

ISMAIL INDUSTRIES LIMITED

ANNUAL REPORT

2010

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SNACKCITY

Astro Pack

## **ISMAIL INDUSTRIES LIMITED**

### **Head Office**

17 Banglore Town, Shara-e-Faisal, Karachi-75350, Pakistan.  
Tel: (92-21) 3431 1172-75, Fax: (92-21) 3454 7843, 3454 1094

### **Factories**

Unit 1: C-230, H.I.T.E., HUB, Balochistan, Pakistan.  
Tel: (92-853) 302526-302392, Fax: (92-853) 302527

Unit 2: B-140, H.I.T.E., HUB, Balochistan, Pakistan.  
Tel: (92-853) 302589, Fax: (92-853) 302408

Unit 3: G-1, H.I.T.E., HUB, Balochistan, Pakistan.  
Tel: (92-853) 302611, Fax: (92-853) 302611, 303817

Unit 4: G-22,23, H.I.T.E., HUB, Balochistan, Pakistan.  
Tel: (92-853) 303193, 303177, Fax: (92-853) 302284

## **VISION STATEMENT**

We aim to offer high quality products to our consumers by remaining the most technologically advanced company in our field. We strive to be brand leaders in all the categories that we compete in. We wish to have a substantial presence outside of Pakistan, through export and local manufacturing.

## **MISSION STATEMENT**

We strive to deliver to our consumers' consistent quality of products which maximize our values and customers satisfaction. We are extensively catering to the domestic markets and strengthening our roots in international ones.

We wish to consolidate and strengthen our position as the most technologically advanced company in our field. We recognized the importance of efficiency and creativity to achieve growth in a competitive environment. We believe and optimally combine our people, technology, management system and opportunities to achieve profitable growth while providing fair returns to our shareholders.

We realize our responsibility towards society and contribute to our environment as good corporate citizen.

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# COMPANY PROFILE

## Board of Directors

### Executive Directors

Mr. Muhammad M. Ismail  
(Chairman)  
Mr. Maqsood Ismail  
(Chief Executive)  
Mr. Miftah Ismail  
Mr. Munsarim Saif

### Non-Executive Directors

Mrs. Rashida Iqbal  
Mrs. Anisa Naviwala  
Mrs. Nafisa Yousuf Palla  
Mrs. Uzma Arif

### Audit Committee Members

Mrs. Rashida Iqbal	Chairperson
Mr. Maqsood Ismail	Member
Mrs. Uzma Arif	Member

### Registered Office

17, Bangalore Town,  
Main Shahra-e-Faisal, Karachi

### Factory – 1

C-230, Hub H.I.T.E.,  
Balochistan, Pakistan

### Factory – 2

B-140, Hub H.I.T.E.,  
Balochistan, Pakistan

### Factory – 3

G-1, Hub H.I.T.E.,  
Balochistan, Pakistan

### Factory – 4

G-22, Hub H.I.T.E.,  
Balochistan, Pakistan

## CFO & Company Secretary

Mr. Ghulam Farooq

## Auditor & Tax Advisor

Munaf Yusuf & Co.  
Chartered Accountants

## Legal Advisor

Farooq Rasheed & Co.

## Share Registrar

Corporate Support Services (Pvt.) Limited

## Intellectual Property Advisor

Ali Associates

## Bankers

Allied Bank Limited  
Bank Al-Habib Limited  
Barclays Bank PLC, Pakistan  
Citi Bank N.A.  
Dawood Islamic Bank Limited  
Dubai Islamic Bank (Pakistan) Limited  
Faysal Bank Limited  
First Habib Bank Modaraba  
Habib Bank Limited  
Habib Metropolitan Bank Limited  
JS Bank Limited  
Meezan Bank Limited  
MCB Bank Limited  
National Bank of Pakistan  
NIB Bank Limited  
Pak Brunei Investment Co. Ltd  
Standard Chartered Bank (Pakistan) Limited  
Silkbank Limited  
United Bank Limited

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Twenty Second Annual General Meeting of **Ismail Industries Limited** will be held on Monday, October 18, 2010 at 11:00 a.m. at Hotel Days Inn, Bushra Hall, 164, B.C.H.S. Shakra-e-Faisal, Karachi-75400 to transact the following business.

### Ordinary Business

1. To confirm the minutes of the Extra Ordinary General Meeting of the Company held on November 24, 2009.
2. To receive and consider the Company's Financial Statements for the year ended June 30, 2010 together with the Reports of Directors and Auditors thereon.
3. To consider and approve the recommendation of Directors for payment of cash dividend @ 17.50% (Rs. 1.75 per share) for the year ended June 30, 2010. Directors and their relatives have waived their right to dividend owing to the cash flow requirements of the Company in so far as they are concerned.
4. To appoint Auditors for the year 2010-2011 and fix their remuneration. The present Auditors Munaf Yusuf & Company, Chartered Accounts, being eligible have offered themselves for re-appointment.
5. To elect eight directors of the Company as fixed by the Board of Directors in their meeting for a term of 3 (three) years commencing from October 18, 2010 in accordance with Section 178 of the Companies Ordinance 1984. The following present directors being eligible have offered themselves for re-election.

- |                             |                        |
|-----------------------------|------------------------|
| 1. Mr. Muhammad M. Ismail   | 2. Mr. Maqsood Ismail  |
| 3. Mr. Miftah Ismail        | 4. Mr. Munsarim Saif   |
| 5. Mrs. Uzma Arif           | 6. Mrs. Rashida Iqbal  |
| 7. Mrs. Nafisa Yousuf Palla | 8. Mrs. Anisa Naviwala |

### Special Business

6. To consider and approve the remuneration of the Chairman, Chief Executive and two Executive Directors for the year 2010-2011.
7. To consider and if thought fit the following resolution will be pass with or without modification.

**"Resolved** that approval of the shareholders be and is hereby accorded in terms of Section 196 of the Companies Ordinance, 1984 to dispose of the company's three Industrial open plots bearing Plot No. D-91, D-92 & D-94 measuring 2.5 acres each, situated in North Western Industrial Zone of Port Qasim Authority, Karachi and one open Commercial Plot No.26/2, Survey Sheet No.35-P/1, measuring 1,000 square yards, situated in Block 7 & 8, Jinnah Cooperative Housing Society Limited, Karachi at prevailing market value."

**"Further Resolved** that the Chief Executive or any one of the Directors or the Company Secretary of the Company be and are hereby authorized to complete all legal formalities in connection with disposal of the above mentioned plots and receive sale consideration on behalf of the Company."

### Other Business

8. To transact any other business with the permission of the chair.

By order of the Board

Karachi: September 24, 2010

**Ghulam Farooq**  
Company Secretary

## Notes

1. A member eligible to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her. Proxy, in order to be effective must reach the Company's Registrar's Office not less than 48 hours before the time of the meeting during working hours.
2. The shares transfer book of the Company shall remain closed with effect from October 12, 2010 to October 19, 2010 (both days inclusive). Shares may be lodged for transfer with our Registrar, Corporate Support Services (Pvt.) Ltd., Suite # 407-408, 4th Floor, Al Ameera Centre, Shahra-e-Iraq, Saddar, Karachi, Phone # 35662023-24, Fax # 35221192 or at our Registered Office located at 17-Banglore Town, Main Shahra-e-Faisal, Karachi, Phone # 34311172-75, Fax # 34547843/34541094. The shareholders are advised to notify the Registrar of any change in their addresses.
3. In case of CDC Beneficiary Owners, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his/her identity by showing his/her original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting.
4. Any person who seek to contest the election to the office of the directors shall whether retiring Directors or otherwise file their consent with the Company, not later then fourteen days before the Annual General Meeting of his/her intention to offer himself / herself for election as a Director.

## Statement under section 160 of the Companies Ordinance' 1984

The following statement under section 160 of the Companies Ordinance, 1984 is made regarding the Special Business to be conducted at the Twenty Second Annual General Meeting of the Company to be held on October 18, 2010.

### Item 6 of the agenda

#### Chairman, Chief Executive & Directors Remuneration

Approval is being sought for the payment of remuneration to the Chairman, Chief Executive and two Executive Directors.

For this purpose the following Resolution will be moved at the meeting.

#### Resolution

**"Resolved** that the Company be and hereby approves and authorises the payment as remuneration to Mr. Muhammad M. Ismail-Chairman a sum of Rs.2,700,000/- per annum and to Mr.Maqsood Ismail-Chief Executive and two Executive Directors namely Mr. Miftah Ismail and Mr. Munsarim Saif a sum of Rs.2,400,000/- per annum each for the year ending June 30, 2011. It is further resolved that in addition to the above remuneration all utilities bills of the directors will be paid by the Company. The approximate value of the utilities to be borne by the Company is Rs.700,000/- per annum for the Chairman and Rs.600,000/- per annum for the Chief Executive and two Executive Directors."

### Item 7 of the agenda

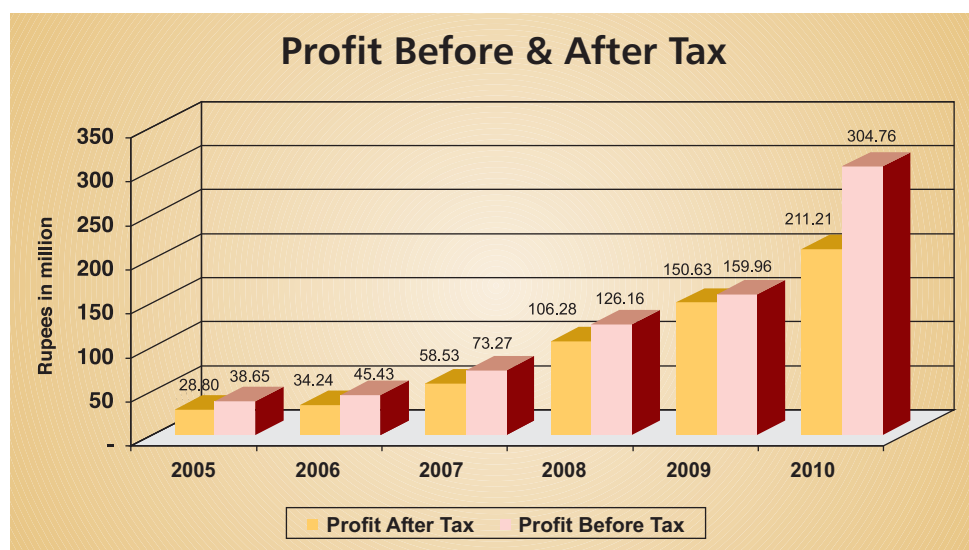
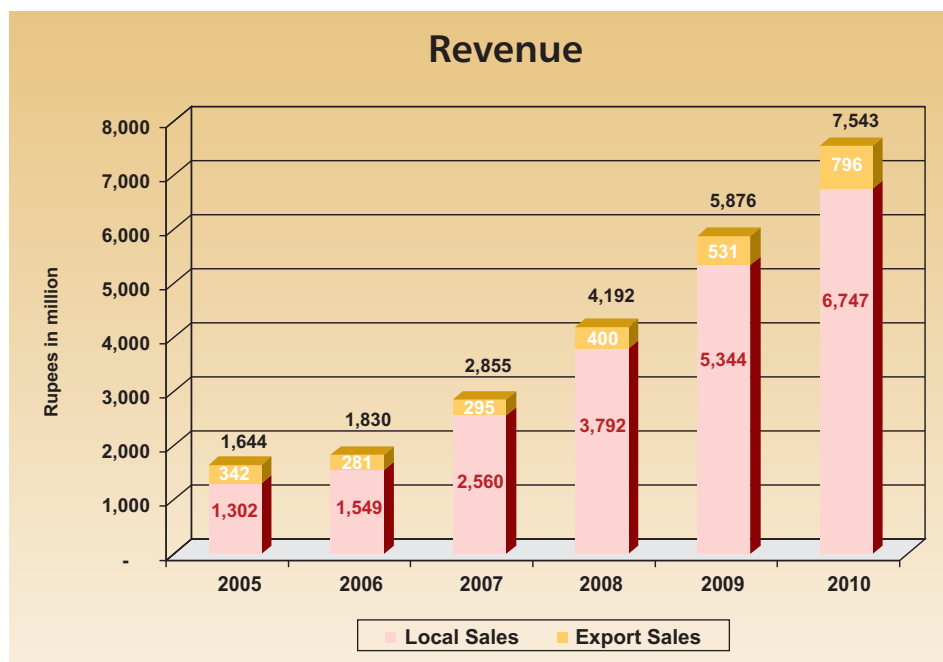
The Company through its earlier Board Resolution dated: April 22, 2010 has already resolved to dispose of three Industrial open plots bearing Plot No. D-91, D-92 & D-94 measuring 2.5 acres each, situated in North Western Industrial Zone of Port Qasim Authority, Karachi and one open Commercial Plot No.26/2, Survey Sheet No.35-P/1, measuring 1,000 square yards, situated in Block 7 & 8, Jinnah Cooperative Hosing Society Limited, Karachi.

Three open Industrial Plots No. D-91, D-92 & D-94 measuring 2.5 acres each situated in North Western Industrial Zone of Port Qasim Authority, Karachi were acquired with the intention to expand the Biscuits manufacturing facilities. The Company has expanded its existing Biscuits manufacturing facilities located at Hub, Balochistan and does not have any further expansion plan to expend its manufacturing facilities on these subject plots. Therefore, the management of the Company has decided to dispose of these plots at prevailing market value.

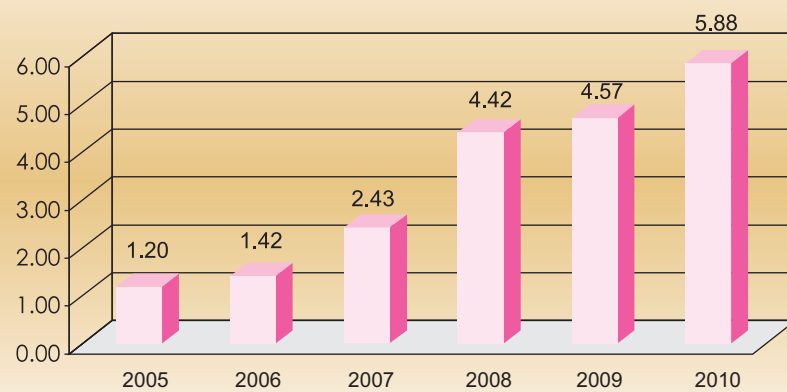
Similarly, the open Commercial Plot No. 26/2, Survey Sheet No.35-P/1, measuring 1,000 square yards, situated in Block 7 & 8, Jinnah Cooperative Hosing Society Limited, Karachi was acquired with the intention to construct the Office Building. The landlord of existing rented office premises, 17-Banglore Town, Main Shahra-e-Faisal, Karachi has constructed two more floors which fulfill the requirements of the Company. Therefore, the management of the Company has decided to dispose of the said plot at prevailing market value.

## FINANCIAL STATISTICAL SUMMARY

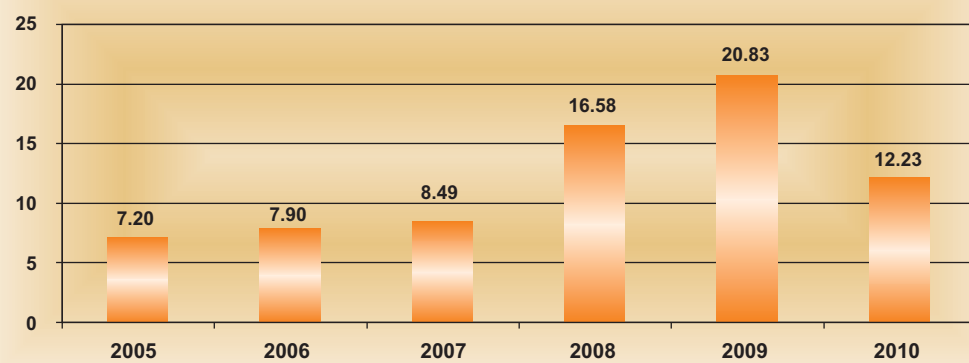
Rs. in millions	2010	2009	2008	2007	2006	2005
<b>Profit and Loss Account</b>						
Sales	7,543.49	5,875.42	4,192.31	2,855.39	1,830.31	1,644.13
Gross Profit	1,159.34	1,116.33	742.93	523.02	322.43	255.21
Operating Profit	704.88	724.32	422.43	174.78	126.73	69.68
Income tax expense	93.55	9.33	19.88	14.74	11.19	9.86
Profit After Tax	211.21	150.63	106.28	58.53	34.24	28.80
<b>Balance Sheet</b>						
Share holders' equity	1,727.67	723.08	641.06	689.23	433.12	399.84
Reserves	579.27	50.00	118.03	248.43	50.00	50.00
Unappropriated profit	643.20	432.50	282.45	200.23	142.54	109.27
Current Liabilities	3,551.01	2,980.68	2,221.16	1,689.32	1,269.58	973.38
Total Liabilities	4,757.24	4,927.98	4,013.77	3,101.40	1,908.22	1,327.27
Current Assets	3,623.52	3,046.54	2,228.35	1,696.30	1,260.02	977.02
Total Assets	6,484.91	5,651.05	4,654.83	3,790.63	2,341.34	1,727.12
<b>Ratios</b>						
Earning per share (Rs.)	5.88	4.57	4.42	2.43	1.42	1.20
Break up value (Rs.)	34.20	30.06	26.65	28.65	18.00	16.62
Return on Equity (%)	12.23	20.83	16.58	8.49	7.90	7.20
Dividend Payout (%)	17.50	15.00	15.00	10.00	15.00	15.00



**Earning Per Share (Rs.)**



**Return on Equity**



## DIRECTORS REPORT

The Directors of your Company are pleased to present the Annual Report together with the Company's audited financial statements and Auditor's Report thereon for the year ended June 30, 2010.

### FINANCIAL PERFORMANCE

- Overall

It is encouraging to note that by the grace of Almighty Allah, the fundamentals of our Company remained strong despite the volatile economic and political situation and a highly competitive business environment.

The general economic recession continued to slow down global and domestic demand, a massive energy shortfall with sharp increase in tariffs put pressure both on costs and productivity and finally rising commodity prices negatively impacted our costs. Nevertheless, even in this bleak economic situation and prevailing business scenario your company has generated record sales of Rs. 7.54 billion.

The overall financial performance of the Company for the year under review is summarized below:

	Rupees in thousand		Growth
	2010	2009	%
Turnover	7,543,493	5,875,420	28%
Profit after tax	304,763	159,964	91%
Earnings per share (basic & diluted) – Rupees	5.88	4.57	29%

- Food processing segment

Food segment has shown growth in all its key performance indicators, for instance, turnover, gross margin, etc. The increase posted in gross turnover is 32%, gross margin is 7% higher compared to the corresponding year. The confectionary industry continued to face a tough time owing to the scarcity of and an increase in prices of sugar as well as the security situation in the country and in particular in the northern areas. Moreover, an increase in the cost of utilities and the energy shortages also affected production process.

The high rate of inflation eroded the purchasing power of the common man, resulting in curtailed consumer demand. Despite these adverse factors, we were able to achieve the Company's goals through market driven strategies, product innovation and expansion of the customer base.

Candyland continued to deliver double digit growth in 2009-10, mainly due to baseline growth in existing brands and categories. Increased focus on major brands has resulted in significant growth within existing base business. Expansion has also been confined to existing categories so that flagship brands can be provided with support on both demand and supply side. Overall, the confectionery division has successfully withstood the challenges posed by inflationary environment to deliver healthy growth during 2009-10.

In Bisconni, this year has seen the addition of a new line, which has led to growth within existing portfolio, especially in center-filled cookies. New brands have also been launched this year in a bid to consume increased capacity and improve revenue and profitability. The strategy of consolidation has been followed in Bisconni too, resulting in strong growth numbers within existing brands. To ensure that marketing spend is utilized to the optimum level, the company has sharpened its focus on flagship brands, deriving most of its high growth from base business.

In Snackcity, this year has continued with the trend of last year, with substantial growth, in all major brands. This year has been challenging for Snackcity, with steep increase in packaging and freight prices.

However, by focusing on demand generation, your Company has been successful in closing the year on healthy top and bottom line growth.

The performance of the food processing division has been strong this year, due to continued focus behind demand generation. We have endeavored to ensure that investment in sales and marketing has been optimized to reflect emphasis on flagship brands, leading to improved production efficiency and hence bottom line. Efforts have been made to ensure that price-value proposition is maintained and that your company continues to offer appropriate options to consumers in this inflationary environment. Optimum coverage remains a cornerstone of our sales strategy and has helped us to retain share of shelf and consequently share of mind in a challenging market scenario.

- **Plastic film segment**

Plastic film division has maintained its top line but shows slight decline in gross margin and operating profit as compared to the corresponding year. Polypropylene resin is a basic raw material of plastic film and a byproduct of petroleum therefore its price fluctuates with the price of oil. Decline in net profit is mainly on account of increase in raw material cost which could not be fully passed on to our customers due to availability of smuggled film at cheaper rates.

### **Dividend**

The Board of Directors of the Company has recommended a cash dividend of Rs. 1.75 per share (17.50%) for the financial year ended June 30, 2010, subject to approval by the shareholders of the Company at the annual general meeting. This appropriation will be reflected in the subsequent financial statements, in compliance with the revised Fourth Schedule to the Companies Ordinance, 1984. Directors and their relatives have waived their right to dividend owing to the cash flow requirements of the Company in so far as they are concerned.

### **4<sup>th</sup> Right Issue of Shares**

During the year under review, the Company has issued 26,463,250 right shares to existing shareholders in proportion of 110 shares for every 100 shares held by them at Rs. 30/- per share including premium of Rs.20/- per share. The directors of the company have already inducted their funds into the Company time to time as per cash flow requirements in shape of directors' loan to the tune of Rs. 730 million against which the company has issued right shares in proportion of their entitlements. Remaining Rs. 63.90 million right shares subscription amount utilized in expansion of existing manufacturing facilities of the Company.

### **Investment**

We continually evaluate investment opportunities that would add strategic value by enabling us to enter new markets or add products, technologies and knowledge more efficiently than we could organically. Capital investment was planned in such a way that the money spent would add value to our products and process. The Company is closely monitoring the changing economic, business and market scenarios and is taking necessary steps to keep up the pace of growth. Production capacity of major products has been enhanced to meet the ever growing demand. We are investing in our research and development capabilities to help us in developing innovative solutions that meet our customers' need.

### **Business Risk and Future Outlook**

Our country's economy continued to be challenging during the year under review, although considerable stability was achieved in the major macroeconomic indicator, stemming the significant deterioration seen in them in the previous years. However, the improved macroeconomic environment continued to be adversely affected by the intensification of war on terror, substantial decline in exports, a visible slowdown

in foreign direct inflows and a worsening of the internal security environment. Business conditions therefore remained extremely difficult and the industrial sector in particular.

Unprecedented appreciation in commodity and utilities prices, the Company continues to face tough challenges in terms of maintaining its margins. The purchasing power of the consuming segment is already eroded by the continued increase in prices of essential commodities, utilities and necessities of life. Consequently, it will be difficult to pass on the total impact on your Company's cost of production to customers. We hope to minimize the impact on our margins through sales growth and efficient inventory management. Your Company has a track record of meeting challenges in the difficult business environment. The management is committed to maintaining its focus on the implementation of growth initiative in all business segments and will continue to take proactive measures to mitigate potential risk.

Our journey towards excellence is a result of strict adherence to our core values, integrity, excellence, respect and financial success. Your Company continues to be a leader in manufacturing and delivering a diversified range of quality products and a key factor in our success is the ability to offer innovative products.

### **HR Management & Employees Relations**

Your Company strongly believes in the importance of having a dedicated and motivated team to meet the modern challenges and is committed to the policy of equal opportunity employment. Your Company firmly believes in providing a work environment which is conducive for success. Focusing on team work in all areas of our business is the key driving force in achieving leadership and higher efficiencies. The Company's HR policies are value based aimed at creating a culture of high performance, attracting, retaining and developing the best talent.

### **Compliance with the Code of Corporate Governance**

The management of the Company is committed to good corporate governance and complying with the best practices. As required under the Code of Corporate Governance, the Directors are pleased state as follows:

- The financial statements prepared by the management of the Company for the year ended June 30, 2010 present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- The Company has maintained proper books of accounts as required by the Companies Ordinance, 1984.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any deviation from these has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented. The system is being continuously monitored by Internal Audit and through other such monitoring procedures. The process of monitoring Internal Controls will continue as an on going process with the objective to further strengthen the controls and bring in improvements in the system
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance as detailed in the Listing Regulations.
- The summary of key operating and financial data of the Company of last six years is annexed in this report.

## Meetings of the Board of Directors

During the year six (6) meetings of the Board of Directors were held to cover its complete cycle of activities. Leave of absence was granted to directors who could not attend board meetings. Attendance by each director was as follows:

	Attended
Mr. Muhammad M. Ismail	6
Mr. Maqsood Ismail	6
Mr. Miftah Ismail	6
Mr. Munsarim Saif	6
Ms. Rashida Iqbal	5
Ms. Anisa Naviwala	5
Ms. Nafisa Yousuf Palla	4
Ms. Uzma Arif	5

## Pattern of Shareholdings

- A statement showing pattern of shareholding of the Company and additional information as at June 30, 2010 is included in the report.
- The Directors, CEO, CFO, Company Secretary and their spouses and minor children transactions in the shares of the Company during the year is annexed to the report.

## Auditors

The present Auditors M/s. Munaf Yusuf & Company, Chartered Accountants, retire and being eligible, offer themselves for re-appointment. The Audit Committee of the Company has recommended their re-appointment as auditors of the Company for the year 2010-2011.

## Acknowledgment

The Directors are always a source of guidance and support for the management and we appreciated their commitment to your company's progress and prosperity. The Directors would also like to express their appreciation for the dedicated efforts, loyalty and hard work of the workers, staff and members of the management team. We also acknowledge the support and cooperation received from our valued customers, distributors, suppliers, bankers and other stakeholders.

On behalf of the Board of Directors

**MAQSOOD ISMAIL**  
Chief Executive

Karachi: September 15, 2010

## STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

The statement is being presented to comply with the Code of Corporate Governance contained in listed regulations of Karachi and Lahore Stock Exchange for the purpose of establishing a framework of good governance, whereby the 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's Board comprises eight directors, including the Chairman/Chief Executive. The Company encourages representation of independent non-executive directors. At present the Board has four non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking Company, a Development Financial Institution or a Non-Banking Financial Institution, or being a member of Stock Exchange, has been declared as defaulter by that Stock Exchange.
4. No casual vacancy occurred during the year ended June 30, 2010.
5. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Company.
6. The business operations of the Company are carried out in accordance with the Company's Vision / Mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer and executive directors have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Members of the Board have attended orientation course to apprise them of their duties and responsibilities.
10. Chief Financial Officer, Company Secretary and Head of Internal Audit executed their responsibilities in accordance with the appointments approved by the Board including their remuneration and terms and conditions of employment, as determined by the Chief Executive Officer.
11. The Directors are conversant with the listing regulations, legal requirements and operational imperatives of the Company, and as such fully aware of their duties and responsibilities.
12. The directors' report for the year ended June 30, 2010 has been prepared in compliance with the requirements of the Code and it fully describes the salient matters required to be disclosed.
13. The financial statements of the Company were duly endorsed by the CEO and CFO before approval by the Board.

14. 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.
15. The Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee. It comprises of three members, of which two are non-executive directors including the chairman of the committee.
17. The meetings of the Audit Committee were held at least once in every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
18. The Board has set-up an effective internal audit function manned by suitably qualified and experienced personnel who are conversant with the policies and procedures of the Company and are involved in the internal audit function on a full time basis.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The Company maintains a list of related parties which is updated on a regular basis. All transactions with related parties are placed before the Audit Committee and approved by the Board of Directors along with the pricing methods.
22. We confirm that all other material principles contained in the code have been complied with.

On behalf of Board of Directors

Karachi: September 15, 2010

**MAQSOOD ISMAIL**  
Chief Executive

## **REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance (the statement) with the best practices contained in the code of Corporate Governance (the code) prepared by Board of Directors of Ismail Industries Limited (the company) to comply with the Listing Regulation No 35 of the Karachi and Lahore Stock Exchanges respectively where the company is listed.

The responsibility for compliance with code is that of the Board of the Directors of the company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement reflects the status of the company's compliance with the provisions of the code and report if it does not. A review is limited primarily to inquiries of the company personnel and review of various documents prepared by the company to comply with the code

As a part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the board's statement on internal control cover 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 regulation No 35 notified by Karachi and Lahore Stock Exchanges require the company to place before the board for their consideration and approval related party transaction distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board 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 does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the code, as applicable to the company for the year ended 30 June 2010

Karachi  
September 15, 2010

Munaf Yusuf & Co.  
Chartered Accountants

## AUDITORS' REPORT TO THE MEMBERS

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

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

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

- a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- b) in our opinion
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 2.2 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, 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, cash flows and changes in equity for the year then ended
- 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

**Karachi**  
September 15, 2010

**Engagement partner:**  
**Abdul Munaf Yusuf FCA**  
Chartered Accountants

# **FINANCIAL STATEMENTS**

**For the year ended June 30, 2010**

## BALANCE SHEET

### AS AT JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b>Authorised capital</b>			
100,000,000 (2009: 30,000,000) ordinary shares of Rs. 10 each		1,000,000,000	300,000,000
<b>Issued, subscribed and paid-up capital</b>	4	505,207,500	240,575,000
<b>Capital reserve</b>	5	579,265,000	50,000,000
<b>Unappropriated profit</b>		643,195,493	432,502,094
<b>Total equity</b>		1,727,667,993	723,077,094
<b>Non-current liabilities</b>			
Directors' loans - Subordinated	6	-	680,000,000
Long term finances - secured	7	1,103,065,779	1,230,661,055
Liabilities against assets subject to finance lease	8	14,979,375	10,354,626
Deferred liabilities	9	88,192,285	26,277,255
<b>Total non-current liabilities</b>		1,206,237,439	1,947,292,936
<b>Current liabilities</b>			
Trade and other payables	10	722,534,137	636,730,218
Accrued mark-up	11	71,442,223	67,772,553
Short term finances - secured	12	2,019,091,462	1,670,700,034
Current portions of :			
- long term finances	7	541,343,787	505,178,572
- liabilities against assets subject to finance lease	8	12,878,113	11,627,834
Advance from customers		183,717,821	88,674,300
<b>Total current liabilities</b>		3,551,007,543	2,980,683,511
<b>Total liabilities</b>		4,757,244,982	4,927,976,447
<b>Contingencies and commitments</b>	13	-	-
<b>Total equity and liabilities</b>		6,484,912,975	5,651,053,541

MAQSOOD ISMAIL  
Chief Executive

MIFTAH ISMAIL  
Director

	Note	2010 Rupees	2009 Rupees
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	1,909,359,593	1,679,601,472
Long term investments	15	941,229,894	914,193,327
Long term deposits	16	10,805,035	10,716,059
<b>Total non-current assets</b>		<b>2,861,394,522</b>	<b>2,604,510,858</b>
<b>Current assets</b>			
Stores and spare parts	17	38,662,490	38,806,662
Stock-in-trade	18	2,704,680,792	2,161,761,006
Trade debts	19	391,152,537	454,376,224
Advances - considered good	20	309,459,023	288,361,030
Trade deposits and short term prepayments	21	5,472,415	3,604,080
Other receivables	22	45,672,848	16,095,991
Advance tax - net of provision		69,006,712	32,395,789
Cash and bank balances	23	59,411,636	51,141,901
<b>Total current assets</b>		<b>3,623,518,453</b>	<b>3,046,542,683</b>
<b>Total assets</b>		<b>6,484,912,975</b>	<b>5,651,053,541</b>

The annexed notes 1 to 43 form an integral part of these financial statements.

**MAQSOOD ISMAIL**  
Chief Executive

**MIFTAH ISMAIL**  
Director

## PROFIT AND LOSS ACCOUNT

### FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
Sales - net of sales return & discount	25	7,543,492,710	5,875,420,122
Less: sales tax		1,009,974,852	810,527,209
<b>Sales</b>		<b>6,533,517,858</b>	<b>5,064,892,913</b>
Cost of sales	25	5,374,174,613	3,948,566,857
<b>Gross profit</b>		<b>1,159,343,245</b>	<b>1,116,326,056</b>
Selling and distribution expenses	27	402,239,579	344,601,973
Administrative expenses	28	52,225,998	47,241,062
		454,465,577	391,843,035
<b>Operating profit</b>		<b>704,877,668</b>	<b>724,483,021</b>
Other operating income	29	71,699,086	84,507,109
		776,576,754	808,990,130
Other operating expenses	30	23,992,911	106,885,915
Loss recognised on conversion of available for sale investment to associate		-	128,127,742
Finance cost	31	474,857,375	489,591,728
		498,850,286	724,605,385
		277,726,468	84,384,745
Share of profit from associated undertaking		27,036,567	75,579,017
<b>Profit before income tax</b>		<b>304,763,035</b>	<b>159,963,762</b>
Income tax expense	34	93,548,141	9,331,964
<b>Profit for the year</b>		<b>211,214,894</b>	<b>150,631,798</b>
<b>Earnings per share - basic &amp; diluted</b>	35	<b>5.88</b>	Restated 4.57

The annexed notes 1 to 43 form an integral part of these financial statements.

MAQSOOD ISMAIL  
Chief Executive

MIFTAH ISMAIL  
Director

## CASH FLOW STATEMENT

### FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	36	843,335,086	346,939,660
Gratuity paid		(5,019,643)	(4,118,644)
Income tax paid (net of refund)		(73,047,608)	(43,183,350)
<b>Net cash generated from operating activities</b>		<b>765,267,835</b>	<b>299,637,666</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(395,588,145)	(445,424,612)
Proceeds from disposal of property, plant & equipment		6,699,710	3,438,838
Long term deposits		(88,976)	513,347
<b>Net cash used in investing activities</b>		<b>(388,977,411)</b>	<b>(441,472,427)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Directors loan		(680,000,000)	125,000,000
Long-term borrowings less repayments		(91,430,061)	217,582,617
Finance lease liability less repayments		5,875,028	(12,891,103)
Issue of right shares		264,632,500	-
Share premium		529,265,000	-
Interest / mark-up paid		(471,187,705)	(484,205,180)
Dividend paid		(463,545)	(514,813)
<b>Net cash used in financing activities</b>		<b>(443,308,783)</b>	<b>(155,028,479)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(67,018,359)</b>	<b>(296,863,240)</b>
Cash and cash equivalents at beginning of the year		(827,558,133)	(530,694,893)
<b>Cash and cash equivalents as at end of the year</b>		<b>(894,576,492)</b>	<b>(827,558,133)</b>
<b>Cash and cash equivalents as at end of the year comprise:</b>			
Cash and bank balances	23	59,411,636	51,141,901
Running finance	12.3	(953,988,128)	(878,700,034)
		<b>(894,576,492)</b>	<b>(827,558,133)</b>

The annexed notes 1 to 43 form an integral part of these financial statements.

**MAQSOOD ISMAIL**  
Chief Executive

**MIFTAH ISMAIL**  
Director

## STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED JUNE 30, 2010

	Issued, subscribed and paid up capital	Share premium	Capital reserve Revenue reserve Unrealised gain / (loss) on remeasurement of available for sale investment	Unappropriated profit	Shareholders' equity
			Rupees		
Balance as at 30 June 2008	240,575,000	50,000,000	68,032,429	282,450,386	641,057,815
Reversal of unrealised gain	-	-	(68,032,429)	-	(68,032,429)
Net income for the year recognised directly in equity	240,575,000	50,000,000	-	282,450,386	573,025,386
Profit for the year ended 30 June 2009	-	-	-	150,631,798	150,631,798
Final dividend for the year ended 30 June 2008 declared subsequent to year-end	-	-	-	(580,090)	(580,090)
Balance as at 30 June 2009	240,575,000	50,000,000	-	432,502,094	723,077,094
Right Share Issue	264,632,500	529,265,000	-	-	793,897,500
Profit for the year ended 30 June 2010	-	-	-	211,214,894	211,214,894
Final dividend for the year ended 30 June 2009 declared subsequent to year-end	-	-	-	(521,495)	(521,495)
Balance as at 30 June 2010	505,207,500	579,265,000	-	643,195,493	1,727,667,993

The annexed notes 1 to 43 form an integral part of these financial statements.

**MAQSOOD ISMAIL**  
Chief Executive

**MIFTAH ISMAIL**  
Director

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2010

#### 1 LEGAL STATUS AND OPERATIONS

The company was incorporated in Karachi, Pakistan as a private limited company on June 21, 1988. On November 01, 1989 the company was converted into a public limited company. The registered office of the company is situated at 17 - Banglore Town, Shahrah-e-Faisal, Karachi, Pakistan. The shares of the company are listed on the Karachi and Lahore Stock Exchanges. Principal activities of the company are manufacturing and trading of sugar confectionery items, biscuits, potato chips and cast polypropylene film under the brands of 'CandyLand', 'Bisconni', 'Snackcity' and 'Astropack' respectively.

##### 1.1 Statement of compliance

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

#### 2 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except staff retirement benefits which has been recognised at values determined by independent actuary (refer note 3.1).

These financial statements have been prepared under the accrual basis of accounting except for cash flow information.

##### 2.1 Critical assumptions and estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are 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.

The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

##### Income taxes

In making the estimate 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.

##### Staff retirement benefits

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

## Trade debts and other receivables

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

## Property, plant and equipment

The company's management determines the estimated useful life and related depreciation charged for its property, plant and equipment. 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 charged and impairment.

## Stock-in-trade - finished goods

The company's management reviews the net realisable value (NRV) and impairment of finished goods 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.

## 2.2 Initial application of a Standard or an Interpretation

Changes arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

IAS 1 (Revised) - Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) introduces the term total comprehensive income which is the change in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. The revised standard requires an entity to opt for presenting such transactions either in a single statement of comprehensive income or in an income statement and a separate statement of comprehensive statement. There are no items of other comprehensive income, therefore there is no impact on the company's financial statements.

Amendment to IFRS 7 - Improving Disclosures about Financial Instruments (effective for annual periods beginning on or after 1 January 2009) introduces a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. Further, the definition of liquidity risk has been amended. These amendmends have resulted in increase in certain disclosures as given in note 37 .

IFRS 8 - Operating Segments (effective for annual periods beginning on or after 1 January 2009) requires an entity to determine and present operating segments based on the information that is provided internally to the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments. Adoption of this standard has not resulted in any change in the reportable segments. However, certain disclosures as required under IFRS 8 have been included in note 24 and 25 of the financial statements.

Revised IAS 23 - Borrowing Costs (effective for annual periods beginning on or after 1 January 2009) requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for its intended use or sale) as part of the cost of the asset. The option to expense borrowing costs has been removed. Further, the definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method as defined in IAS 39 - Financial instruments: recognition and measurement. There is no impact in the current year due to the change in the interest calculation method.

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1 July 2009 are considered not to be relevant or to have any significant effect on the company's operations and are therefore not disclosed in these financial statements

Comparative information has been re-presented so that it is in conformity with the revised / new standards. Since the changes in accounting policies only affect the presentation and disclosure requirements, there is no impact on earning per share.

## **Standards, Interpretations and Amendments not yet effective**

The following standards, interpretations and amendments to approved accounting standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 July 2010:

Amendments in IFRS 8 - Operating segments	1 January 2010
Amendments in IAS 17 - Leases	1 January 2010
Amendments in IFRS 2 - Share based payment	1 January 2010
Amendments in IAS 32 - Financial instruments : Presentation	1 February 2010
IFRIC 19 - Extinguishing financial liabilities with equity instruments	1 July 2010
Amendments in IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011
IAS 24 (revised 2009) - Related party disclosure	1 January 2011

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

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **3.1 Staff retirement benefits - Gratuity**

The company operates an unfunded gratuity scheme covering all its permanent employees with one or more years of service with the company. Provision for gratuity has been made to cover obligation under the scheme in respect of employees who have completed the minimum qualifying period. Contributions to the scheme are based on actuarial recommendations. The latest actuarial valuation was conducted as at 30 June 2010 using the Projected Unit Credit Method. Actuarial gains & losses are amortised over the expected average remaining working lives of employees as allowed under the relevant provision of IAS 19 Employee Benefits.

### **3.2 Property, plant and equipment**

#### **3.2.1 Owned**

Property, plant and equipment including leasehold land and all additions are stated at cost less accumulated depreciation except capital work-in-progress which are stated at cost. Cost of property, plant and equipment comprises acquisition cost and directly attributable cost of bringing the assets to its working condition. Borrowing cost including the exchange risk fee in respect of qualifying assets is also capitalised as part of historical cost during the period of activities that are necessary to prepare the asset for its intended use.

Depreciation is calculated so as to write-off the assets over their expected economic life under the diminishing balance method at rates given in note 14.2 to the financial statements. Depreciation on additions is charged from the month in which they are put to use and on disposals up to the month of disposal.

The assets residual value and useful life are reviewed and adjusted, if appropriate, at each balance sheet date.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. Expenditure incurred subsequent to the initial acquisition of assets are capitalised only when it meets the recognition criteria.

The profit or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as other operating income or expense.

### 3.2.2 Leased

Leased assets in terms of which the company assumes substantially all the risks and rewards of ownership are classified as finance lease. Assets held under finance lease are accounted for by recording the assets and related liabilities at the amounts determined on the basis of lower of fair value of assets and the present value of lease payments, less accumulated depreciation and impairment losses, if any. Finance costs are allocated to accounting periods in a manner so as to provide a constant rate on the outstanding liability. Depreciation is charged on leased assets on a basis similar to that of owned assets.

### 3.2.3 Capital work-in-progress

Capital work-in-progress is stated at cost. All expenditures connected to the specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when assets are available for use.

### 3.3 Investment in associates

These assets are entities over which a company has significant influence but not control, generally represented by share holding of 20% to 50% of the voting rights.

Investment in associate is stated in financial statements using the equity method of accounting. Under the equity method, investments in associate is carried in the balance sheet at cost as adjusted for post acquisition changes in the company's share of net assets of the associate, less any impairment in the value of individual investment. When the company's share of losses in an associate equals or exceeds its interest in the associate including any other unsecured receivables if any, the company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

### 3.4 Financial Assets & Liabilities

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given or received respectively. These are subsequently measured at fair value, amortised cost or cost as the case may be.

#### 3.4.1 Impairment of 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. If such evidence exists, the recoverable amount of the asset is estimated and impairment losses are recognised as an expense in the profit and loss account.

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 amortisation, if no impairment loss had been recognised.

### **3.5 Securities under resale agreements - Continuous funding system (CFS)**

Investments purchased with corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the balance sheet. Amounts paid under these obligations are included in receivable against reverse repo. The difference between purchase and re-sale price is accrued as income over the life of the reverse repo agreement.

#### **Derecognition**

These are derecognised when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred.

### **3.6 Stores and spare parts**

These are valued at moving weighted average cost except stores-in-transit which are stated at invoice value plus other charges paid thereon up to the balance sheet date.

### **3.7 Stock-in-trade**

Raw and packing materials except for items in-transit are valued at moving weighted average cost.

Work-in-process is valued at manufacturing cost including a proportion of production overheads.

Finished goods are valued at lower of weighted average cost and net realizable value.

Items in-transit are valued at cost comprising invoice values plus other charges incurred thereon.

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

### **3.8 Taxation**

#### **3.8.1 Current**

The charge for current tax is based on taxable income at current rates of taxation after taking into account tax credits, rebates and exemptions available, if any, or in accordance with the final tax regime, where applicable, of the Income Tax Ordinance, 2001 or the minimum tax u/s 113, whichever is higher

#### **3.8.2 Deferred**

Deferred taxation is accounted for using the balance sheet liability method providing for temporary differences 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 realisation on settlement of the carrying amount of assets and liabilities using the tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 3.9 Foreign currency translation

Transactions in foreign currencies are accounted for in rupee at the rate of exchange prevailing at the date of transaction. Monetary assets and monetary liabilities in foreign currencies as at the balance sheet date are expressed in rupee at rates of exchange prevailing on that date except where forward exchange cover is obtained for payment of monetary liabilities, in which case the contracted rates are applied. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions. Exchange differences are taken to the profit and loss account.

## 3.10 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates. The financial statements are presented in Pakistani Rupee, which is the company's functional and presentation currency.

## 3.11 Long term deposits

These are stated at amortised cost which represents the fair value of consideration given.

## 3.12 Trade debts

These are measured at original invoice amount less an estimate made for doubtful receivable balances based on the review of all outstanding amounts at the year end. Bad debts are written off when identified.

## 3.13 Trade and other payables

Liabilities for trade and other payables are measured at cost which is the fair value of the consideration to be paid in future for goods and services.

## 3.14 Off-setting of financial assets and financial liabilities

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

## 3.15 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise cash in hand and bank balances, short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and short term running finances under mark up arrangements. In the balance sheet, finances under mark-up arrangements are included in current liabilities.

**3.16 Revenue recognition**

Sales are recorded on dispatch of goods.

Gain and loss on sale of investments is taken to income in the period in which it arises.

Dividend income is recognised when the right to receive the dividend is established.

**3.17 Provisions**

A provision is recognised 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 of the amount can be made.

**3.18 Borrowings and their costs**

All borrowings are recorded at the proceeds received net of transaction cost. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (those that take a substantial period of time to get ready for their intended use) are capitalised as part of the cost of the relevant asset. All other borrowing costs are charged to income in the period in which they are incurred.

**3.19 Financial expenses**

Financial expenses are recognised using the effective interest method and comprise foreign currency losses and interest expense on borrowings.

**3.20 Segment reporting**

As per IFRS 8, operating segments are reported in a manner consistent with internal reporting used by the chief operating decision maker. The Chief Executive Officer has been identified as the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments.

**3.21 Related parties transactions**

All transactions with related parties are carried out by the company at arm's length prices.

**3.22 Dividend**

Dividend distribution to the shareholders is recognised as a liability in the period in which it is approved by the shareholders.

Note

## 4 Issued, Subscribed & paid up capital

2010 ----- Numbers -----	2009 -----		2010 ----- Rupees -----	2009 -----
<u>50,520,750</u>	<u>24,057,500</u>	Ordinary shares of Rs. 10 each fully paid in cash	<u>505,207,500</u>	<u>240,575,000</u>

### 4.1 Movement During The Year

2010 ----- Numbers -----	2009 -----		2010 ----- Rupees -----	2009 -----
24,057,500	24,057,500	Balance as at 1 July,	240,575,000	240,575,000
26,463,250	-	Ordinary shares of Rs. 10 each issued during the year as rights share in the ratio of 1.1 share for every 1 held fully paid in cash	264,632,500	-
<u>50,520,750</u>	<u>24,057,500</u>		<u>505,207,500</u>	<u>240,575,000</u>
			2010 Rupees	2009 Rupees

## 5 CAPITAL RESERVES

Opening Balance		50,000,000	50,000,000
Premium received	5.1	529,265,000	-
		<u>579,265,000</u>	<u>50,000,000</u>

5.1 This represents premium on right shares issued during the year @ Rs. 20 per share. This reserve can be utilized by the company for the purpose specified in Section 83(2) of the Companies Ordinance, 1984.

## 6 DIRECTORS LOAN

	2010 Rupees	2009 Rupees
Opening balance	680,000,000	680,000,000
Add: received during the year	<u>7,420,500</u>	
	687,420,500	680,000,000
Less: adjusted against right shares issued	<u>687,420,500</u>	-
	<u>-</u>	<u>680,000,000</u>

During the year the unsecured interest free loan from the directors of the company was converted into equity through the issue of right shares.

## 7 LONG TERM FINANCES - secured

These represent long term finances availed from following financial institutions:

Financier	Installments payable	Repayment period	Rate of mark-up	2010 Rupees	2009 Rupees	No. of Installment
<b>Habib Bank Limited</b>						
- Term finance	Monthly	2011-2015	1 month KIBOR plus 1.5%	250,000,000	250,000,000	60
- Term finance	Monthly	2008-2012	1 month KIBOR plus 1.5%	48,148,148	72,222,222	60
- Term finance	Monthly	2008-2011	1 month KIBOR plus 1%	7,000,001	13,421,625	36
<b>Bank Al-Habib Limited</b>						
- Term finance	Monthly	2011-2015	3 month KIBOR plus 1%	26,000,000	-	48
- Term finance	Quarterly	2007-2012	3 month KIBOR plus 1%	13,003,500	32,500,000	20
- Term finance	Monthly	2011-2015	3 month KIBOR plus 1%	23,000,000	-	48
- Term finance	Monthly	2008-2010	3 month KIBOR plus 1%	-	10,795,000	60
<b>MCB Bank Limited</b>						
- Term finance	Monthly	2007-2011	1 month KIBOR plus 1%	10,833,300	29,404,740	42
- Term finance	Monthly	2011-2015	1 month KIBOR plus 1.5%	60,000,000	-	48
<b>United Bank Limited</b>						
- Term finance	Monthly	2006-2012	1 month KIBOR plus 1%	60,916,681	103,916,677	60
- Term finance	Monthly	2009-2012	1 month KIBOR plus 1.2%	67,333,335	146,000,000	36
- Term finance	Monthly	2008-2013	1 month KIBOR plus 1.2%	149,999,992	204,166,663	60
- Term finance	Monthly	2008-2013	1 month KIBOR plus 1.5%	450,000,000	600,000,000	60
<b>Dubai Islamic Bank Limited</b>						
- Term finance	Monthly	2008-2011	1 month KIBOR plus 1%	13,888,889	30,555,556	36
<b>Allied Bank Limited</b>						
- Term finance	Quarterly	2009-2011	3 month KIBOR plus 1%	50,000,000	150,000,000	60
- Term finance	Monthly	2011-2016	3 month KIBOR plus 1.5%	250,000,000	-	60
<b>Pak Brunei Investment Co</b>						
- Term finance	Quarterly	2011-2015	3 month KIBOR plus 1.5%	100,000,000	-	18
<b>JS Bank</b>						
- Term finance	Monthly	2009-2013	1 month KIBOR plus 1.25%	64,285,720	92,857,144	42
				<u>1,644,409,566</u>	<u>1,735,839,627</u>	
Less: Current portion				<u>(541,343,787)</u>	<u>(505,178,572)</u>	
				<u>1,103,065,779</u>	<u>1,230,661,055</u>	

7.1 These represent financings for property, plant, and equipment. The above mentioned facilities are secured by way of creation of equitable mortgage and first pari-passu charge over property, plant and equipment of the company and personal guarantees of the directors.

## 8 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Under the agreements, lease rentals are payable in 36 to 60 equal monthly installments. Taxes, repairs, replacement and insurance costs, if any, are borne by the company. The financings carry mark-up at rates ranging from of 12.25% to 15.81% (2009: 12.25% to 17.4%) per annum approximately which has been used as a discounting factor. The company has the option to purchase the asset upon completion of the lease period.

The net carrying amount of the assets held under finance lease arrangement is Rs. 39,600,886 (2009: Rs. 30,100,807).

These are secured against deposits of Rs 6.494 million (2009: Rs 7.586 million), title of ownership of leased assets and personal guarantees of all the directors of the company

The minimum lease payments for which the company has committed to pay in future under the lease agreements are due as follows:

	2010			2009		
	Minimum lease payments	Financial charges allocated to future periods	Present value of minimum lease payments	Minimum lease payments	Financial charges allocated to future periods	Present value of minimum lease payments
	..... Rupees .....					
Payable within one year	15,095,821	2,217,708	12,878,113	13,134,655	1,506,821	11,627,834
Payable between one to five years	16,364,892	1,385,517	14,979,375	10,775,027	420,401	10,354,626
	<b>31,460,713</b>	<b>3,603,225</b>	<b>27,857,488</b>	<b>23,909,682</b>	<b>1,927,222</b>	<b>21,982,460</b>

Assets acquired under the finance lease are those as stated in note 14.2.

## 9 DEFERRED LIABILITIES

Provision for staff gratuity scheme  
Deferred tax liability

Note	2010 Rupees	2009 Rupees
9.1	27,248,144	22,444,570
9.3	60,944,141	3,832,685
	<b>88,192,285</b>	<b>26,277,255</b>

### 9.1 Staff retirement benefits

The amounts recognised in balance sheet are as follows:

Present value of defined benefit obligation	22,444,570	18,209,264
Unrecognised actuarial gains	4,803,574	4,235,306
	<b>27,248,144</b>	<b>22,444,570</b>

Movements in the net liability recognised in the balance sheet are as follows:

Balance at beginning of the year	22,444,570	18,209,264
Charge for the year	9,823,217	8,353,950
Payments during the year	(5,019,643)	(4,118,644)
Balance at end of the year	<b>27,248,144</b>	<b>22,444,570</b>

### 9.2 The amounts recognised in the profit and loss account against defined benefit scheme are as follows:

Current service cost	7,284,619	5,999,141
Interest cost	2,758,087	2,354,809
Actuarial (gains) recognised	(219,489)	-
Charge for the year	<b>9,823,217</b>	<b>8,353,950</b>

The valuation of the scheme is based on the following significant assumptions:

- discount rate at 14% per annum (2009: 12% per annum); and
- expected rate of increase in salaries for employees at 12% per annum (2009: 11% per annum).

For the year ending 30 JUNE 2011, expected contribution to the staff retirement benefit scheme is Rs. 8,804,734.

### Historical Information

	2010	2009	2008	2007	2006
	-----Rupees-----				
Present value of defined benefit obligation	22,444,570	18,209,264	19,623,409	14,809,629	11,201,837
Unrecognised actuarial gains / (losses)	4,803,574	4,235,306	(1,414,145)	(1,435,095)	(894,116)
	<b>27,248,144</b>	<b>22,444,570</b>	<b>18,209,264</b>	<b>13,374,534</b>	<b>10,307,721</b>

	Note	2010 Rupees	2009 Rupees
<b>9.3 Deferred taxation</b>			
Credit balance arising in respect of:			
- Accelerated tax depreciation allowances		298,866,848	310,625,983
Debit balance arising in respect of:			
- carry forward tax losses		(205,363,211)	(284,361,058)
- provision for gratuity		(9,536,850)	(7,855,600)
- provision for doubtful debts		(3,493,402)	(2,233,402)
- provision for stock in trade		(19,529,244)	(12,343,238)
Deferred tax liability		<u>60,944,141</u>	<u>3,832,685</u>
<b>10 TRADE AND OTHER PAYABLES</b>			
Creditors		614,084,965	493,717,409
Accrued liabilities		51,047,144	38,028,726
Advances from directors		19,239,841	19,378,852
Workers' profit participation fund	10.1	17,108,021	9,113,158
Retention money		-	147,497
Unclaimed dividend		641,984	584,037
Other liabilities		20,412,182	75,760,539
		<u>722,534,137</u>	<u>636,730,218</u>
<b>10.1 Workers' profit participation fund</b>			
Balance at 01 July		9,113,158	6,602,243
Add: Interest on funds utilized in company's business		698,459	505,404
Allocated during the year		16,409,562	8,607,754
		26,221,179	15,715,401
Less: Amount paid during the year		(9,113,158)	(6,602,243)
Balance at 30 June		<u>17,108,021</u>	<u>9,113,158</u>
<b>11 ACCRUED MARK-UP</b>			
Accrued mark-up on:			
- long term finances		11,257,493	22,054,640
- short term finances		60,184,730	45,717,913
		<u>71,442,223</u>	<u>67,772,553</u>
<b>12 SHORT TERM FINANCES - Secured</b>			
Term finances	12.1	790,727,334	512,000,000
Export refinances	12.2	274,376,000	280,000,000
Running finance utilized under mark-up arrangements	12.3	953,988,128	878,700,034
		<u>2,019,091,462</u>	<u>1,670,700,034</u>
<b>12.1</b>	The facilities for term finances from various banks aggregated to Rs. 1,082,000,000 (2009: Rs. 732,000,000). These are secured pari-passu against hypothecation of stocks, book debts and personal guarantees of the directors. These carry mark-up at the rates ranging from 13.22% to 14.38% per annum (2009: 13.03% to 17.36% per annum).		
<b>12.2</b>	The facilities for export refinance from various banks aggregated to Rs. 280,000,000 (2009: Rs. 310,000,000). These are secured pari-passu against hypothecation of stocks, lien on export letters of credits and personal guarantees of the directors. These carry mark-up at the rate of 1% above the SBP rate per annum (2009: 1% above SBP rate per annum).		
<b>12.3</b>	The facilities for running finances available from various banks aggregated to Rs. 1,017,000,000 (2009: Rs. 1,217,000,000). These are secured pari-passu against hypothecation of stocks and book debts, pledge of investments and personal guarantees of the directors. These carry mark-up at the rates ranging from 13.13% to 15.54% per annum (2009: 12.99% to 19.02% per annum).		
<b>13 Contingencies and commitments</b>			
The company has eight labour appeals pending before the Appellant Labour Tribunal of Quetta. The company's management believes that the maximum exposure against these appeals is Rs. 1.5 million (2009: Rs. Nil).			
	Note	2010 Rupees	2009 Rupees
<b>COMMITMENTS</b>			
Outstanding letters of guarantee		48,893,000	48,893,000
Outstanding letters of credit for:			
- capital expenditure		193,399,672	115,970,060
- others		329,218,413	235,902,063

## 14 PROPERTY, PLANT AND EQUIPMENT

14.1 The following is a statement of property, plant and equipment:

Operating assets  
Capital work-in-progress

1,612,055,922	1,637,878,622
297,303,671	41,722,850
1,909,359,593	1,679,601,472

14.2

14.2	2010	Rupees-											
		Cost			Depreciation					Written down value as at 30 June 2010	Rate per %		
		As at 1 July 2009	Additions/ (Disposals)	Transfers between owned and leased	Written off	As at 30 June 2010	For the year/ (Disposals)	Transfers between owned and leased	Written off			As at 30 June 2010	
Owned assets													
	Leasehold land	81,750,355	-	-	-	81,750,355	2,913,061	1,302,246	-	-	4,215,307	77,535,048	1 to 1.2
	Building on leasehold land	262,675,854	46,162,428	-	-	308,838,282	92,683,018	17,509,910	-	-	110,192,928	198,645,354	10
	Plant and machinery	1,972,741,478	69,089,462	-	-	2,041,830,940	675,096,030	129,203,261	-	-	804,299,291	1,237,531,649	10 to 33
	Furniture and fittings	23,618,865	195,950	-	-	23,759,710	7,259,757	1,566,756	-	-	8,783,334	14,976,376	10
	Equipment	23,598,392	4,105,628 (141,335)	-	(55,105)	27,562,685	9,223,522	1,650,045 (67,416)	-	(43,179)	10,806,151	16,756,534	10
	Computers	7,173,671	932,713 (392,675)	-	-	7,713,709	4,492,510	578,829 (329,713)	-	-	4,741,626	2,972,083	20
	Vehicles	56,228,227	11,140,072 (9,906,380)	7,456,900 (10,438,000)	-	54,480,819	28,341,129	5,660,678 (6,312,417)	3,489,277 (735,840)	-	30,442,827	24,037,992	20
	Total owned assets	2,427,786,842	131,626,253 (10,440,390)	7,456,900 (10,438,000)	- (55,105)	2,545,936,500	820,009,027	157,471,725 (6,709,546)	3,489,277 (735,840)	- (43,179)	973,481,464	1,572,455,036	
Leased assets													
	Plant and machinery	16,991,527	-	-	-	16,991,527	1,751,466	1,456,060	-	-	3,207,526	13,784,001	10
	Vehicles	23,945,800	8,393,000	10,438,000 (7,456,900)	-	35,319,900	9,085,054	3,171,398	735,840 (3,489,277)	-	9,503,015	25,816,885	20
	Total leased assets	40,937,327	8,393,000	10,438,000 (7,456,900)	-	52,311,427	10,836,520	4,627,458	735,840 (3,489,277)	-	12,710,541	39,600,886	
	Grand total	2,468,724,169	140,019,253 (10,440,390)	17,894,900 (17,894,900)	- (55,105)	2,598,247,927	830,845,547	162,099,183 (6,709,546)	4,225,117 (4,225,117)	- (43,179)	986,192,005	1,612,055,922	

14.3	2009	Cost			Depreciation			Rate per %					
		As at 1 July 2008	Additions/ (Disposals)	Transfers between owned and leased	Written off	As at 30 June 2009	For the year/ (Disposals)		Transfers between owned and leased	Written off	As at 30 June 2009	Written down value as at 30 June 2009	
-----Rupees-----													
	Owmed assets												
	Leasehold land	47,387,445	34,362,910	-		81,750,355	1,610,815	1,302,246	-		2,913,061	78,837,294	1 to 1.2
	Building on leasehold land	250,767,810	11,908,044	-		262,675,854	75,477,078	17,205,940	-		92,683,018	169,992,836	10
	Plant and machinery	1,592,553,608	380,187,870	-		1,972,741,478	564,505,627	110,590,403	-		675,096,030	1,297,645,448	10 to 33
	Furniture and fittings	22,630,644	988,221	-		23,618,865	5,576,874	1,682,883	-		7,259,757	16,359,108	10
	Equipment	22,861,876	736,516	-		23,598,392	7,747,370	1,476,152	-		9,223,522	14,374,870	10
	Computers	6,900,158	273,513	-		7,173,671	3,928,847	563,663	-		4,492,510	2,681,161	20
	Vehicles	45,056,168	6,943,057 (4,616,998)	9,236,000 (390,000)		56,228,227 (4,616,998)	21,334,214 (390,000)	5,203,256 (2,319,702)	4,236,555 (113,194)		28,341,129 (2,319,702)	27,887,098 (113,194)	20
	Total owned assets	1,988,157,709 -	435,400,131 (4,616,998)	9,236,000 (390,000)		2,427,786,842 -	680,180,825	138,024,543 (2,319,702)	4,236,555 (113,194)		820,009,027	1,607,777,815	
	Leased assets												
	Plant and machinery	16,991,527	-	-		16,991,527	141,596	1,609,870	-		1,751,466	15,240,061	10
	Vehicles	31,614,300	1,567,500 (390,000)	390,000 (9,236,000)		23,945,800 (9,236,000)	9,238,347	4,083,262 (113,194)	113,194 (4,236,555)		9,085,054	14,860,746	20
	Total leased assets	48,605,827	1,567,500 (390,000)	390,000 (9,236,000)		40,937,327 (9,236,000)	9,379,943	5,693,132 (113,194)	113,194 (4,236,555)		10,836,520	30,100,807	
	Grand total	2,036,763,536	436,967,631 (5,006,998)	9,626,000 (9,626,000)		2,468,724,169 (5,006,998)	689,560,768	143,717,675 (2,432,896)	4,349,749 (4,349,749)		830,845,547	1,637,878,622	

14.4 The depreciation has been allocated as follows:		2010 Rupees	2009 Rupees
Cost of sales	26	151,658,814	133,327,208
Selling and distribution expenses	27	4,434,065	4,538,278
Administrative and general expenses	28	6,006,298	5,852,189
		<u>162,099,177</u>	<u>143,717,675</u>

**14.5 Following property, plant and equipment were disposed off during the year:**

	Cost	Accumulated depreciation	Book value	Sale proceeds	Particulars of buyer
	..... Rupees .....				
<b>Owned vehicles</b>					
<b>By negotiation</b>					
- Motor Cycle	24,445	23,821	624	8,000	Bawar Khan (Islamabad)
- Honda Citi	919,000	513,098	405,902	750,000	Shaukat Ali (Karachi)
- Honda Citi	976,000	503,956	472,044	600,000	Shaukat Ali (Karachi)
- Computer	17,625	14,226	3,399	2,700	HM Computers (Karachi)
- Computer	333,150	295,513	37,637	8,600	Zee Net Computers (Karachi)
- Toyota Corolla	1,274,500	996,857	277,643	767,500	M. Saad Ullah Usmanu (Karachi)
- Toyota Corolla	1,169,000	932,622	236,378	767,500	Ejaz Farhan (Karachi)
- Suzuki Mehran	342,000	251,246	90,754	240,000	M. Atiq Yahya Lakhani (Karachi)
- Suzuki Mehran	342,000	258,096	83,904	240,000	Ibrahim M. Chohtani (Karachi)
- Photo Copy Machine	130,435	58,555	71,880	12,000	I-Tech Copier Service (Karachi)
- Motor Cycle	53,087	27,746	25,341	30,000	Imran Ahmed Khan (Karachi)
- Motor Cycle	40,000	26,215	13,785	13,000	M. Alam Sher (Karachi)
- Motor Cycle	36,348	22,926	13,422	22,000	M. Aslam (Karachi)
- Mercedes	4,200,000	2,729,774	1,470,226	2,670,000	S.N. Enterprises (Karachi) c/o Lucky Motors
<b>By insurance claim</b>					
- Suzuki Mehran	530,000	26,061	503,939	530,000	Adamjee Insurance
- Laptop	52,800	28,834	23,966	38,410	Adamjee Insurance
<b>2010</b>	<u>10,440,390</u>	<u>6,709,546</u>	<u>3,730,844</u>	<u>6,699,710</u>	
<b>2009</b>	<u>5,006,998</u>	<u>2,432,896</u>	<u>2,574,102</u>	<u>3,438,838</u>	

14.6 CAPITAL WORK-IN-PROGRESS	2010 Rupees	2009 Rupees
Civil works (Including advance for land Rs. 18,721,099 ( 2009: Nil)	93,589,637	35,452,342
Plant and machinery	195,895,047	5,658,767
Equipment & fittings	7,818,987	611,741
	<u>297,303,671</u>	<u>41,722,850</u>
<b>15 LONG TERM INVESTMENTS</b>		
<b>Investment in associated undertakings</b>		
Novelty Enterprises (Private) Limited	229,724,069	229,724,069
The Bank of Khyber	711,505,825	684,469,258
	<u>941,229,894</u>	<u>914,193,327</u>

### 15.1 Investment in associated undertakings

The company holds a 33% voting and equity interest in Novelty Enterprises (Private) Limited. The Company holds a 14% voting and equity interest and has representation on the Board of Directors in The Bank of Khyber. The investments are accounted for under the equity method. The reporting date of Novelty Enterprises (Private) Limited is 30 June while the Bank of Khyber concludes its annual financial results on 31 December as required by State Bank of Pakistan for financial institutions.

The shares of Novelty Enterprises (Private) Limited are not publicly listed on a stock exchange and hence published price quotes are not available. The fair value of 14% holding in Bank of Khyber as on 30 June 2010 was Rs. 267,877,691 (2009: Rs. 199,136,590). The aggregate amounts of the associates can be summarised as follows:

	The Bank of Khyber		Novelty Enterprises (Private) Limited	
	2010	2009	2010	2009
As at 01 July	684,469,258	737,017,983	229,724,069	229,724,069
Acquisition of associates	-	-	-	-
Loss recognized on conversion of available for sale investment to associates	-	(128,127,742)	-	-
Share of profit	27,036,567	75,579,017	-	-
<b>As at 30 June</b>	<b>711,505,825</b>	<b>940,724,742</b>	<b>229,724,069</b>	<b>229,724,069</b>

Summarised financial information in respect of the company's associates is set out below:

	The Bank of Khyber		Novelty Enterprises (Private) Limited	
	2010	2009	2010	2009
Assets	45,935,005	33,778,441	564,678,790	564,678,790
Liabilities	39,811,716	28,179,592	200,000	200,000
Revenue	-	-	-	-
Profit attributable to the company	27,036,567	75,579,017	-	-

All transfers of funds to the company, i.e. distribution of cash dividends, are subject to approval by means of a resolution passed by the shareholders of the associates. The company has not received any dividend during the year. (2009: Rs. Nil).

The company has not incurred any contingent liabilities or other commitments relating to its investments in associates.

Novelty Enterprises (Private) Limited has not commenced operations as of the reporting date.

		2010 Rupees	2009 Rupees	
16	LONG TERM DEPOSITS			
	- Lease	2,788,602	3,079,676	
	- Utilities	6,675,433	3,903,132	
	- Others	1,341,000	3,733,251	
		<u>10,805,035</u>	<u>10,716,059</u>	
17	STORES & SPARE PARTS			
	- Stores	-	-	
	- Spare parts	38,662,490	38,806,662	
		<u>38,662,490</u>	<u>38,806,662</u>	
	Spare parts - gross	41,868,910	41,113,082	
	Provision for slow moving spare parts (Note: 17.1)	(3,206,420)	(2,306,420)	
	Spare parts - net	<u>38,662,490</u>	<u>38,806,662</u>	
17.1	Reconciliation of provision for slow moving spare parts			
	Opening provision	2,306,420	1,800,000	
	Charge for the year	900,000	506,420	
	Closing provision	<u>3,206,420</u>	<u>2,306,420</u>	
18	STOCK-IN-TRADE			
	Raw materials	1,353,090,803	686,642,258	
	Packing materials	316,982,888	326,739,424	
	Work-in-process	22,855,082	27,595,673	
	Finished goods	1,011,752,019	1,120,783,651	
		<u>2,704,680,792</u>	<u>2,161,761,006</u>	
		2010		
		Raw Packing Finished		
		----- Rupees -----		
	Stock - gross	1,363,062,222	359,602,888	1,011,752,019
	Provision for slow moving stock (Note: 18.1)	(9,971,419)	(42,620,000)	-
	Stock - net	<u>1,353,090,803</u>	<u>316,982,888</u>	<u>1,011,752,019</u>
18.1	Reconciliation of provision for slow moving stocks			
	Opening provision	6,899,979	26,060,000	-
	Charge for the year	3,071,440	16,560,000	-
	Closing provision	<u>9,971,419</u>	<u>42,620,000</u>	<u>-</u>
		2009		
		Raw Packing Finished		
		----- Rupees -----		
	Stock - gross	667,389,357	352,799,424	1,120,783,651
	Stock in transit	26,152,880	-	-
	Provision for slow moving stock	(6,899,979)	(26,060,000)	-
	Stock - net	<u>686,642,258</u>	<u>326,739,424</u>	<u>1,120,783,651</u>
	Reconciliation of provision for slow moving stocks			
	Opening provision	8,400,000	9,600,000	-
	(Reversal) / charge for the year	(1,500,021)	16,460,000	-
	Closing provision	<u>6,899,979</u>	<u>26,060,000</u>	<u>-</u>

		2010 Rupees	2009 Rupees
<b>19</b>	<b>TRADE DEBTS</b>		
	Considered good		
	- secured	56,510,523	40,075,629
	- unsecured	<u>334,642,014</u>	<u>414,300,595</u>
		391,152,537	454,376,224
	Considered doubtful	<u>9,981,148</u>	<u>6,381,147</u>
		401,133,685	460,757,371
	Less: Provision for impairment	19.1 <u>(9,981,148)</u>	<u>(6,381,147)</u>
		<u>391,152,537</u>	<u>454,376,224</u>

All the trade debts have been reviewed for indication of impairment. Certain trade debts were found to be impaired and provision has been recorded accordingly. The impaired trade debts are mostly due from customers in the business-to-business market that are experiencing financial difficulties.

**19.1 The movement in the provision for impairment can be reconciled as follows:**

As at 01 July	6,381,147	7,201,790
Charge / (Reversal) for the year	<u>3,600,001</u>	<u>(820,643)</u>
As at 30 June	<u>9,981,148</u>	<u>6,381,147</u>

In addition, some of the unimpaired trade debts are past due as at the reporting date. The age of trade debts 'past due' but not impaired is as follows:

**Age analysis**

Not more than 3 months	98,920,527	15,467,328
More than 3 months but not more than 6 months	29,179,379	36,037,527
More than 6 months but not more than 1 year	<u>29,457,560</u>	<u>45,581,365</u>
	<u>157,557,466</u>	<u>97,086,220</u>

**20 ADVANCES - considered good**

Advances to:		
- employees	5,672,776	5,913,935
- suppliers	297,704,468	280,825,480
- others	<u>6,081,779</u>	<u>1,621,615</u>
	<u>309,459,023</u>	<u>288,361,030</u>

**21 TRADE DEPOSITS AND SHORT TERM PREPAYMENTS**

Trade deposits	4,967,800	2,860,000
Short term prepayments	<u>504,615</u>	<u>744,080</u>
	<u>5,472,415</u>	<u>3,604,080</u>

**22 OTHER RECEIVABLES**

Sales tax	29,030,052	8,442,110
Export rebate	16,600,737	7,180,854
Collector of customs	9,145	18,547
Insurance claims	<u>32,914</u>	<u>454,480</u>
	<u>45,672,848</u>	<u>16,095,991</u>

All of the other receivables have been reviewed for impairment. No other receivables were found to be impaired.

**23 CASH AND BANK BALANCES**

Cash in hand	6,359,932	623,956
Cash at banks on:		
- current accounts	<u>53,051,704</u>	<u>50,517,945</u>
	<u>59,411,636</u>	<u>51,141,901</u>

## 24 OPERATING RESULTS

	Food Processing		Plastic Film		Total	
	2010	2009	2010	2009	2010	2009
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Sales</b>						
Local sales	6,400,855,886	4,745,228,388	682,273,919	823,602,117	7,083,129,805	5,568,830,505
Inter-segment	-	-	130,084,357	154,763,105	130,084,357	154,763,105
Export sales	560,058,492	469,954,603	236,040,703	61,014,069	796,099,195	530,968,672
	6,960,914,378	5,215,182,991	1,048,398,979	1,039,379,291	8,009,313,357	6,254,562,282
Less: Sales return & discount	331,574,061	208,653,414	4,162,229	15,725,641	335,736,290	224,379,055
<b>Sales net of sales return and discount</b>	<b>6,629,340,317</b>	<b>5,006,529,577</b>	<b>1,044,236,750</b>	<b>1,023,653,650</b>	<b>7,673,577,067</b>	<b>6,030,183,227</b>
Less: Sales tax	887,772,958	664,755,547	122,201,894	145,771,662	1,009,974,852	810,527,209
<b>Total sales</b>	<b>5,741,567,359</b>	<b>4,341,774,030</b>	<b>922,034,856</b>	<b>877,881,988</b>	<b>6,663,602,215</b>	<b>5,219,656,018</b>
Cost of sales (note 26)	4,712,900,683	3,379,949,779	791,358,287	723,380,183	5,504,258,970	4,103,329,962
<b>Gross profit</b>	<b>1,028,666,676</b>	<b>961,824,251</b>	<b>130,676,569</b>	<b>154,501,805</b>	<b>1,159,343,245</b>	<b>1,116,326,056</b>
Selling and distribution expenses (note 27)	385,104,298	337,074,945	17,135,281	7,527,028	402,239,579	344,601,973
Administrative expenses (note 28)	50,560,577	45,590,160	1,665,421	1,650,902	52,225,998	47,241,062
	435,664,875	382,665,105	18,800,702	9,177,930	454,465,577	391,843,035
<b>Operating profit</b>	<b>593,001,801</b>	<b>579,159,146</b>	<b>111,875,867</b>	<b>145,323,875</b>	<b>704,877,668</b>	<b>724,483,021</b>
24.1 Segment assets	4,658,834,739	4,187,231,818	884,848,342	549,628,396	5,543,683,081	4,736,860,214
24.2 Unallocated assets	-	-	-	-	941,229,894	914,193,327
	4,658,834,739	4,187,231,818	884,848,342	549,628,396	6,484,912,975	5,651,053,541
24.3 Segment liabilities	2,880,502,626	2,213,817,979	222,105,963	334,378,722	3,102,608,589	2,548,196,701
24.4 Unallocated liabilities	-	-	-	-	1,654,636,393	2,372,682,494
	2,880,502,626	2,213,817,979	222,105,963	334,378,722	4,757,244,982	4,920,879,195
24.5 Non-cash items (excluding depreciation)	8,925,323	7,214,608	897,894	1,139,342	9,823,217	8,353,950
24.6 Capital expenditure	348,138,344	443,471,796	47,449,801	1,952,816	395,588,145	445,424,612

24.7 Inter-segment pricing  
Transactions among the business segments are recorded at estimated cost.

24.8 The company's export sales have been primarily made to countries in the Middle East, Africa and South Asia. However, no material amount of export sales have been made to any one or more particular countries

24.9 There were no major customers of the company which formed 10 percent or more of the company's revenue.

## 25 Reconciliation of reportable segment sales, cost of sales, assets and liabilities

	Note	2010 Rupees	2009 Rupees
25.1 <b>Sales net of sales return and discount</b>			
Total Sales for reportable segments		7,673,577,067	6,030,183,227
Elimination of inter-segments		130,084,357	154,763,105
Total sales		7,543,492,710	5,875,420,122
25.2 <b>Cost Of Sales</b>			
Total Cost of Sales for reportable segments		5,504,258,970	4,103,329,962
Elimination of inter-segments purchases		130,084,357	154,763,105
Total cost of sales		5,374,174,613	3,948,566,857
25.3 <b>Assets</b>			
Total assets for reportable segments		5,543,683,081	4,736,860,214
Long term investment		941,229,894	914,193,327
Total assets		6,484,912,975	5,651,053,541
25.4 <b>Liabilities</b>			
Total liabilities for reportable segments		3,102,608,589	2,548,196,701
Directors Loan		-	680,000,000
Long term finance		1,630,683,842	1,735,839,627
Assets subject to finance lease		23,952,551	21,982,460
Total liabilities		4,757,244,982	4,986,018,788

## 26 COST OF SALES

	Food Processing		Plastic Film		Total	
	2010	2009	2010	2009	2010	2009
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Raw materials consumed (note 26.1)	2,563,633,523	2,089,882,799	667,645,583	635,287,285	3,231,279,106	2,725,170,084
Packing materials consumed (note 26.2)	1,505,051,212	1,257,535,294	17,981,145	17,025,793	1,523,032,357	1,274,561,087
Stores and spares consumed (note 26.3)	58,817,729	42,388,359	13,148,585	10,352,597	71,966,314	52,740,956
Salaries, wages and other benefits (note 26.4)	159,896,286	145,679,410	20,597,434	18,572,462	180,493,720	164,251,872
Electricity, gas, fuel and lubricants	102,318,192	87,374,880	51,937,383	43,689,935	154,255,575	131,064,815
Repairs and maintenance	6,895,538	6,856,306	1,493,626	1,842,227	8,389,164	8,698,533
Cold storage - rent & maintenance	2,759,000	2,768,441	-	-	2,759,000	2,768,441
Printing and stationery	793,961	547,882	8,171	4,686	802,132	552,568
Insurance	5,960,565	5,855,687	1,010,890	1,180,726	6,971,455	7,036,413
Rent, rates and taxes	782,446	1,059,236	272,540	421,180	1,054,986	1,480,416
Water charges	2,923,897	2,562,378	138,841	91,558	3,062,738	2,653,936
Postage and telephone	1,071,503	1,053,037	172,128	187,336	1,243,631	1,240,373
Traveling and conveyance	759,878	1,391,393	345,564	627,713	1,105,442	2,019,106
Vehicle running and maintenance	4,376,325	3,858,345	449,407	586,386	4,825,732	4,444,731
Depreciation (note 14.4)	128,292,862	110,305,322	23,365,952	23,021,886	151,658,814	133,327,208
Fees and subscription	668,345	222,564	37,500	63,750	705,845	286,314
Cartage	419,634	91,981	67,855	53,759	487,489	145,740
Legal and professional charges	75,000	211,000	-	-	75,000	211,000
Procurement expenses	1,592,706	1,670,603	-	-	1,592,706	1,670,603
Other manufacturing expenses	144,211	202,276	(34,530)	68,784	109,681	271,060
Recovery from sale of production scrap	(8,636,503)	(9,218,976)	(8,573,975)	(21,921,421)	(17,210,478)	(31,140,397)
	4,538,596,310	3,752,298,217	790,064,099	731,156,642	5,328,660,409	4,483,454,859
Work-in-process at beginning of the year	8,104,464	6,271,074	19,491,208	12,533,478	27,595,672	18,804,552
Work-in-process at end of the year	(8,693,161)	(8,104,464)	(14,161,921)	(19,491,208)	(22,855,082)	(27,595,672)
	(588,697)	(1,833,390)	5,329,287	(6,957,730)	4,740,590	(8,791,120)
<b>Cost of goods manufactured</b>	<b>4,538,007,613</b>	<b>3,750,464,827</b>	<b>795,393,386</b>	<b>724,198,912</b>	<b>5,333,400,999</b>	<b>4,474,663,739</b>
Stock of finished goods at beginning of the year	1,113,952,417	691,144,793	6,831,234	6,012,505	1,120,783,651	697,157,298
Purchase of finished goods	61,826,339	52,292,576	-	-	61,826,339	52,292,576
Stock of finished goods at end of the year	(1,000,885,686)	(1,113,952,417)	(10,866,333)	(6,831,234)	(1,011,752,019)	(1,120,783,651)
	174,893,070	(370,515,048)	(4,035,099)	(818,729)	170,857,971	(371,333,777)
	4,712,900,683	3,379,949,779	791,358,287	723,380,183	5,504,258,970	4,103,329,962

	Food Processing		Plastic Film		Total	
	2010	2009	2010	2009	2010	2009
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>26.1 Raw materials consumed</b>						
Stock of raw materials at beginning of the year	547,052,547	560,654,552	120,336,810	75,807,357	667,389,357	636,461,909
Purchases	2,941,038,880	2,072,900,433	990,341,255	681,841,320	3,931,380,135	2,754,741,753
Cartage inward	10,984,007	12,002,838	-	-	10,984,007	12,002,838
Purchase discount	(1,368,612)	(1,176,571)	-	-	(1,368,612)	(1,176,571)
	3,497,706,822	2,644,381,252	1,110,678,065	757,648,677	4,608,384,887	3,402,029,929
Less: Custom rebate and duty draw-back	(9,490,240)	(5,945,885)	(7,624,758)	(2,024,582)	(17,114,998)	(7,970,467)
	3,488,216,582	2,638,435,367	1,103,053,307	755,624,095	4,591,269,889	3,394,059,462
Provision / (Reversal) made during the year	3,071,440	(1,500,021)	-	-	3,071,440	(1,500,021)
Stock of raw materials at end of the year	(927,654,499)	(547,052,547)	(435,407,724)	(120,336,810)	(1,363,062,223)	(667,389,357)
	2,563,633,523	2,089,882,799	667,645,583	635,287,285	3,231,279,106	2,725,170,084
<b>26.2 Packing materials consumed</b>						
Stock of packing materials at the beginning of the year	350,690,706	251,235,255	2,108,718	1,405,961	352,799,424	252,641,216
Purchases	1,369,190,362	1,189,231,864	17,942,313	17,611,033	1,387,132,675	1,206,842,897
Cartage inward	2,199	-	183,100	127,190	185,299	127,190
Inter-segment purchase	130,084,357	154,763,105	-	-	130,084,357	154,763,105
Purchase discount	(4,089,092)	(3,464,224)	(37,418)	(9,673)	(4,126,510)	(3,473,897)
	1,845,878,532	1,591,766,000	20,196,713	19,134,511	1,866,075,245	1,610,900,511
Provision made during the year	16,560,000	16,460,000	-	-	16,560,000	16,460,000
Stock of packing materials at end of the year	(357,387,320)	(350,690,706)	(2,215,568)	(2,108,718)	(359,602,888)	(352,799,424)
	1,505,051,212	1,257,535,294	17,981,145	17,025,793	1,523,032,357	1,274,561,087
<b>26.3 Stores and spares consumed</b>						
Stock of stores and spares at beginning of the year	34,781,083	32,836,706	6,331,999	6,827,823	41,113,082	39,664,529
Purchases	57,838,134	44,142,336	14,212,388	9,865,674	72,050,522	54,008,010
Cartage inward	282,499	233,640	29,563	8,950	312,062	242,590
Purchase discounts	(540,442)	(549,660)	-	(17,851)	(540,442)	(567,511)
	92,361,274	76,663,022	20,573,950	16,684,596	112,935,224	93,347,618
Provision made during the year	900,000	506,420	-	-	900,000	506,420
Stock of stores and spares at end of the year	(34,443,545)	(34,781,083)	(7,425,365)	(6,331,999)	(41,868,910)	(41,113,082)
	58,817,729	42,388,359	13,148,585	10,352,597	71,966,314	52,740,956
<b>26.4 Salaries, wages and other benefits include Rs. 6,379,333 (2009 : Rs. 4,840,394) in respect of staff retirement benefits.</b>						

## 27 SELLING AND DISTRIBUTION EXPENSES

	Food Processing		Plastic Film		Total	
	2010	2009	2010	2009	2010	2009
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Salaries and other benefits (note 27.1)	125,186,061	99,220,267	4,105,842	3,665,491	129,291,903	102,885,758
Cartage outward	56,722,908	89,174,269	77,100	85,100	56,800,008	89,259,369
Export expenses	21,002,661	13,779,823	11,225,297	1,835,775	32,227,958	15,615,598
Advertisements	87,261,029	61,522,707	-	-	87,261,029	61,522,707
Sales promotion	31,618,942	18,967,619	-	-	31,618,942	18,967,619
Entertainment	525,103	450,999	16,601	9,294	541,704	460,293
Vehicle running and maintenance	23,082,233	17,455,128	523,171	504,572	23,605,404	17,959,700
Printing and stationery	2,002,500	1,141,872	44,755	30,739	2,047,255	1,172,611
Postage and telephone	7,751,669	5,616,829	260,137	254,351	8,011,806	5,871,180
Conveyance and traveling	6,395,333	5,734,302	335,255	619,382	6,730,588	6,353,684
Samples	1,767,124	2,896,461	43,384	28,591	1,810,508	2,925,052
Utilities	4,112,016	2,840,912	49,254	39,561	4,161,270	2,880,473
Repairs and maintenance	193,497	275,530	54,460	65,008	247,957	340,538
Rent	7,231,118	6,402,825	281,112	255,552	7,512,230	6,658,377
Depreciation (note 14.4)	4,416,493	4,517,173	17,572	21,105	4,434,065	4,538,278
Insurance	1,357,279	1,194,161	101,341	102,955	1,458,620	1,297,116
Legal and professional charges	-	110,000	-	-	-	110,000
Miscellaneous	4,478,332	5,774,068	-	9,552	4,478,332	5,783,620
	<b>385,104,298</b>	<b>337,074,945</b>	<b>17,135,281</b>	<b>7,527,028</b>	<b>402,239,579</b>	<b>344,601,973</b>

27.1 Salaries and other benefits include Rs. 2,410,721 (2009 : Rs. 2,428,567) in respect of staff retirement benefits.

## 28 ADMINISTRATIVE EXPENSES

	Food Processing		Plastic Film		Total	
	2010	2009	2010	2009	2010	2009
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Salaries and other benefits including director's remuneration (note 28.1)	25,282,185	24,107,521	1,241,843	1,136,418	26,524,028	25,243,939
Conveyance and traveling	4,571,304	5,775,607	8,315	-	4,579,619	5,775,607
Postage and telephone	2,323,615	1,724,775	50,642	36,343	2,374,257	1,761,118
Printing and stationery	1,098,578	785,373	4,146	-	1,102,724	785,373
Repairs and maintenance	364,988	134,074	-	457,393	364,988	591,467
Electricity and utilities	3,903,704	2,520,110	-	-	3,903,704	2,520,110
Insurance	931,883	807,325	21,359	17,056	953,242	824,381
Advertisement	300,600	158,730	-	-	300,600	158,730
Entertainment	26,019	65,097	-	-	26,019	65,097
Vehicle running and maintenance	1,207,903	1,974,277	324,068	-	1,531,971	1,974,277
Rent, rates and taxes	500,128	511,792	-	-	500,128	511,792
Fee and subscription	1,754,095	505,086	12,000	-	1,766,095	505,086
Legal and professional charges	2,210,500	583,820	-	-	2,210,500	583,820
Depreciation (note 14.4)	6,003,250	5,848,497	3,048	3,692	6,006,298	5,852,189
General meeting expenses	81,825	88,076	-	-	81,825	88,076
	<b>50,560,577</b>	<b>45,590,160</b>	<b>1,665,421</b>	<b>1,650,902</b>	<b>52,225,998</b>	<b>47,241,062</b>

28.1 Salaries and other benefits include Rs. 1,033,163 (2009 : Rs. 1,084,989) in respect of staff retirement benefits.

29	OTHER OPERATING INCOME	Note	2010 Rupees	2009 Rupees
	Profit on disposal of property, plant & equipment		2,968,866	864,736
	Toll / Processing income		22,786,906	19,706,978
	Dividend income		-	218,000
	Gain on sale and purchase of financial assets designated as fair value through profit and loss		40,932,558	59,106,985
	Exchange gain		512,716	4,160,068
	Others		4,498,040	450,342
			<u>71,699,086</u>	<u>84,507,109</u>
30	OTHER OPERATING EXPENSES			
	Workers' profit participation fund	10.1	16,409,562	8,607,754
	Workers' welfare fund		6,223,633	3,264,567
	Cross currency swap loss	30.1	-	93,944,441
	Auditors' remuneration	30.2	759,716	750,153
	Donations	30.3	600,000	319,000
			<u>23,992,911</u>	<u>106,885,915</u>
30.1	The company entered in cross currency interest rate swap contracts with various commercial banks to hedge its interest rates on borrowings based on KIBOR. However due to devaluation of Pak rupee against other currencies the company suffered losses despite saving interest on swap transactions.			
30.2	Auditor's remuneration			
	- audit fee		350,000	275,000
	- fee for half yearly review		70,000	70,000
	- fee for other certification		35,000	90,000
	- tax services		180,000	160,000
	- out-of-pocket expenses		124,716	155,153
			<u>759,716</u>	<u>750,153</u>
30.3	None of the directors or their spouses had an interest in the donees.			
31	FINANCE COST			
	Mark up on:			
	- long term finances		211,482,367	271,135,801
	- short term finances		251,475,786	209,485,493
	Finance charge on finance leases		2,157,314	3,534,122
	Bank charges		9,043,449	4,930,908
	Total interest expense for financial liabilities		474,158,916	489,086,324
	Interest on Workers' Profit Participation Fund (WPPF)	10.1	698,459	505,404
			<u>474,857,375</u>	<u>489,591,728</u>

## 32 REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	-----2010-----			-----2009-----		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	..... Rupees .....					
Managerial remuneration	1,800,000	5,700,000	31,350,289	2,100,000	5,400,000	8,100,474
Gratuity	-	-	2,675,556	-	-	754,284
Reimbursement of expenses						
Utilities	476,627	792,299	-	456,030	542,851	-
Membership fees	60,636	265,353	-	93,970	357,149	-
	<u>2,337,263</u>	<u>6,757,652</u>	<u>34,025,845</u>	<u>2,650,000</u>	<u>6,300,000</u>	<u>8,854,758</u>
Number of persons	<u>1</u>	<u>3</u>	<u>40</u>	<u>1</u>	<u>3</u>	<u>12</u>

In addition to the above, company maintained cars are provided to the chief executive, directors and executives.

32.1 The remuneration has been allocated as follows:

	2010			2009		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	Rupees					
Cost of goods sold	-	-	17,364,980	-	1,800,000	4,492,280
Selling and distribution expenses	-	-	15,047,944	-	-	4,362,478
Administrative and general expenses	2,337,263	6,757,652	1,612,921	2,650,000	4,500,000	-
	<u>2,337,263</u>	<u>6,757,652</u>	<u>34,025,845</u>	<u>2,650,000</u>	<u>6,300,000</u>	<u>8,854,758</u>
Number of persons	1	3	40	1	3	12

## 33 CLASSIFICATION OF EXPENSES

This represents break-up of expenses as per their nature:

	2010				2009			
	Local Sales	Export Sales	Common Expense	Total	Local Sales	Export Sales	Common Expense	Total
	Rupees				Rupees			
Selling and distribution expenses (note 27)	366,250,515	35,989,064	-	402,239,579	325,152,150	19,449,823	-	344,601,973
Administrative expenses (note 28)	-	-	52,225,998	52,225,998	-	-	47,401,062	47,401,062
Finance cost (note 31)	459,034,106	15,823,269	-	474,857,375	477,846,683	10,333,756	-	488,180,439

## 34 TAXATION

Current	36,436,685	5,499,279
Deferred	57,111,456	3,832,685
	<u>93,548,141</u>	<u>9,331,964</u>

### 34.1 The relationship between accounting profit and tax expense

The relationship between tax expense and accounting profit has not been presented in these financial statements as the total income falls under minimum tax / presumptive tax regime of the Income Tax Ordinance, 2001.

## 35 EARNINGS PER SHARE - basic

	2010 Rupees	2009 Rupees
Profit for the year (Rs)	<u>211,214,894</u>	<u>150,631,798</u>
	<u>No. of shares</u>	<u>No. of shares</u>
Weighted average number of ordinary shares during the year	<u>35,937,065</u>	<u>32,952,944</u>
	<u>Rupees</u>	<u>Rupees</u>
Basic and diluted - earnings per share	<u>5.88</u>	<u>4.57</u>

## 36 CASH FROM OPERATIONS

Profit before income tax		304,763,035	159,963,762
Adjustments for:			
Depreciation	14.4	162,099,177	143,717,675
Profit on disposal of property, plant & equipment	29	(2,968,866)	(864,736)
Provision for staff retirement gratuity	9.2	9,823,217	8,353,950
Finance cost	31	474,857,375	489,591,728
Share of profit from associated undertaking		(27,036,567)	52,548,725
Net decrease in working capital	36.1	(78,202,285)	(506,371,444)
Cash from operations		<u>843,335,086</u>	<u>346,939,660</u>

	2010 Rupees	2009 Rupees
<b>36.1 Net decrease in working capital</b>		
<b>(Increase) / Decrease in current assets</b>		
Stores and spares	144,172	(942,133)
Stocks in trade	(542,919,786)	(574,696,031)
Trade debts	63,223,687	(111,764,444)
Advances	(21,097,993)	(137,311,260)
Trade deposits and short term prepayments	(1,868,335)	(773,310)
Other receivables	(29,576,857)	(11,366,715)
Investment - derivative	-	73,752,357
	<u>(532,095,112)</u>	<u>(763,101,536)</u>
<b>(Decrease) / Increase in current liabilities</b>		
Trade and other payables	85,745,972	84,625,486
Short term finances	273,103,334	162,249,868
Advance from customers	95,043,521	9,854,738
	<u>453,892,827</u>	<u>256,730,092</u>
<b>Net decrease in working capital</b>	<u><u>(78,202,285)</u></u>	<u><u>(506,371,444)</u></u>
<b>37 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES</b>		
<b>37.1 Financial instruments by category</b>		
<b>Financial assets</b>		
<b>Loans and receivables</b>		
Long term deposits	10,805,035	10,716,059
Trade debts	391,152,537	454,376,224
Advances - considered good	309,459,023	288,361,030
Trade deposits	4,967,800	2,860,000
Other receivables	45,672,848	16,095,991
Cash and bank balances	59,411,636	51,141,901
<b>Total financial assets</b>	<u>821,468,879</u>	<u>823,551,205</u>
<b>Financial liabilities</b>		
<b>Financial liabilities at amortised cost</b>		
Long term finances	1,644,409,566	1,735,839,627
Liabilities against assets		
subject to finance lease	27,857,488	21,982,460
Trade and other payables	722,534,137	636,730,218
Accrued mark-up	71,442,223	67,772,553
Short term finances	2,019,091,462	1,670,700,034
<b>Total financial liabilities</b>	<u>4,485,334,876</u>	<u>4,133,024,892</u>
<b>On balance sheet gap</b>	<u><u>(3,663,865,997)</u></u>	<u><u>(3,309,473,687)</u></u>

## Fair value of financial assets and liabilities

The carrying value of all financial assets and financial liabilities reflected in the financial statements approximate their fair values.

## 37.2 Financial risk management

The board of directors of the company has overall responsibility for the establishment and oversight of the company's risk management framework. The company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

### 37.2.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the company's performance to developments affecting a particular industry.

Credit risk of the company arises principally from the trade debts, loans and advances, trade deposits, other receivables and deposits with banks and financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date is as follows:

	Note	2010 Rupees	2009 Rupees
Trade debts	19	391,152,537	454,376,224
Advances	20	303,786,247	282,447,095
Trade deposits	21	4,967,800	3,604,080
Other receivables	22	32,914	16,095,991
Bank balances	23	53,051,704	50,517,945
		<u>752,991,202</u>	<u>807,041,335</u>

To reduce the exposure to credit risk, the company has developed a formal approval process whereby credit limits are applied to its customers. The management continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. Trade debts of Rs. 167.54 million are past due of which Rs. 9.98 million are impaired. Past due but not impaired balances include Rs. 58.64 million outstanding for more than 3 months.

Advances recoverable from employees are secured against their retirement benefits

The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit rating.

## 37.2.2 Liquidity risk

Liquidity risk is the risk that the company will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

	2010		
	Carrying amount	Maturity upto one year	Maturity after one year
	-----Rupees-----		
<b>Financial liabilities</b>			
Long term finances - secured	1,644,409,566	541,343,787	1,103,065,779
Liabilities against assets subject to finance lease	-		
	27,857,488	12,878,113	14,979,375
Trade and other payables	722,534,137	722,534,137	-
Accrued mark-up	71,442,223	71,442,223	-
Short term finances - secured	2,019,091,462	2,019,091,462	-
	<u>4,485,334,876</u>	<u>3,367,289,722</u>	<u>1,118,045,154</u>
	2009		
<b>Financial liabilities</b>			
Long term finances - secured	1,735,839,627	505,178,572	1,230,661,055
Liabilities against assets subject to finance lease	21,982,460	11,627,834	10,354,626
Trade and other payables	636,730,218	636,730,218	-
Accrued mark-up	67,772,553	67,772,553	-
Short term finances - secured	1,670,700,034	1,670,700,034	-
	<u>4,133,024,892</u>	<u>2,892,009,211</u>	<u>1,241,015,681</u>

## 37.2.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates, foreign exchange rate or equity prices due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The company is exposed to currency risk and interest rate risk only.

### a) Currency risk

Currency risk is the risk that the fair value or future cash flows of financial asset or a liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions entered into foreign currencies. The company is exposed to currency risk primarily with respect to foreign debtors.

As at 30 June 2010, if the Pakistani Rupee has weakened / strengthened by 10% against the US Dollar with all other variables held constant, profit before tax for the year would have been higher / lower by Rs. 5.64 million, mainly as a result of foreign exchange gains / losses on translation of dollar denominated financial assets.

### b) Interest rate risk

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from short and long term borrowings from banks, running finance facilities and finance leases. At the balance sheet date the interest rate profile of the company's mark-up bearing financial instruments is as follows:

	Carrying amount	
	2010 Rupees	2009 Rupees
<b>Variable rate instruments</b>		
Financial assets	-	-
Financial liabilities	(3,691,358,516)	(3,428,522,121)
	<u>(3,691,358,516)</u>	<u>(3,428,522,121)</u>

As at 30 June 2010, if KIBOR had been 100 bps higher / lower with all other variables held constant, profit before tax for the year would have been higher / lower by Rs. 36.91 million. (2009: Rs. 34.29 million) mainly because of higher / lower interest expense on variable rate instruments.

## 38 CAPITAL RISK MANAGEMENT

The objective of the company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its businesses.

The company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the company may adjust the amount of dividend paid to the shareholders or issue bonus / right shares.

The company's capital includes share capital, unappropriated profit, reserves and unrealised gain on remeasurement of available for sale investments. As at balance sheet date the capital of the company is as follows:

	2010 Rupees	2009 Rupees
Share capital	505,207,500	240,575,000
Reserves	579,265,000	50,000,000
Unappropriated profit	643,195,493	432,502,094
	<u>1,727,667,993</u>	<u>723,077,094</u>

## 39 PLANT CAPACITY AND ANNUAL PRODUCTION

	2010 M.Ton Rated Capacity	Actual Production	2009 M.Ton Rated Capacity	Actual Production
Food Processing	56,250	42,542	51,750	40,351
Plastic Film	5,500	5,321	5,000	4,874

### Reason for shortfall

The shortfall in capacity utilization in food processing segment is due to normal stoppages and during the year new biscuits and candy plants are installed and hence, did not give full year's production.

## 40 NON - ADJUSTING EVENT AFTER THE BALANCE SHEET

The board of directors in its meeting held on 15 September 2010 has proposed dividend in respect of the year ended 30 June 2010 of Rs. 1.75 per share (2009: Rs. 1.5 per share). The appropriation will be approved in the forthcoming annual general meeting. The financial statements for the year ended 30 June 2010 does not include the effect of proposed dividend which will be accounted for in the financial statements for the year ending 30 June 2011.

## 41 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for better presentation and disclosure.

Reclassification from	Reclassification	Amount Rupees
Sale	Reconciliation of reportable segment	
-Intersegment sales *	-Intersegment sales*	154,763,105
Cost of sales	Reconciliation of reportable segment	
-Intersegment sales *	-Intersegment sales*	154,763,105
Administrative expenses	Other operating charges	
-Legal and professional	-Auditor's remuneration	160,000
Finance income	Other operating income	
-Dividend	-Dividend	218,000
-Gain on sale and purchase of financial assets designated as fair value through profit and loss	-Gain on sale and purchase of financial assets designated as fair value through profit and loss	59,106,985
Other operating income	Other operating income	
-Others	-Exchange gain	2,748,779
Finance cost	Other operating income	
-Exchange gain	-Exchange gain	1,411,289

\* To eliminate the effect of intersegment transactions

## 42 DATE OF AUTHORIZATION

These financial statements were authorized for issue on September 15, 2010 by the board of directors of the company.

## 43 GENERAL

The figures have been rounded off to the nearest rupee.

**MAQSOOD ISMAIL**  
Chief Executive

**MIFTAH ISMAIL**  
Director

## PATTERN OF SHAREHOLDING

### SHAREHOLDERS STATISTICS AT JUNE 30, 2010

Number of Shareholders	Shareholdings			Total Number of Shares Held
	From	-	To	
1014	1	-	100	19,186
180	101	-	500	49,568
36	501	-	1000	27,846
74	1001	-	5000	164,843
9	5001	-	10000	65,297
3	10001	-	15000	39,025
2	20001	-	25000	41,752
1	30001	-	35000	34,794
1	35001	-	40000	36,134
1	40001	-	45000	40,891
1	435001	-	440000	435,400
1	495001	-	500000	499,900
1	600001	-	625000	608,700
4	625001	-	630000	2,503,635
1	630001	-	640000	635,400
1	1900001	-	1905000	1,905,000
1	8000001	-	8500000	8,298,895
1	10000001	-	11000000	10,911,650
1	24000001	-	24500000	24,202,834
<b>1333</b>				<b>50,520,750</b>

Shareholder's Category	Number of Shareholders	Number of Shares Held	Percentage
FINANCIAL INSTITUTIONS	1	1,802	0.00%
INDIVIDUALS	1318	50,059,117	99.09%
JOINT STOCK COMPANIES	11	453,161	0.90%
FOREIGN COMPANY	1	3,300	0.01%
OTHERS	2	3,370	0.01%
			<b>100.00%</b>

## PATTERN OF SHAREHOLDING

### AT JUNE 30, 2010

Shareholder Category	Number of Shareholders	Number of Share Held	Percentage
<b>Associated Company</b>			
Union Industries (Private) Limited	1	435,400	0.862
<b>Directors:</b>			
Mr. Miftah Ismail	1	10,911,650	21.598
Mr. Munsarim Saif	1	500	0.001
Mrs. Uzma Dawood	1	626,382	1.240
Mrs. Rashida Iqbal	1	625,751	1.239
Mrs. Nafiza Yousuf	1	625,751	1.239
Mrs. Anisa Naviwala	1	625,751	1.239
<b>Chief Executive Officer:</b>			
Mr. Maqsood Ismail	1	24,202,834	47.907
<b>Chairman:</b>			
Mr. Muhammad M. Ismail	1	8,298,895	16.427
<b>CEO/Directors Spouses / Sons</b>			
Mrs. Reema Miftah W/o. Miftah Ismail	1	499,900	0.989
Mrs. Farzana Muhammad W/o. Mr. Muhammad M. Ismail	1	608,700	1.205
Mrs. Almas Maqsood W/o. Mr. Maqsood Ismail	1	635,400	1.258
Mr. Asad Iqbal S/o. Rashida Iqbal	1	1,905,000	3.771
<b>General Public</b>	1320	518,836	1.027
<b>Total</b>	<b>1333</b>	<b>50,520,750</b>	<b>100.000</b>

#### Shareholders Holding 10% or More Voting Interest

Mr. Muhammad M. Ismail	1	8,298,895	16.427
Mr. Maqsood Ismail	1	24,202,834	47.907
Mr. Miftah Ismail	1	10,911,650	21.598



## PROXY FORM

I/We \_\_\_\_\_

Of \_\_\_\_\_ (full address)

being shareholder(s) ISMAIL INDUSTRIES LIMITED hereby appoint

\_\_\_\_\_

of \_\_\_\_\_

or failing him \_\_\_\_\_

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the shareholders of the Company to be held at Karachi on Monday, October 18, 2010 at 11:00 am

Dated this \_\_\_\_\_ day of \_\_\_\_\_

Revenue Stamp  
Rs. 5/-

(Signature of Proxy)

Witness \_\_\_\_\_ Signature of Shareholder \_\_\_\_\_

Place \_\_\_\_\_ Folio No. \_\_\_\_\_

### Notes:

- (a) This form of Proxy, duly completed and signed across a revenue stamp, must be deposited at the Company's Registrar not less than 48 hours before the time for holding the meeting.
- (b) A proxy need be a member of the Company.
- (c) Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- (d) The proxy shall produce his original NIC or original passport at the time of the meeting.