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

Apart from above certain other standards, amendments to published standards and interpretations of accounting standards became effective during the year, however, they do not affect the Company's financial statements.

## **2.7 STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE.**

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning on or after 1 January 2010.

Improvements to IFRSs 2009 – Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in IFRS 5. These amendments are unlikely to have an impact on the Company's financial statements.

Improvements to IFRSs 2009 – Amendments to IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2010) . The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker. The amendment is unlikely to have an impact on Company's financial statements.

Improvements to IFRSs 2009 – Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments. These amendments are unlikely to have an impact on the Company's financial statements.

Improvements to IFRSs 2009 – Amendments to IAS 7 Statement of Cash Flows (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. These amendments are unlikely to have a significant impact on the Company's financial statements.

Improvements to IFRSs 2009 – Amendments to IAS 17 Leases (effective for annual periods beginning on or after 1 January 2010). The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 – 13 of IAS 17, taking account of the fact that land normally has an indefinite economic life. The amendment is unlikely to have an impact on Company's financial statements.

Improvements to IFRSs 2009 – Amendments to IAS 36 Impairment of Assets (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8. The amendments apply prospectively. The amendment is not relevant to the Company's operations.

Improvements to IFRSs 2009 – Amendments to IAS 39 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2010). The amendments provide additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; clarify that the scope exemption in IAS 39 paragraph 2(g) is restricted to forward contracts, i.e. no options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss. The amendments apply prospectively to all unexpired contracts from the date of adoption. These amendments are unlikely to have an impact on the Company's financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010). The IASB provided additional optional exemptions for first-time adopters of IFRSs that will permit entities not to reassess the determination of whether an arrangement contains a lease if the same assessment as that required by IFRIC 4 was made under previous GAAP; and allow entities in the oil and gas industry to use their previous GAAP carrying amounts as deemed cost at the date of transition for oil and gas assets. The amendment is not relevant to the Company's operations.

Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). Amendment provides guidance on the accounting for share based payment transactions among group entities. The amendment is not relevant to the Company's operations.

Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 January 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. These amendments are unlikely to have an impact on the Company's financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for accounting periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. The amendment is not relevant to the Company's operations.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for accounting periods beginning on or after 1 July 2010). The amendment provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the Amendments to IFRS 7. The amendment also clarifies the transitional provisions of the Amendments to IFRS 7. The amendment is not relevant to the Company's operations.



Improvements to IFRSs 2010 (effective for annual periods beginning on or after 1 July 2010). The IASB issued amendments to various standards effective. Below is a summary of the amendments that are effective for either annual periods beginning on or after 1 July 2010 or annual periods beginning on or after 1 January 2011.

Improvements to IFRSs 2010 – Amendments to IFRS 3 Business Combinations (effective for accounting periods beginning on or after 1 July 2010). The amendments clarify that contingent consideration arising in a business combination previously accounted for in accordance with IFRS 3 (2004) that remains outstanding at the adoption date of IFRS 3 (2008) continues to be accounted for in accordance with IFRS 3 (2004); limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. These amendments are unlikely to have an impact on the Company's financial statements.

Improvements to IFRSs 2010 – Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2010). The amendments clarify that the consequential amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 and IAS 31 resulting from IAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. These amendments are unlikely to have an impact on the Company's financial statements.

IAS 24 Related Party Disclosures (revised 2009) (effective for accounting periods beginning on or after 1 January 2011). The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. These amendments are unlikely to have an impact on the Company's financial statements other than increase in disclosures.

Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. These amendments are unlikely to have an impact on the Company's financial statements.

Improvements to IFRSs 2010 – IFRS 1 First-time Adoption of IFRSs (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that IAS 8 is not applicable to changes in accounting policies occurring during the period covered by an entity's first IFRS financial statements; introduce guidance for entities that publish interim financial information under IAS 34 Interim Financial Reporting and change either their accounting policies or use of the IFRS 1 exemptions during the period covered by their first IFRS financial statements; extend the scope of paragraph D8 of IFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first IFRS financial statements; and introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to IFRSs for items of property, plant and equipment or intangible assets used in certain rate-regulated activities. The amendment is not relevant to the Company's operations.



Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures (effective for accounting periods beginning on or after 1 January 2011). The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. These amendments would result in increase in disclosures in the financial statements of the Company.

Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendment is not likely to have an impact on Company's financial statements other than increase in disclosure.

Improvements to IFRSs 2010 – IAS 34 Interim Financial Reporting (effective for accounting periods beginning on or after 1 January 2011). The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures. The amendment is not likely to have an impact on Company's financial statements other than increase in disclosure.

Improvements to IFRSs 2010 – IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendment is not relevant for the Company's operation.

### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as explained in note 2.5.

#### **3.1 Staff Retirement Benefits**

##### **Defined Benefit Plan-Gratuity**

The company operates an Unfunded Gratuity Scheme for all its permanent employees who attain the minimum qualification period for entitlement to gratuity. The provision is made on the basis of actuarial valuation to cover the obligation under the scheme for all employees eligible to gratuity benefits. The latest actuarial valuation for gratuity scheme was carried out as on June 30, 2009.

#### **3.2 Borrowings**

Loans and borrowings are recorded as the proceeds are received. Financial charges are accounted for on an accrual basis.

All mark-up, interest and other charges on long-term and short term borrowings are charged to profit and loss account in the period in which they are incurred.

### 3.3 Trade and Other Payables

Liabilities for trade and other amounts payable are carried at fair value which is the amount of consideration to be paid in future for goods and services received whether or not billed to the Company

### 3.4 Property Plant and Equipments

**Owned:**

- (a) Operating Assets are stated at cost (including related borrowing cost) less accumulated depreciation and accumulated impairment losses, if any, except that freehold land which is stated at revalued amount and factory building on freehold land is stated at revalued amount less accumulated depreciation. Depreciation on operating assets is charged to income applying the reducing balance method at the rates disclosed in Note 12.
- (b) Six monthly basis depreciation is charged on assets acquired and disposed off during the year.
- (c) Gains/losses on disposal of assets are included in income currently.
- (d) Normal repairs and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

### 3.5 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are transferred to specific operating assets as and when these are available for intended use.

### 3.6 Stores, Spares and Loose Tools

These are valued at lower of cost and estimated net realizable value less impairment loss, if any. The cost determination method is on First-In-First-Out basis (FIFO).

### 3.7 Stock-in-Trade

Stock in trade is valued at the lower of cost and estimated net realizable value less impairment loss, if any .. The cost determination method are as follows:

Raw Material	At lower of weighted average cost and net realizable value.
Work in Process	At lower of weighted average cost of direct material, labour and appropriate manufacturing expenses and net realizable value.
Finished goods	At lower of weighted average cost and net realizable value less impairment loss, if any. Cost is determined on the basis of prime cost and appropriate factory overheads.
Fittings and accessories	At lower of cost on FIFO basis and net realizable value less impairment loss, if any

Packing Material At lower of cost on FIFO basis and net realizable value less impairment loss, if any

Stock in Transit At invoice value.

Net realizable value signifies the estimated selling price in the ordinary course of business less net estimated cost which is necessary to be incurred in order to make the sale.

### 3.8 Trade Debts

Trade debts are recognized and carried at original invoiced amount which is fair value of the consideration to be received in future. An estimated provision for doubtful debt is made when collection of the full amount is no longer probable. Debts considered irrecoverable are written-off.

### 3.9 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement cash and cash equivalents comprise cash and cheques in hand and balances with banks.

### 3.10 Foreign Currency Transactions

Transactions in foreign currencies are translated into Pak rupees at the rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Pak rupees at the rate of exchange prevailing at the Balance Sheet date.

Exchange differences arising on translation are recognized in profit and loss account currently.

### 3.11 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account, except to the extent that it relates to items recognized directly in comprehensive income or below equity, in which case it is recognized in comprehensive income or below equity respectively.

#### Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing law for taxation on income. The charge for current tax also includes prior year adjustments, where considered necessary, arising due to assessments finalized during the year.

#### Deferred

Deferred tax is recognized using balance sheet liability method, providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using the tax rates enacted or substantively enacted at the balance sheet date.

The Company recognizes a deferred tax asset to the extent that it is probable that taxable profits for the foreseeable future will be available against which the assets can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Further, the Company also recognizes deferred tax asset / liability on deficit / surplus on revaluation of property, plant and equipment which is adjusted against the related deficit / surplus.

### 3.12 Financial Instruments

All financial assets and financial liabilities are recognized at the time when company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially made at fair value, and subsequently made at fair value are amortized cost as the case may be, All financial assets and liabilities are derecognized at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is included in profit and loss account.

### 3.13 Offsetting Of Financial Assets And Financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when the Company has a legally enforceable right to set-off the recognized amounts and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### 3.14 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provision are reviewed at each balance sheet date and adjusted to reflect current best estimates.

### 3.15 Impairment

#### Financial assets

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

#### Non-Financial assets

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

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### 3.16 Transactions with related Parties

Transactions with related parties are based on the policy that all transactions between the company and the related parties are carried out at arm's length prices using the "Comparable Uncontrolled Price Method".

### 3.17 Dividend And Appropriation in / from Reserves

Dividend distribution to the Company's shareholders and appropriation to / from reserves is recognized in the period in which these are approved.

### 3.18 Revenue Recognition

Revenue comprises of the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Company's activities. Revenue from sale of goods is shown net of sales tax.

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to the Company and the amount of revenue can be measured reliably. The revenue arising from different activities of the Company is recognized on the following basis:

Sales are recorded on dispatch of goods to customers.

Profit on Bank Deposits is recognized on an accrual basis.

## 4 SHARE CAPITAL

### Issued, Subscribed And Paid-Up Capital

Number of ordinary shares of Rs. 10/- each			2010 Rupees	2009 Rupees
2010	2009			
13,267,786	13,267,786	Ordinary shares of Rs.10/- each fully paid in cash	132,677,860	132,677,860
1,280,890	1,280,890	Shares allotted as bonus shares	12,808,900	12,808,900
<u>14,548,676</u>	<u>14,548,676</u>		<u>145,486,760</u>	<u>145,486,760</u>

## 5 SURPLUS ON REVALUATION OF FIXED ASSETS

Opening balance as on 1st July	47,144,432	51,119,879
Less: Incremental depreciation transferred from surplus on revaluation of fixed assets to retained earning (net of tax)	(3,577,902)	(3,975,447)
	<u>43,566,530</u>	<u>47,144,432</u>

Fixed assets of the company, comprising of land and building were first revalued in the year 2005. The revaluation had resulted into surplus of Rs.104.58 M. Revaluation of factory land was again carried out on 1st February, 2007 by an independent valuer, M/s. Iqbal A. Nanjee & Co. This valuation has resulted into surplus of Rs.94.17 M.

	<i>Note</i>	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>6 LONG TERM FINANCING</b>			
From Banking Companies:			
Soneri Bank Limited Term Finance Loan	6.1	<b>179,051,327</b>	130,551,000
Bills payable against plant & machinery	6.2	<b>38,178,213</b>	8,176,786
Supplier's credit		-	79,398,723
From Related Parties:			
Directors Loan - unsecured	6.3	<b>14,427,571</b>	11,002,071
		<b>231,657,111</b>	<b>229,128,580</b>
<b>6.1 Soneri Bank Limited-Term Finance Loan</b>			
Soneri Bank Limited-Term Finance Loan		<b>261,572,664</b>	173,259,000
Less:- Current maturity		<b>(82,521,337)</b>	(42,708,000)
		<b>179,051,327</b>	<b>130,551,000</b>
SBL Term Finance Loan			
Soneri Bank Term Finance Loan III		<b>99,000,000</b>	132,000,000
Soneri Bank Term Finance Loan IV		<b>31,551,000</b>	41,259,000
Soneri Bank Term Finance Loan V		<b>6,305,000</b>	-
Soneri Bank Term Finance Loan VI		<b>8,666,664</b>	-
Soneri Bank Term Finance Loan VII		<b>8,700,000</b>	-
Soneri Bank Term Finance Loan VIII		<b>7,350,000</b>	-
Soneri Bank Term Finance Loan IX		<b>100,000,000</b>	-
		<b>261,572,664</b>	<b>173,259,000</b>
Current maturity of SBL Term Finance Loan			
Soneri Bank Term Finance Loan III		<b>33,000,000</b>	33,000,000
Soneri Bank Term Finance Loan IV		<b>9,708,000</b>	9,708,000
Soneri Bank Term Finance Loan V		<b>1,455,000</b>	-
Soneri Bank Term Finance Loan VI		<b>2,000,004</b>	-
Soneri Bank Term Finance Loan VII		<b>1,800,000</b>	-
Soneri Bank Term Finance Loan VIII		<b>1,225,000</b>	-
Soneri Bank Term Finance Loan IX		<b>33,333,333</b>	-
		<b>82,521,337</b>	<b>42,708,000</b>

Name of Bank	Description	Principal Amount	Purpose	Installments	Rate of Mark-up	2010	2009
Soneri Bank Limited	Term Finance III	165,000,000	For Fixed Assets financing	2,750,000	6 months Avg. KIBOR + 2% p.a	99,000,000	132,000,000
Soneri Bank Limited	Term Finance IV	48,600,593	For Fixed Assets financing	809,000	6 months Avg. KIBOR + 2% p.a	31,551,000	41,259,000
Soneri Bank Limited	Term Finance V	7,275,000	For Fixed Assets financing	121,250	6 months Avg. KIBOR + 2% p.a	6,305,000	-
Soneri Bank Limited	Term Finance VI	10,000,000	For Fixed Assets financing	166,667	6 months Avg. KIBOR + 2% p.a	8,666,664	-
Soneri Bank Limited	Term Finance VII	9,000,000	For Fixed Assets financing	150,000	6 months Avg. KIBOR + 2% p.a	8,700,000	-
Soneri Bank Limited	Term Finance VIII	7,350,000	For Fixed Assets financing	122,500	6 months Avg. KIBOR + 2% p.a	7,350,000	-
Soneri Bank Limited	Term Finance IX	100,000,000	For Fixed Assets financing	2,777,778	6 months Avg. KIBOR + 2% p.a	100,000,000	-

6.2 Payment to the supplier of plant and machinery on due dates, will be made by Soneri Bank Limited against the long term loan.

6.3 This represent net amount due to three directors payable as on 30-06-2010. The loan carried interest @ 7% per annum (2009: 7%), the amount will be paid after September 15, 2011

## 7 STAFF RETIREMENT BENEFITS-GRATUITY

### 7.1 General Description

The scheme provides terminal benefits for all its permanent employees who attain the minimum qualifying period of one year for entitlement to gratuity.

Annual charge is based on assumptions used by actuary in actuarial valuation carried out as at 30 June 2009, using the Projected Unit Credit Method.

During the year the company has adopted faster recognition of actuarial gain /loss as mentioned in paragraph 93 of IAS 19. The Board of directors of the company have decided to realized actuarial gain over two years basis.

	<i>Note</i>	2010 Rupees	2009 Rupees
<b>7.2 Principal Actuarial Assumptions</b>			
Following are a few important actuarial assumptions used in the valuation carried out as on June 30, 2010:			
Discount rate		12%	12%
Expected rate of salary increase in future years		11%	11%
Average expected remaining working life time of employees		11 years	11 years
<b>7.3 Reconciliation of Payable to Defined Benefit Plan</b>			
Present value of defined benefit obligation		52,105,889	46,525,847
Unrecognized actuarial gain /(loss)		5,427,492	10,854,983
	7.4	57,533,381	57,380,830
<b>7.4 Movement in Liability Recognized in Balance Sheet</b>			
Balance Sheet Liability / (Asset) as on June 30th 2009		57,380,830	56,116,627
Current service cost for the year	7.5	3,520,688	3,143,472
Interest cost for the year		5,583,102	5,362,735
Actuarial gain realized		(5,427,492)	-
Payment made during the year		(3,523,747)	(7,242,004)
Present value of Defined Benefit Obligation as on 30, June 2010		57,533,381	57,380,830
<b>7.5 Charge for the year</b>			
Current service cost		3,520,688	3,143,472
Interest cost		5,583,102	5,362,735
Actuarial gain charge		(5,427,492)	-
		3,676,298	8,506,207
<b>7.6 Charge for the Year has been allocated as follows:</b>			
Cost of sale		3,443,269	7,967,025
Selling and distribution expenses		71,318	165,015
Administrative expenses		161,711	374,167
		3,676,298	8,506,207



7.7 Historical information

	2010 Rupees	2009 Rupees	2008 Rupees	2007 Rupees	2006 Rupees
Present value of obligation	52,105,889	46,525,847	53,627,354	49,729,312	50,872,967
Unrecognized actuarial gain /(loss)	5,427,492	10,854,983	2,489,273	2,308,334	(2,220,940)

	<i>Note</i>	2010 Rupees	2009 Rupees
<b>8 DEFERRED TAXATION</b>			
Deferred tax liability comprises of taxable/(deductible) temporary differences in respect of the following:			
Credit / (debit) balances arising on account of Accelerated depreciation for tax purpose		141,865,172	152,662,758
Relating to surplus on revaluation of fixed assets (Net after tax effect of incremental depreciation)		(17,339,063)	(19,265,626)
Deductible temporary differences related to staff retirement benefits		(20,136,683)	(20,083,291)
		<u>104,389,426</u>	<u>113,313,841</u>
<b>9 TRADE AND OTHER PAYABLES</b>			
Trade creditors		14,973,071	9,837,242
Accrued expenses		47,602,950	40,044,388
Bills payable		27,157,513	19,593,019
Sales tax payable		10,928,638	5,405,208
Workers' profit participation fund	9.1	683,516	707,369
Workers' welfare fund		259,736	268,800
Unclaimed dividend		338,123	338,123
Withholding tax payable		81,119	345,593
		<u>102,024,667</u>	<u>76,539,743</u>
<b>9.1 Workers' profit participation fund</b>			
Opening balance		707,369	493,451
Allocation for the year		683,516	707,369
Interest on fund utilized in company's business		40,233	24,902
		<u>723,749</u>	<u>732,271</u>
		1,431,118	1,225,722
Less: Paid during the year		(747,602)	(518,353)
		<u>683,516</u>	<u>707,369</u>
<b>10 SHORT TERM BORROWINGS</b>			
From banking companies -secured			
Running finance under mark-up arrangement	10.1	3,916,366	58,055,880
		<u>3,916,366</u>	<u>58,055,880</u>

10.1 The company has obtained short term running finance facility from Soneri Bank Limited of Rs. 20 million (2009: 100 million) carrying markup of six months average KIBOR plus 2% subject to revision with the prevailing market rate, (upto 30th June, 2009: KIBOR plus 2%). The arrangement is secured by way of hypothecation charge over company's stocks with 25% margin and personal guarantee of directors of the company.



## 11 CONTINGENCIES AND COMMITMENTS

### 11.1 Contingencies

Nil

### 11.2 Commitments

Capital expenditures commitments outstanding as at 30 June 2010 amounted to Rs Nil (2009: Rs 59,894,755)

Commitments under letter of credit of raw materials as at 30 June 2010 amounted to Rs. 4,357,922 (2009: 14,941,701)

## 12 PROPERTY, PLANT AND EQUIPMENT

	Building			Plant and machinery	Motor vehicles	Furniture, fixture & equipment	Moulds	Laboratory equipment	Total
	Freehold Land	Factory Freehold land	Lahore warehouse on free hold land						
<b>COST</b>									
Balance as at July 01, 2008	15,330,000	262,572,555	2,664,102	1,166,418,218	22,455,018	11,812,151	642,747	1,512,579	1,483,407,370
Additions during the year	-	3,706,548	-	1,720,890	1,157,265	683,000	-	-	7,267,703
Disposal during the year	-	-	-	-	(554,000)	-	-	-	(554,000)
Balance as at June 30, 2009	15,330,000	266,279,103	2,664,102	1,168,139,108	23,058,283	12,495,151	642,747	1,512,579	1,490,121,073
Balance as at July 01, 2009	15,330,000	266,279,103	2,664,102	1,168,139,108	23,058,283	12,495,151	642,747	1,512,579	1,490,121,073
Additions during the year	-	-	-	-	-	218,000	-	-	218,000
Disposal during the year	-	-	-	-	-	-	-	-	-
Balance as at June 30, 2010	15,330,000	266,279,103	2,664,102	1,168,139,108	23,058,283	12,713,151	642,747	1,512,579	1,490,339,073
<b>DEPRECIATION</b>									
Balance as at July 01, 2008	-	143,720,205	2,336,145	572,301,387	16,096,963	8,294,312	642,660	1,392,407	744,784,079
Charge for the year	-	11,773,432	31,976	58,012,436	1,237,721	403,093	24	11,717	71,470,399
Disposal during the year	-	-	-	-	(349,082)	-	-	-	(349,082)
Balance as at June 30, 2009	-	155,493,637	2,368,121	630,313,823	16,985,602	8,697,405	642,684	1,404,124	815,905,396
Balance as at July 01, 2009	-	155,493,637	2,368,121	630,313,823	16,985,602	8,697,405	642,684	1,404,124	815,905,396
Charge for the year	-	10,801,583	28,858	52,437,965	1,153,810	381,180	17	10,574	64,813,987
Disposal during the year	-	-	-	-	-	-	-	-	-
Balance as at June 30, 2010	-	166,295,220	2,396,979	682,751,788	18,139,412	9,078,585	642,701	1,414,698	880,719,83
Book value as at June 30, 2009	15,330,000	110,785,466	295,981	537,825,285	6,072,681	3,797,746	63	108,455	674,215,678
Book value as at June 30, 2010	15,330,000	99,983,883	267,123	485,387,320	4,918,871	3,634,566	46	97,881	609,619,688
Annual depreciation rate %	-	10	10	10	20	10	30	10	

	<i>Note</i>	2010 Rupees	2009 Rupees
<b>12.1 Depreciation charge for the year has been allocated as follows:</b>			
Cost of Goods Sold	20.1	64,017,635	70,618,016
Selling and Distribution Expenses	21	412,606	442,179
Administrative and General Expenses	22	383,747	410,203
		<u>64,813,988</u>	<u>71,470,398</u>

**12.2 Disposal of fixed assets**

Particulars	Cost of Acquisition	Accumulated Depreciation	W.D.V	Sale Proceeds	Profit / (Loss)	Mode of Sale	Particulars of Purchaser
			Rupees				
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
<b>Total 2010</b>	-	-	-	-	-		
Total 2009	554,000	349,082	204,918	433,000	228,082		

**12.3** Had there been no revaluation of property, plant and equipment, the written down value would have been as follows:

*Note*

Freehold land	3,964,588	3,964,588
Factory building	50,264,065	54,534,807
	<u>54,228,653</u>	<u>58,499,395</u>
<b>13 CAPITAL WORK IN PROGRESS</b>		
Civil Works	401,672	-
Plant & Machinery	84,300,908	-
	<u>84,702,580</u>	<u>-</u>
<b>14 STORES AND SPARES</b>	14.1	<u>8,086,556</u>
		<u>7,187,459</u>

**14.1** It is not considered practicable to segregate stores, spares and loose tools in view of the nature of the Company's operation.

**15 STOCK-IN-TRADE**

Raw material	80,745,446	62,943,664
Packing material in hand	3,133,125	-
Work-in-process	7,883,917	5,484,550
Finished goods	44,434,309	62,807,710
	<u>136,196,797</u>	<u>131,235,924</u>
Provision for slow moving and obsolete stock	15.1	<u>(7,296,787)</u>
		<u>128,900,010</u>
		<u>123,939,137</u>

	<i>Note</i>	2010 Rupees	2009 Rupees
<b>15.1 Provision for slow moving stock</b>			
Balance at the beginning of the year		7,296,787	7,296,787
Provision for the year		-	-
Balance at the end of the year		<u>7,296,787</u>	<u>7,296,787</u>
		<u>7,296,787</u>	<u>7,296,787</u>
<b>16 LOANS AND ADVANCES</b>			
Loans to employees - considered good	16.1	301,850	310,755
Advances - considered good			
- Employees		274,900	212,800
- Purchases		485,415	350,935
- Others		4,265,190	2,393,384
- Advance against purchase of land	16.2	400,000	400,000
		<u>5,727,355</u>	<u>3,667,874</u>
<b>16.1</b> Maximum aggregate balance of loans due at the end of any month during the year 2010 was Rs.385,855 (2009: Rs.732,820). These are secured against gratuity payable to them.			
<b>16.2</b> This represents amount paid against purchase of land. However, the seller has filed a suit in the Civil Court Lahore for cancellation of the agreement and the matter is pending adjudication.			
<b>17 SHORT-TERM PREPAYMENTS AND CURRENT ACCOUNT BALANCES WITH STATUTORY AUTHORITIES</b>			
Prepayments			
Letters of credit charges		20,872,466	22,696,997
Rent	17.1	90,000	750,000
Advance income tax		8,401,365	5,162,011
Others		2,291,074	17,551
		<u>31,654,905</u>	<u>28,626,559</u>
<b>17.1</b> The above prepayment is made to M/s Kulsoom and Sohaila Associates, a related party, against the advance rent of head office building situated at Plot No BC-6, Block-5, KDA Scheme No-5 Kehkashan Clifton Karachi.			
<b>18 CASH AND BANK BALANCES</b>			
Cash in hand		472,315	1,551,651
Cheques in hand		8,686,500	18,919,035
		<u>9,158,815</u>	<u>20,470,686</u>
Balance with banks in:			
- Current accounts		472,683	3,274,094
- Deposit accounts		599,929	570,978
		<u>1,072,612</u>	<u>3,845,072</u>
		<u>10,231,427</u>	<u>24,315,758</u>
<b>19 SALES - NET</b>			
Gross sales		1,106,440,994	984,193,104
Less: Sales return		(14,440,931)	(9,906,193)
		<u>1,092,000,063</u>	<u>974,286,911</u>
Less: Sales tax		(149,333,342)	(133,235,817)
Less: Federal excise duty		(9,333,334)	(8,327,239)
		<u>933,333,387</u>	<u>832,723,855</u>

	<i>Note</i>	2010 Rupees	2009 Rupees
<b>20 COST OF SALES</b>			
Opening stock of finished goods		62,807,710	29,702,550
Cost of goods manufactured	20.1	800,514,129	735,850,884
		863,321,839	765,553,434
Closing stock of finished goods		(44,434,309)	(62,807,710)
		<u>818,887,530</u>	<u>702,745,724</u>
<b>20.1 Cost of goods manufactured</b>			
<b>Raw materials consumed</b>			
Opening stock		62,943,664	19,878,014
<b>Purchases</b>			
- Local		56,570,473	48,451,817
- Imported		185,571,117	201,516,136
Total purchases		242,141,590	249,967,953
Available for use		305,085,254	269,845,967
Closing stock		(80,745,446)	(62,943,664)
		<u>224,339,808</u>	<u>206,902,303</u>
Other manufacturing expenses			
Moulds, dyes and consumable stores and spares		28,633,548	23,363,613
Fuel, power and water		330,565,873	288,404,017
Salaries, wages and other benefits		100,048,380	92,972,314
Director's remuneration		1,800,000	1,400,000
Insurance		1,375,744	1,930,791
Vehicles running and maintenance		703,113	1,284,344
Repairs and maintenance		14,834,375	19,236,184
Other production expenses		1,972,849	1,604,674
Packing materials consumed		34,622,171	31,497,946
Depreciation	12.1	64,017,635	70,618,016
Total manufacturing expenses		802,913,496	739,214,202
Opening work-in-process		5,484,550	2,121,232
		<u>808,398,046</u>	<u>741,335,434</u>
Closing work-in-process		(7,883,917)	(5,484,550)
		<u>800,514,129</u>	<u>735,850,884</u>
<b>21 SELLING AND DISTRIBUTION EXPENSES</b>			
Salaries, allowances and other benefits		6,079,736	4,360,988
Rent, rates and taxes		556,975	1,326,643
Electricity and gas charges		501,867	371,676
Postage, telegraph and telephone charges		323,442	141,264
Printing and stationery		120,729	58,647
Vehicles running and maintenance		1,017,402	798,756
Repairs and maintenance		599,062	318,756
Traveling and conveyance		337,130	292,230
Entertainment		48,160	371,913
Advertisement and sales promotion		687,165	774,971
Insurance		365,499	366,700
Forwarding and transportation		46,036,550	43,453,705
Commission		464,540	317,135
Depreciation	12.1	412,606	442,179
Sundry expenses		99,232	60,964
		<u>57,650,095</u>	<u>53,456,527</u>

	<i>Note</i>	2010 Rupees	2009 Rupees
<b>22 ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances and other benefits		6,095,825	5,356,818
Directors, remuneration and allowance		1,800,000	1,400,000
Rent, rates and taxes		946,055	798,160
Electricity and gas charges		1,061,034	859,381
Postage, telegraph and telephone charges		736,148	872,215
Printing and stationery		300,121	339,533
Vehicles running and maintenance		633,094	668,309
Repairs and maintenance		508,802	545,624
Traveling and conveyance		294,070	1,744,284
Entertainment		62,210	70,394
Legal and professional charges		1,213,000	1,128,000
Fees and subscription		1,354,096	671,248
Insurance		839,337	696,721
Depreciation	12.1	383,747	410,203
Sundry expenses		-	18,159
		<b>16,227,539</b>	<b>15,579,049</b>
<b>23 OTHER OPERATING CHARGES</b>			
Auditors' remuneration	23.1	360,000	255,000
Donations	23.2	2,925,000	800,000
Exchange loss		-	5,989,710
Workers profit participation fund		683,516	707,369
Workers welfare fund		259,736	268,800
		<b>4,228,252</b>	<b>8,020,879</b>
<b>23.1 Auditors' Remuneration</b>			
Audit fee		300,000	200,000
Half yearly review report		30,000	30,000
Code of corporate governance review report		30,000	25,000
		<b>360,000</b>	<b>255,000</b>
<b>23.2</b>			
None of the directors or spouse is interested in the funds of donees.			
Donations include payment made to following institutions			
Name of Institutions			
Memon Health & Education Foundation		1,000,000	-
The Agakhan Hospital & Medical College		310,000	250,000
Karachi Lions AKUH Blood Bank		10,000	-
Network of Organization for people with Disabilities		25,000	-
Aga Khan Education Services of Pakistan		1,000,000	500,000
Focus Humanitarian Assistance		500,000	-
Others		80,000	50,000
		<b>2,925,000</b>	<b>800,000</b>

	<i>Note</i>	2010 Rupees	2009 Rupees
<b>24 FINANCIAL CHARGES</b>			
Interest on workers' profit participation fund		40,233	24,902
Mark-up on :			
Short term finances		9,739,959	6,395,254
Term finance		24,689,486	31,691,807
Bank charges		245,100	1,061,249
Interest on directors' loan		741,103	833,272
		<u>35,455,881</u>	<u>40,006,484</u>
<b>25 OTHER INCOME</b>			
Income from financial assets			
Return on deposit accounts		13,014	27,938
Income from non-financial assets			
Gain on sale of fixed assets	12.2	-	228,082
Exchange gain		11,829,964	-
		<u>11,842,978</u>	<u>256,020</u>
<b>26 TAXATION</b>			
<b>For current year</b>			
- Current		8,546,580	-
- Deferred		(8,924,415)	(7,888,726)
		(377,835)	(7,888,726)
<b>For prior year</b>			
- Income tax		-	(313,411)
- Workers welfare fund		609,512	134,748
		<u>231,677</u>	<u>(8,067,389)</u>

26.1 Relationship between accounting profit and tax expenses for the year is as follows:

	2010	2009		
	Effective tax rate			
Profit before taxation			<u>12,727,068</u>	<u>13,171,212</u>
Application Tax rate	35.00	35.00	4,454,474	4,609,924
Tax effect of amount that are inadmissible/ admissible in determining taxable profit	74.81	81.70	9,521,638	10,760,529
Tax effect of minimum tax liability	-	-	-	-
Tax effect of brought forward taxable loss	(39.30)	(116.70)	(5,001,283)	(15,370,453)
Tax effect of tax credit	(3.36)	-	(428,250)	-
Tax effect of amount relating to prior year's tax	4.79	(1.36)	609,512	(178,663)
Tax effect of temporary difference (Deferred tax)	(70.12)	(59.89)	(8,924,416)	(7,888,726)
Effects of import under final tax liability	-	-	-	-
Average effective rate charged to income	<u>1.82</u>	<u>(61.25)</u>	<u>231,677</u>	<u>(8,067,389)</u>

26.2 The income tax assessments of the company have been finalized upto the financial year ended June 30, 2009.

	2010 Rupees	2009 Rupees
<b>27 EARNINGS PER SHARE-BASIC AND DILUTED</b>		
<b>27.1 Earnings per share - Basic</b>		
Net profit for the year after taxation	<u>12,495,392</u>	<u>21,238,601</u>
Weighted average Ordinary Shares in issue	<b>Number of shares</b>	
During the year	<u>14,548,676</u>	<u>14,548,676</u>
Basic earnings per share	<u>0.86</u>	<u>1.46</u>
<b>27.2 Earnings per share - Diluted</b>		
There is no dilution effect on Basic earnings per share as the Company has no such commitments.		

**28 REMUNERATION OF DIRECTORS AND EXECUTIVES**

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

	CHIEF EXECUTIVE		DIRECTOR		Grand Total	
	2010	2009	2010	2009	2010	2009
Managerial remuneration and allowances	1,161,289	903,225	1,161,289	903,225	2,322,578	1,806,450
House rent	522,579	406,450	522,579	406,450	1,045,158	812,900
Utilities	116,132	90,325	116,132	90,325	232,264	180,650
<b>RUPEES</b>	<u>1,800,000</u>	<u>1,400,000</u>	<u>1,800,000</u>	<u>1,400,000</u>	<u>3,600,000</u>	<u>2,800,000</u>
No of persons	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>

In addition, the Chief Executive and directors and certain executives are provided with free use of Company maintained cars.

**29 TRANSACTIONS WITH RELATED PARTY** TILES  
2010      2009  
(Sq. Meters)

The detail of transactions with the related parties during the year are as follows:

Relation with the Company	Nature of Transaction		
Associated undertaking	Payment of rent of office premises	1,056,000	1,056,000
Directors	Interest on loan	<u>741,103</u>	<u>833,272</u>

**30 CAPACITY AND PRODUCTION**

Capacity	3,100,000	3,100,000
Actual production	3,179,109	2,909,758

Increase in production during the year was as result of better productivity and inclusion of trial run production of approx 223,863 sq mtr.

### 31 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

**31.1** 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 in notes 31.1.1, 31.1.2 and 31.1.3 below:

#### 31.1.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted.

Credit risk arises from cash and cash equivalents and credit exposures to customers, including trade receivables and committed transactions. Out of the total financial assets of Rs 40,647,516/- (2009: Rs 50,836,271/-), the financial assets that are subject to credit risk amounted to Rs 40,175,201/- (2009: Rs 49,284,621/-).

The maximum exposure to credit risk as at June 30, 2010, along with comparative is tabulated below:

Financial Assets	2010 Rupees	2009 Rupees
Long term deposits	875,788	875,788
Trade debts	23,340,631	20,425,201
Loans and advances	5,727,355	3,667,874
Cash and bank balances	10,231,427	24,315,758
	<u>40,175,201</u>	<u>49,284,621</u>

The bank balances along with credit rating are tabulated below

Name of bank	Credit rating	Rating agency	Amount
Soneri bank limited	A1+	PACRA	770439
National bank of Pakistan	A-1+	JCR-VIS	3129
Muslim commercial bank	A1+	PACRA	22441
Habib metropolitan bank	A1+	PACRA	1857
Habib bank limited	A-1+	JCR-VIS	274436
KASB bank limited	A2	PACRA	310
			<u>1,072,612</u>

Due to the company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the company.



For trade receivables, internal risk assessments process determines the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are fixed based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Accordingly the credit risk is minimal and the company also believes that it is not exposed to major concentration of credit risk.

### 31.1.2 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments. The management believes that it is not exposed to any significant level of liquidity risk.

The management forecasts the liquidity of the company on basis of expected cash flow considering the level of liquid assets necessary to meet such risk. This involves monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Financial liabilities in accordance with their contractual maturities are presented below:

	2010						Grand Total
	Interest / Mark-up bearing			Non-interest bearing			
	Maturity within year	Maturity after year	Sub total	Maturity within year	Maturity after year	Sub total	
----- Rupees -----							
FINANCIAL LIABILITIES							
Long term financing	82,521,337	179,051,327	261,572,664	-	-	-	261,572,664
Long term liability	-	-	-	-	38,178,213	38,178,213	38,178,213
Short term borrowings	3,916,366	-	3,916,366	-	-	-	3,916,366
Trade and other payable	27,841,029	-	27,841,029	74,183,637	-	74,183,637	102,024,667
Markup accrued on loans	-	-	-	7,637,269	-	7,637,269	7,637,269
	<u>114,278,732</u>	<u>179,051,327</u>	<u>293,330,059</u>	<u>81,820,906</u>	<u>38,178,213</u>	<u>119,999,119</u>	<u>413,329,179</u>

	2009						Grand Total
	Interest / Mark-up bearing			Non-interest bearing			
	Maturity within year	Maturity after year	Sub total	Maturity within year	Maturity after year	Sub total	
----- Rupees -----							
FINANCIAL LIABILITIES							
Long term financing	42,708,000	130,551,000	173,259,000	-	-	-	173,259,000
Long term liability	-	-	-	-	79,398,723	79,398,723	79,398,723
Short term borrowings	58,055,880	-	58,055,880	-	-	-	58,055,880
Trade and other payable	20,300,388	-	20,300,388	56,239,355	-	56,239,355	76,539,743
Markup accrued on loans	-	-	-	9,398,720	-	9,398,720	9,398,720
	<u>121,064,268</u>	<u>130,551,000</u>	<u>251,615,268</u>	<u>65,638,075</u>	<u>79,398,723</u>	<u>145,036,798</u>	<u>396,652,066</u>

### 31.1.3 Market Risk

#### Currency Risk

#### Exposure to currency risk

The Company is exposed to currency risk on trade debts, borrowings and sales that are denominated in a currency other than the respective functional currency of the Company, primarily Euro. The Company's exposure to foreign currency risk is as follows:

	2010		2009	
	Rupees	Euro	Rupees	Euro
Bills payable	55,761,893	530,928	102,750,587	892,195
<b>Balance sheet exposure</b>	<b><u>55,761,893</u></b>	<b><u>530,928</u></b>	<b><u>102,750,587</u></b>	<b><u>892,195</u></b>

The following significant exchange rates applied during the year:

	2010	2009	2010	2009
	Average rates		Balance sheet date rate	
<b>Euro to PKR</b>	<b>117.27</b>	<b>108.95</b>	<b>103.8/105</b>	<b>114/116</b>

#### Sensitivity analysis

A 10 percent strengthening of the Rupee against Euro at 30 June would have increased / (decreased) equity and profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

	Profit and loss	
	2010	2009
As at 30 June		
Effect in Euro-gain	<b><u>5,576,189</u></b>	<b><u>10,275,059</u></b>

A 10 percent weakening of the Rupees against the above currency at 30 June would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

#### Interest rate risk

Interest / mark-up rate risk arises from the possibility that changes in interest / mark-up rates will affect the value of financial instruments. At June 30, 2010 the company's financial instruments mainly affected due to changes in the interest rates on long term financing and short term financing provided to company where changes in interest rates may have impact on the future profits / cash flows. The effects of changes in interest rates on the future profits arising on long term financing and short term financing provided to company are not considered to be material. The company places its funds in banks having good credit ratings as also stated in note 31.1.1.

	Carrying amount	
	2010 Rupees	2009 Rupees
Fixed rate instruments		
Financial liabilities	(14,427,571)	(11,002,071)
Variable rate instrument	(14,427,571)	(11,002,071)
Financial Liabilities	<u>265,489,030</u>	<u>231,264,880</u>

#### Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore a change in interest rates at the reporting date would not affect profit and loss account.

#### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by Rs. 2,654,890 million (2009: Rs. 2,312,648). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

#### 31.1.4 Fair value of financial instruments

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 June 30, 2010 the net fair value of all financial assets and financial liabilities are estimated to approximate their carrying values.

#### 31.1.5 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.

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

Consistent with others in the industry, the company manages its capital risk by monitoring its debt levels and liquid assets and keeping in view future investment requirements and expectation of the shareholders. Debt is calculated as total borrowings ('Term loan' and current maturity of the long term loan' as shown in the balance sheet). Total capital comprise shareholders' equity as shown in the balance sheet under 'share capital and reserves'.

As at June 30, 2010 the shareholder's equity amounts to Rs 309,296,027/- (Rs 296,8006,634/- 2009)

**32 ACCOUNTING ESTIMATES AND JUDGEMENTS**

**32.1 Income taxes**

In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past.

**32.2 Staff retirement benefits**

Certain actuarial assumptions have been adopted as disclosed in these financial statements for valuation of defined benefit obligations. Any changes in these assumptions in future years might affect unrecognised gains and losses in those years.

**32.3 Trade debts and other receivables**

Impairment loss against doubtful trade and other debts is made on a judgemental basis, which provision may differ in the future years based on the actual experience. The difference in provision if any, is recognised in the future period.

**32.4 Property, plant and equipment**

The Company's management determines the estimated useful lives and related depreciation charge for its plant and equipment. The estimates for revalued amounts of different classes of property, plant and equipment are based on valuation performed by external professional valuers and equipment, recommendation of technical teams of the Company. The said recommendation also include estimates with respect to residual values and depreciable lives. 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 with a corresponding affect on the depreciation charge and impairment.

**32.5 Stock-in-trade and stores and spares**

The Company's management reviews the net realisable value (NRV) and impairment of stock-in-trade and stores and spares to assess any diminution in the respective carrying values and wherever required provision for NRV / impairment is made. The difference in provision, if any, is recognised in the future period.

**33 STAFF STRENGTH**

Number of Employees as at 30th June	<b>388</b>	<b>355</b>
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**34 DATE OF AUTHORIZATION**

The Financial Statement have been authorized for issue by the Board of Directors of the company in its meeting held on 29-09-2010

**35 CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified where necessary for the purposes of comparison. These changes were made for better presentation of transactions in the financial statements of the Company.

**36 EVENTS AFTER THE BALANCE SHEET DATE**

The Board of Directors has proposed a final dividend for the year ended June 30, 2010 of Rs. 0.00 per share (2009: Rs. 0.00 per share), amounting to Rs. Nil million (2009: Nil) at their meeting held on 29 September 2010 for approval of the members at the annual general meeting to be held on 27 October 2010. However these events have been considered as non-adjusting events under IAS 10 "Events after the Balance Sheet Date" and have not been recognized in these financial statements.

**37 GENERAL**

**37.1 Figures have been rounded off to the nearest rupee.**

Chief Executive

Director

## PATTERN OF SHAREHOLDING AS AT 30 JUNE 2010

No. of Shareholders	Having Shares		Shares Held	Percentage
	From	To		
102	1	100	1575	0.0108
90	101	500	41081	0.2824
28	501	1000	21592	0.1484
38	1001	5000	103138	0.7089
14	5001	10000	105538	0.7254
2	10001	15000	24563	0.1688
1	25001	30000	27244	0.1873
1	75001	80000	76654	0.5269
1	215001	220000	216656	1.4892
1	355001	360000	358232	2.4623
1	425001	430000	425646	2.9257
1	485001	490000	489113	3.3619
1	490001	495000	490612	3.3722
1	730001	735000	732920	5.0377
3	735001	740000	2207760	15.175
3	980001	985000	2942678	20.2264
2	1470001	1475000	2943674	20.2333
1	3335001	3340000	3340000	22.9574
291			14548676	100.0000

## TOTAL OUT STANDING SHARES AS AT 30 JUNE 2010 CATEGORIES OF SHAREHOLDERS

Serial No	Name	<---Shares Held in Physical Form --->		<--- Shares Held in CDC --->		<---- Total Shareholding ---->		% Holding
		No of Shareholders	Shares Held	No of Shareholders	Shares Held	No of Shareholders	Shares Held	
01	PROMOTORS/DIRECTORS/ACQUIRERS	14	983423	1	1500	15	983423	67.6001
02	PERSONS/BODIES WITH "CONTROLLING INTEREST"	0	0	0	0	0	0	0.0000
03	GOVERNMENT HOLDING AS PROMOTOR/ACQUIRER	0	0	0	0	0	0	0.0000
04	ASSOCIATED /GROUP COMPANIES (CROSS-HOLDING)	0	0	0	0	0	0	0.0000
05	SHARES THAT COULD NOT BE SOLD IN THE OPEN MARKET, IN NORMAL	0	0	0	0	0	0	0.0000
06	SHARES HELD WITH GENERAL PUBLIC	80	83246	196	4620507	276	4713753	32.3999
Total		94	9916669	197	4632007	291	14548676	100.0000



## FORM OF PROXY

I / We \_\_\_\_\_  
of \_\_\_\_\_  
being a member of KARAM CERAMICS LIMITED, and holder of \_\_\_\_\_  
ordinary shares as per Registered Folio No. \_\_\_\_\_  
hereby appoint Mr. \_\_\_\_\_  
of \_\_\_\_\_ of failing him  
Mr. \_\_\_\_\_  
of \_\_\_\_\_ who is also  
a member of KARAM CERAMICS LIMITED vide Registered Folio No. \_\_\_\_\_ as my proxy to vote for  
and on my behalf at the 31th Annual General Meeting of the Company to be held on Wednesday,  
October 27, 2010 at Company's Registered Office situated at BC-6, Block-5, Scheme-5, Kehkashan,  
Clifton, Karachi.

### WITNESS:

(1) Signature \_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

NIC or Passport No. \_\_\_\_\_

2) Signature \_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

NIC or Passport No. \_\_\_\_\_

Dated \_\_\_\_\_

Signature on  
Rupees Five  
Revenue Stamp

(Signature should agree with the specimen  
Signature registered with the company)

### Important:

This form of proxy, duly completed must be deposited at the Company's Registered Office BC-6, Scheme-5, Kehkashan, Clifton, Karachi not less than 48 hours before the meeting. CDC Shareholder and their Proxied must attached either an attested photocopy of their Computerized National Identity Card or Passport with this proxy from.