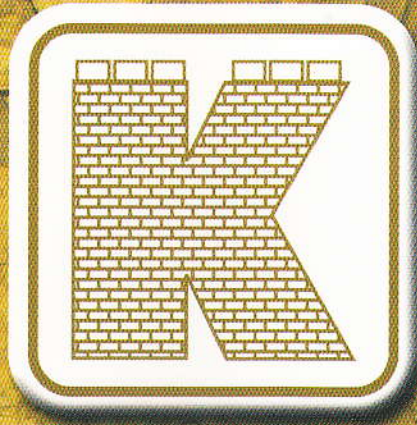


Khyber Tobacco Company Limited



59th
Annual Report
June 2014



Key Performance Indicators



KPIs

		2014	2013	14 vs 13
Sales Revenue	(Rupees in Million)	1,385.68	1,265.81	119.87
- Local Sales	(Rupees in Million)	968.08	854.87	113.21
- Export Sales	(Rupees in Million)	417.60	410.94	6.66
Profit After Tax	(Rupees in Million)	142.28	21.50	120.78
Earning Per Share	(Rupees per Share)	118.38	17.90	100.48
Shareholder's Equity	(Rupees in Million)	444.61	293.57	151.04
Return on Equity	(%)	32.00	7.40	24.60
Current Ratio		2.48	1.59	0.89



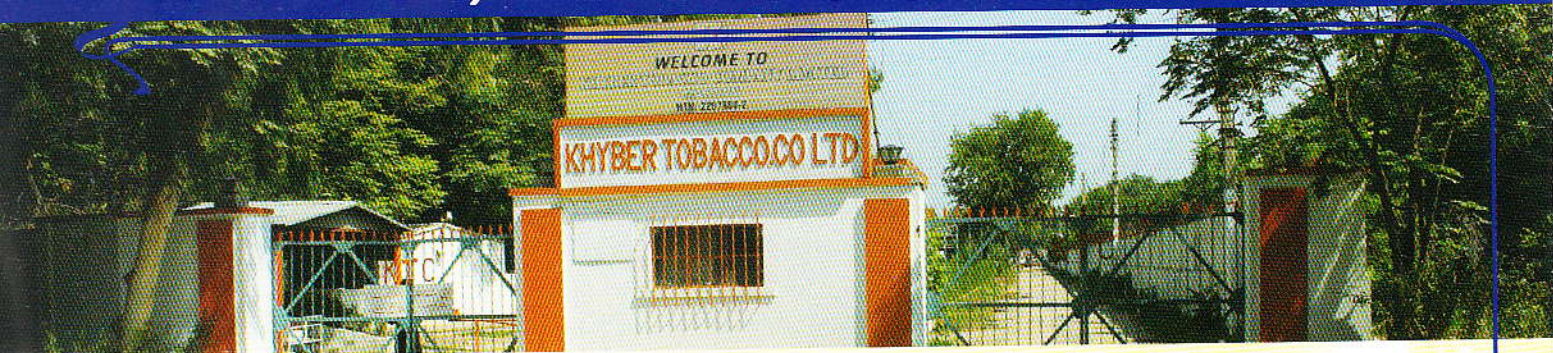
Vision Statement

To outperform nationally and internationally
and be on top through Teamwork, Quality,
Brand Recognition and Customer Services



Mission Statement

To expand the presence of our brands and
operations nationally and globally through a
network of reliable partners, suppliers and
distributors



Core Values

Trust

- * We build confidence in our people, principals, customers and brands by fulfilling commitments.
- * We believe our people work best when they are empowered.
- * We value the capabilities and intentions of all stakeholders.
- * We ensure consistent quality of service at all ends
- * We encourage fairness and respect the opinion and emotions of others.

Integrity

- * Be honest and straightforward to everyone.
- * Always try to do the right things.
- * Our respect to individuals drives success.
- * We help our communities live a better life.
- * We operate within the spirit of law and encourage transparency.

Passion to Win

- * We are determined to deliver the best.
- * We dare our people to take risks and accept challenges.
- * We have a compelling desire to excel with knowledge, experience and dedication.
- * We combine our spirit and energy to continuously raise our expectations.

Leadership

- * We lead from the front and have a clear vision where we are going.
- * Our leaders are role models who listen, coach, develop and recognize talent.
- * We promote an open and diverse culture where individuals are empowered to contribute to the best of their potential.
- * We believe in setting trends rather than following the conventional methods of business.
- * We work together to achieve collective results.

Ownership

- * We are one family.
- * We take charge of responsibilities towards our principals, business, customers and communities.
- * We hold ourselves accountable for whatever we do.
- * Our processes, systems and decisions are based on input from concerned stake holders.

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Corporate Information

Board of Directors

Mr. Waseem Ur Rehman
Mr. Muhammad Sayyad
Mr. Liaqat Ali Khan
Mr. Bilalzada
Mr. Shafiq Afzal Khan
Mr. Hazrat Bilal
Mr. Khalil Ur Rehman

Chief Executive / Executive Director
Non-Executive Director
Executive Director
Non-Executive Director
Non-Executive Director
Non-Executive Director
Non-Executive Director

Audit Committee

Mr. Muhammad Sayyad
Mr. Liaqat Ali Khan
Mr. Shafiq Afzal Khan

Chairman
Member
Member

Human Resource Committee

Mr. Liaqat Ali Khan
Mr. Muhammad Sayyad
Mr. Waseem Ur Rehman

Chairman
Member
Member

Senior Management

Mr. Waseem Ur Rehman

Chief Executive

Company Secretary

Mr. Liaqat Ali Khan

Share Registrar

Central Depository Company
of Pakistan Limited
CDC House, 99-B, Block B
S.M.C.H.S., Main Shahreh e Faisal
Karachi

Bankers

National Bank of Pakistan
MCB Bank Limited
Askari Bank Limited
Habib Bank Limited

External Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

Internal Auditors

Shahid Waheed Younas Jamil & Co
Chartered Accountants

Registered Office

Khyber Tobacco Company Limited
Nowshera Road, Mardan
Telephone: +92-937-840896, 863083
Fax: +92-937-840896



Statement of Ethics and Business Practices

All employees of Khyber Tobacco Company Limited, hereinafter called KTC, shall:-

Abidance of Laws / Rules

- Conform to and abide by the KTC rules and obey all lawful orders and directives which may from time to time be given by any person or persons under whose jurisdiction, superintendence or control they may for the time being, be placed. They shall comply with and observe all applicable laws, regulations and KTC policies.
- Not bring or attempt to bring any political or other pressure / influence directly or indirectly to bear on the authorities / superior officers or indulge in derogatory pamphleteering, contribute or write letters to the news papers, anonymously or in their own name with an intent to induce the authority / superior officers to act in a manner inconsistent with rules, in respect of any matter relating to appointment, promotion, transfer, punishment, retirement or for any other conditions of service of employment.

Integrity

- Conduct themselves with the highest standards of ethics, professional integrity and dignity in all dealings with the public, clients, employees, and not engage in acts discreditable to KTC, the profession and the nation. If they become aware of any irregularity that might affect the interests of KTC, they shall inform the senior management immediately.
- Maintain all books, data, information and records with scrupulous integrity, reporting in an accurate and timely manner all transactions / reports.
- Avoid all such circumstances in which there is conflict of personal interest, or may appear to be in conflict, with the interests of KTC or its stakeholders.
- Not use their employment status to seek personal gain from those doing business or seeking to do business with KTC, nor accept any such gain if offered. They shall not accept any gift, favor, entertainment or other benefits the size or frequency of which exceeds normal business contacts from a constituent or a subordinate employee of KTC or from persons likely to have dealings with KTC and candidates for employment in KTC.

Confidentiality

- Maintain the privacy and confidentiality of all the information acquired during the course of professional activities and refrain from disclosing the same unless otherwise required by statutory authorities / law. All such information will remain as a trust and will only be used for the purpose for which it is intended and will not be used for the personal benefits of any individual(s). Inside information about KTC's customers / affairs shall not be used for their own gain or for that of others either directly or indirectly.

Professionalism

- Serve KTC honestly and faithfully and shall strictly serve KTC's affairs and the affairs of its constituents.

Statement of Ethics and Business Practices

They shall endeavor to promote the interest and goodwill of KTC and shall show courtesy and attention in all transactions / correspondence with officers of the Government, Banks & Financial Institutions, other establishments dealing with KTC, KTC's constituents and the general public.

- Disclose and assign to KTC all interests in any invention, improvement, discovery or work of authorship that they may make or conceive and which may arise out of their employment with KTC. If their employment is terminated, all rights to the property and information generated or obtained as part of their employment relationship will remain the exclusive property of KTC.

Business / Work Ethics

- Respect fellow colleagues and work as a team. They shall at all times be courteous and not let any personal differences affect their work. They will treat every customer of KTC with respect and courtesy.
- Ensure good attendance and punctuality. For any absence during working hours, they shall obtain written permission of their immediate supervisor. They shall not absent themselves from their duties, nor leave their station over night, without having first obtained the permission of the competent authority.
- Maintain a standard of personal hygiene and dress appropriately for attendance at work. Their appearance must inspire confidence and convey a sense of professionalism.
- As personal responsibility, safeguard both the tangible and intangible assets of KTC that are under their personal control and shall not use KTC assets for their personal benefits except where permitted by KTC. They shall not use any KTC facilities including a telephone to promote trade union activities, or carry weapons into KTC premises unless authorized by the management, or carry on trade union activities during office hours, or subject KTC officials to physical harassment.
- Fulfill their responsibilities to fellow employees, by helping in maintaining a healthy and productive work environment and shall not engage in the selling, manufacturing, distributing and using any illegal substance or being under the influence of illegal drugs while at work.
- Ensure strict adherence to all health and safety policies as may be implemented from time to time by KTC.
- Intimate the Human Resource department of any changes in the personal circumstances relating to their employment or benefits.
- Guarantee in their private capacity the pecuniary obligation of another person or agree to indemnify in such capacity any person from loss.

Financial Performance

		2014	2013	2012	2011	2010	2009
Financial Performance-Profitability			Rupees in Million				
Gross Profit Margin	%	26.82	9.84	29.63	34.77	27.87	9.64
Operating Margin	%	19.29	4.01	20.57	26.62	17.12	6.47
Net Profit Margin	%	15.99	2.38	19.24	22.25	14.37	3.60
Return on equity	%	32.00	7.40	54.10	90.08	334.69	(17.09)

Operating Performance-Liquidity

Total Asset Turnover	Time	1.10	1.10	0.91	2.36	2.96	2.74
Fixed Asset Turnover	Time	2.50	2.71	2.47	25.40	39.93	29.70
Inventory Turnover	Time	2.45	4.21	2.36	3.38	6.49	5.79
Inventory Turnover	Days	149	86.70	154.66	108.07	56.28	63.05
Receivable turnover	Time	8.57	5.34	7.46	8.12	7.34	10.82
Receivable turnover	Days	42.59	68.35	48.93	44.94	49.70	33.73
Payable Turnover	Time	3.68	2.86	4.85	7.15	5.29	4.58
Payable Turnover	Days	99	127.62	75.26	51.05	69.03	79.77
Current Ratio		2.48	1.59	1.82	1.68	1.00	0.60
Quick Ratio		0.83	0.89	0.72	0.79	0.59	0.46

Capital Market/Capital Structure Analysis

Earning per share (pre tax)	Rs	146.61	31.82	120.97	92.02	34.04	5.85
Earning per share (after tax)	Rs	118.38	17.90	112.26	78.60	28.99	3.47
Debt: equity	Rs	0.53	1.19	1.17	1.34	10.04	(3.01)

Financial Performance

	2014	2013	2012	2011	2010	2009
Summary of Balance sheet	Rupees in Million					
Share Capital	12.02	12.02	12.02	12.02	12.02	12.02
Reserve	432.59	281.55	237.35	92.86	(1.61)	(36.45)
Shareholder's funds/Equity	444.61	293.57	249.37	104.88	10.41	(24.43)
Capital employed	444.61	293.57	249.37	104.88	10.41	(24.43)
Property, plant & Equipment	375.70	336.89	283.53	16.71	6.07	3.90
Long term assets	378.40	338.34	284.49	17.67	10.03	4.86
Net Current Assets	281.68	183.72	221.95	91.83	0.38	(29.29)

Summary of Profit and Loss

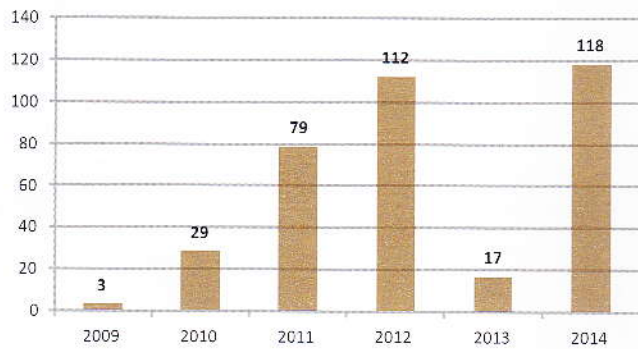
Sale	890.00	914.46	701.35	424.52	242.45	115.90
Gross Profit	238.74	90.00	206.81	147.62	67.57	11.17
Operating Profit	171.65	36.67	146.65	109.08	41.50	7.08
Profit before tax	176.21	38.26	145.39	110.59	40.91	7.03
Profit after tax	142.28	21.73	134.92	94.47	34.84	4.17

Summary of Cash Flows

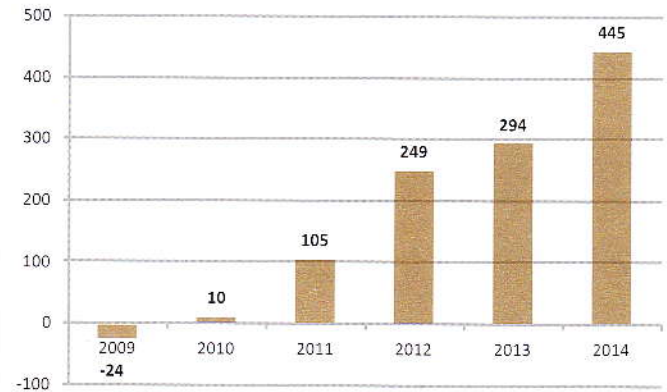
Net cash flow from operating activities	107.40	109.73	13.52	21.83	12.81	4.39
Net cash flow from investing activities	(138.10)	(74.08)	(17.40)	(9.25)	(5.35)	(0.92)
Net cash flow from financing activities	-	-	-	-	-	(1.03)
Changes in cash and cash equivalents	(30.70)	35.65	(3.88)	12.58	7.46	2.44
Cash and cash equivalents- Year end	26.69	57.39	21.74	25.62	13.05	5.59

Graphical Analysis

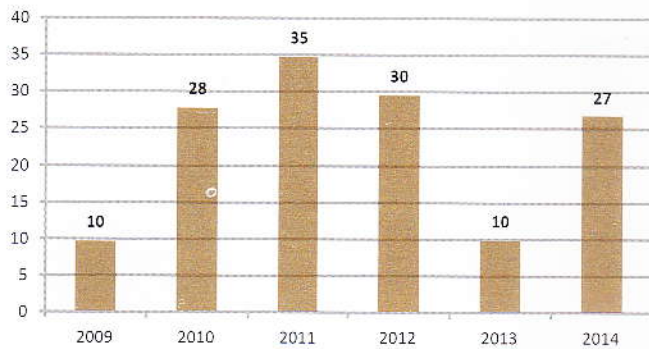
**Earning Per Share-after tax
(Rupees)**



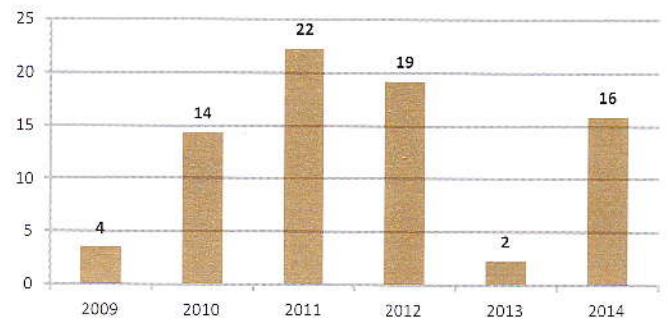
**Shareholder's Equity
(Rs. in Million)**



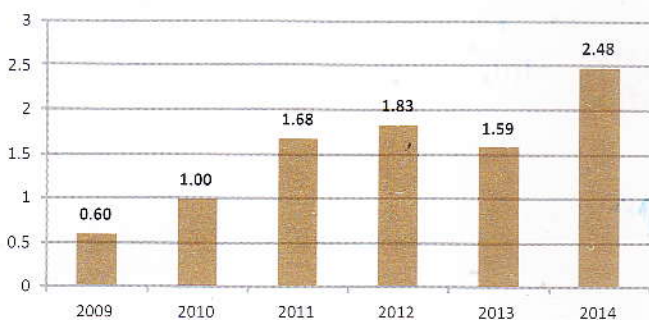
**Gross Profit Margin
(Percentage)**



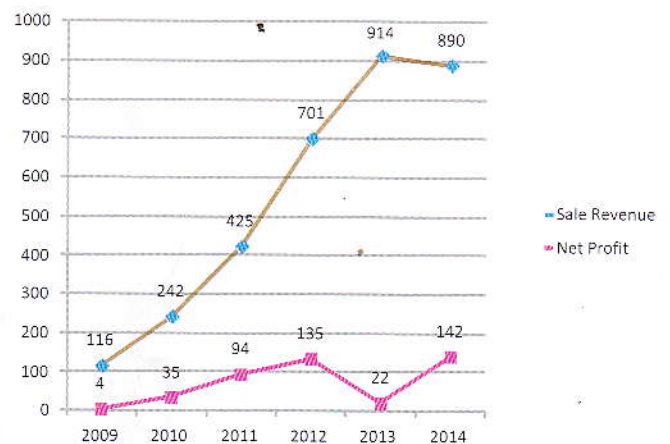
**Net Profit Margin
(Percentage)**



**Current Ratio
(Times)**

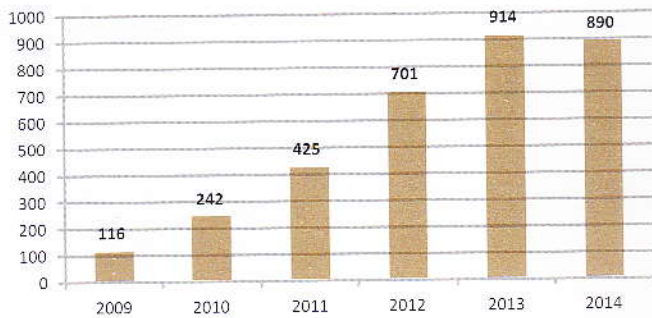


**Sales Revenue vs Profit for the year
(Rs. in Million)**

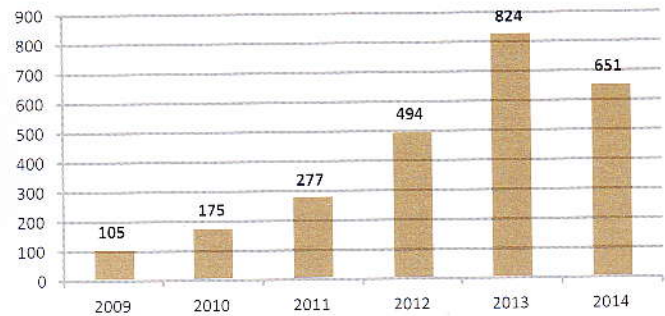


Graphical Analysis

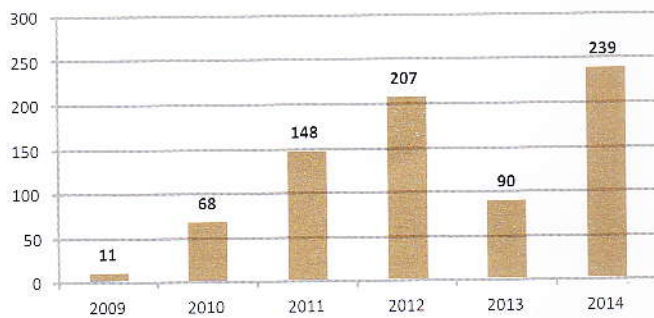
Net Sales
(Rs. in Million)



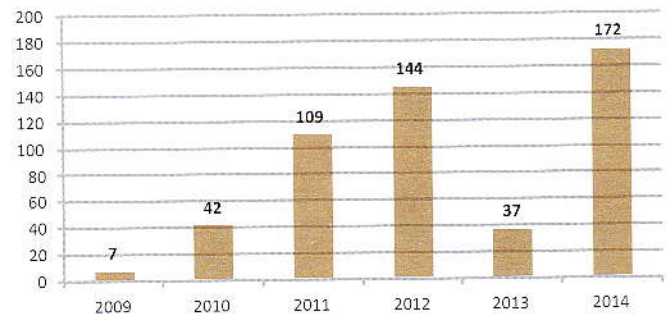
Cost of Sales
(Rs. in Million)



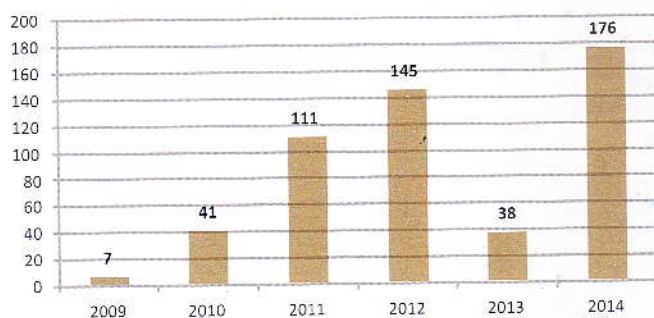
Gross Profit
(Rs. in Million)



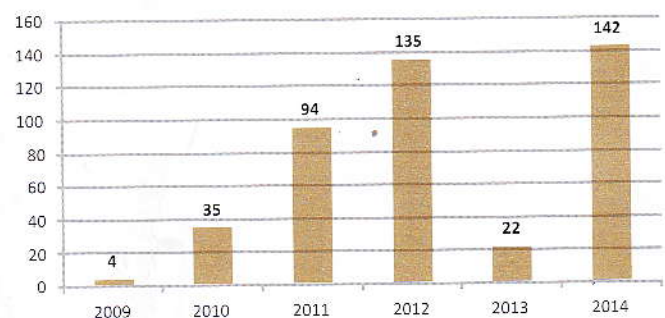
Operating Profit
(Rs. in Million)



Profit before tax
(Rs. in Million)



Profit after tax
(Rs. in Million)



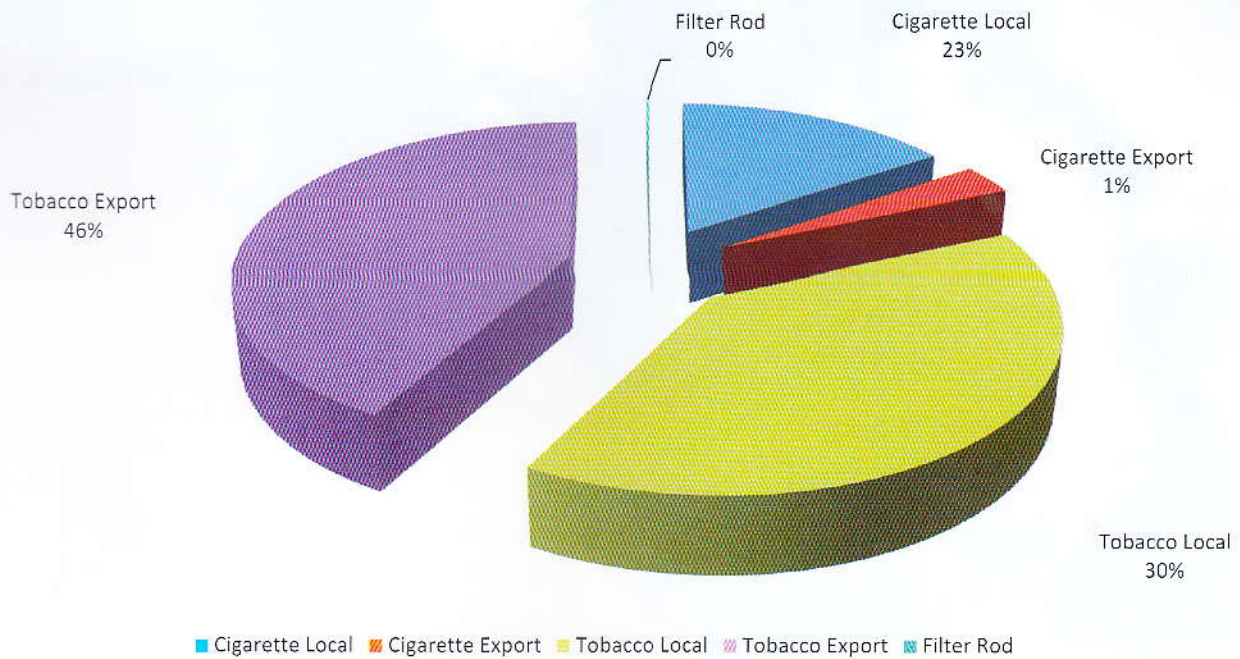
Vertical Analysis

	2014	2013	2012	2011	2010	2009
<u>Profit and Loss Account</u>						
Net Sales	100.0	100.0	100.0	100.0	100.0	100.0
Cost of Sales	73.2	90.2	70.4	65.2	72.1	90.4
Gross Profit	26.82	9.8	29.6	34.8	27.9	9.6
Administrative Expenses	5.17	3.7	3.4	3.3	2.7	2.8
Distribution Cost	1.11	1.8	4.5	4.3	6.2	0.2
Other Operating Expenses	1.3	0.3	1.2	1.5	1.9	0.5
Operating Profit	19.29	4.0	20.6	25.7	17.1	6.1
Finance Cost	0.54	0.3	0.2	0.6	0.3	0.1
Other Operating Income	1.1	0.5	0.3	0.9	0.0	0.1
Profit before Taxation	17.69	4.2	20.7	26.1	16.9	6.1
Taxation	3.8	1.8	1.5	3.8	2.5	2.5
Profit for the Year	13.9	2.4	19.2	22.3	14.4	3.6
<u>Balance Sheet</u>						
Share Capital & Reserves	65.33	35.2	32.2	42.8	9.1	(49.7)
Non-Current Liabilities	6.76	4.4	3.0	1.9	-	-
Current Liabilities	27.90	60.4	64.8	55.3	90.9	149.7
Total Equity and Liabilities	100.0	100.0	100.0	100.0	100.0	100.0
Non-Current Assets	44.52	40.6	36.7	7.2	8.7	9.9
Current Assets	55.48	59.4	63.3	92.8	91.3	90.1
Total Assets	100	100.0	100.0	100.0	100.0	100.0

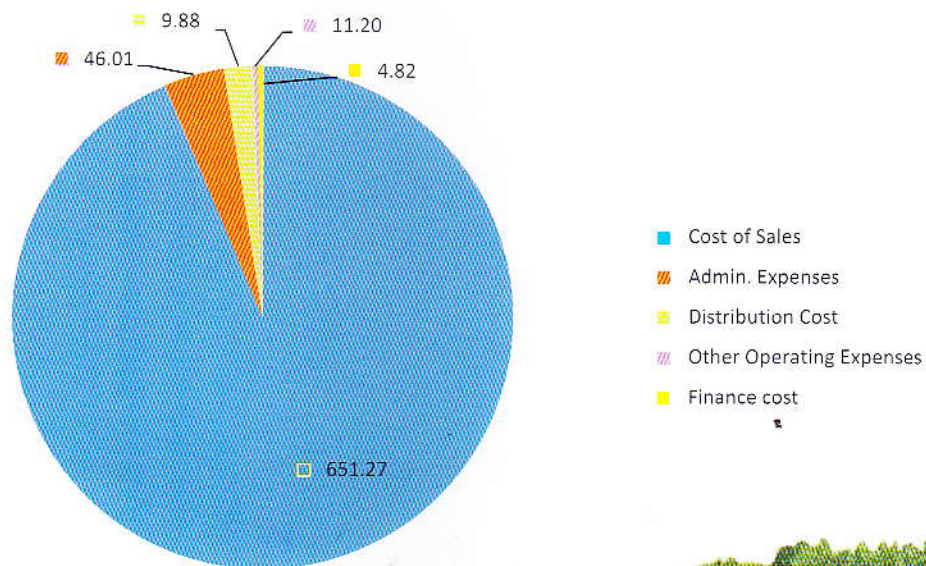
Horizontal Analysis

	2014	2013	2012	2011	2010	2009
<u>Profit and Loss Account</u>						
Net Sales	667.9	689.0	505.1	266.3	109.2	100.0
Cost of Sales	521.9	687.2	371.3	164.4	67.0	100.0
Gross Profit	2,036.5	705.5	1,759.5	1,221.1	504.7	100.0
Administrative Expenses	1,294.5	933.4	625.4	327.5	95.6	100.0
Distribution Cost	4,600.0	7,714.8	14,831.0	8,575.7	7,066.7	100.0
Other Operating Expenses	1,804.8	379.9	1,296.6	955.8	675.9	100.0
Operating Profit	2,325.7	418.2	1,938.9	1,441.6	486.5	100.0
Finance Cost	3,958.8	2,414.3	966.4	1,914.3	502.5	100.0
Other Operating Income	13,328.6	6,425.7	3,297.1	5,481.4	71.4	100.0
Profit before Taxation	2,407.6	444.3	1,968.9	1,473.8	482.1	100.0
Taxation	1,089.27	479.0	267.0	465.2	112.7	100.0
Profit for the Year	3,308.7	420.5	3,132.3	2,163.3	734.6	100.0
<u>Balance Sheet</u>						
Share Capital & Reserves	1920.08	1,301.77	1,120.8	529.3	142.6	100.0
Non-Current Liabilities	100.00	100.00	100.0	100.0	100.0	100.0
Current Liabilities	388.29	584.09	582.6	84.4	42.0	100.0
Total Equity and Liabilities	1628.80	1,595.6	1,475.5	398.7	133.7	100.0
Non-Current Assets	7,689.23	6,864.53	5,756.0	263.6	106.4	100.0
Current Assets	964.32	1,017.95	1,006.1	413.5	136.6	100.0
Total Assets	1,628.80	1,595.6	1,475.5	398.7	133.7	100.0

Breakup of Sales (Percentage)



Breakup of Costs (Rupees in Million)



Notice of Annual General Meeting

Notice is hereby given that the 59th Annual General Meeting of the members of Khyber Tobacco Company Limited will be held on Friday; the 31st of October, 2014 at 11.00 a.m. at its registered office, i.e. Khyber Tobacco Company Limited, Nowshera – Malakand Road, Mardan to transact the following business;

ORDINARY BUSINESS

1. To confirm the minutes of the 58th Annual General Meeting held on 31 October, 2013.
2. To receive, consider and adopt the audited accounts of the company for the year ended 30 June, 2014 together with the Directors' and Auditors' Reports thereon.
3. To approve the final cash dividend @ 100% i.e. Rs 10 per share for the year ended 30 June 2014 as recommended by the Board of Directors.
4. To appoint Auditors for the year 2014-15 and fix their remuneration. The current auditors M/s KPMG Taseer Hadi & Co. Chartered Accountants will stand retired on the conclusion of this meeting.

OTHER BUSINESS

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

09 October, 2014
Mardan

By Order of the Board



Liaqat Ali Khan
Company Secretary

Notes

1. The Share Transfer Books of the Company will be closed from Saturday, 25 October, 2014 to Wednesday, 05 November, 2014 both days inclusive. Transfers received in order at the office of the Company's Share Registrar, Central Depository Company of Pakistan Limited, CDC House, 99-B, Block 'B', S.M.C.H.S. Main Shahrah-e-Faisal, Karachi, at the close of business on 24 October, 2014, will be in time to be entitled to vote and for the entitlement of dividend.
2. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy and such proxy will have the right to attend, speak and vote in place of that member. Forms of proxy must be deposited at the registered office of the Company not less than 48 hours before the time appointed for the Meeting and in default, forms of proxy will not be treated as valid.
3. Attendance of members who have deposited their shares into Central Depository Company of Pakistan Limited shall be in accordance with the following;
 - a) In Person
 - i) In case of individuals, the account holder or subaccount holder and/or the person whose securities are in group account and their registration details are uploaded as per 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.
 - ii) In case of corporate entities, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.
 - b) By Proxy
 - i) In case of individuals, 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 regulations, shall submit the proxy form as per the above requirement.
 - ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
 - iii) Attested copies for CNIC or the passport of the beneficial owners and of the proxy shall be furnished with the proxy form.
 - iv) The proxy shall produce his/her original CNIC or original passport at the time of the meeting.
 - v) In case of a corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the person nominated to represent and vote on behalf of the corporate entity shall be submitted (unless it has been provided earlier) along with proxy form to the Company.
4. Members are requested to promptly notify any change in their addresses.

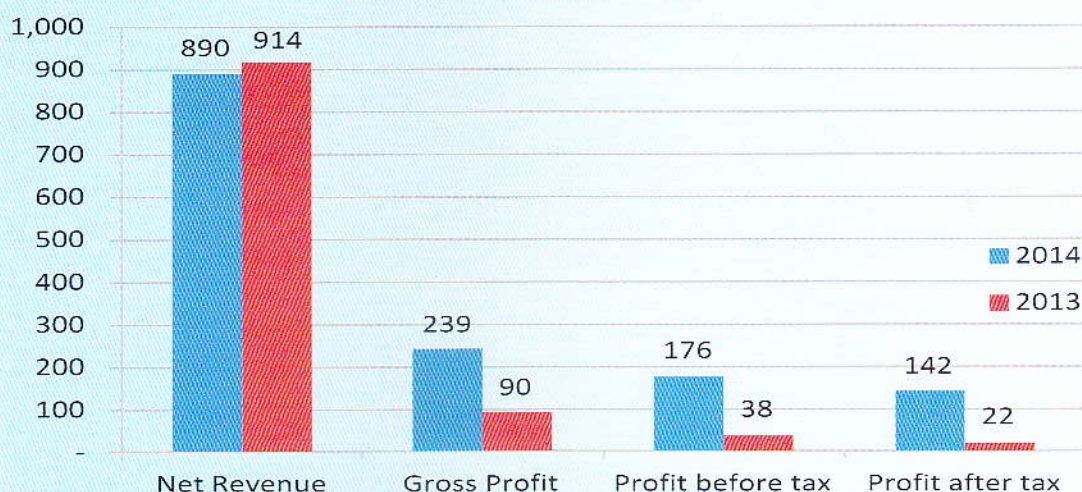
DIRECTORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2014

I, on behalf of the Board of Directors of Khyber Tobacco Company Limited take great pleasure in presenting the 59th Annual Report and the audited financial statements along with the auditors' report thereon for the year ended June 30, 2014.

THE COMPANY'S FINANCIAL RESULTS

Following is a brief of the Company's financial performance for the year ended 30 June 2014 as compared to the year ended 30 June 2013; (Amounts are presented as Rs. in Millions)



Production and Sales

PRODUCT LINE	UNIT OF MEASUREMENT	PRODUCTION		SALE	
		2014	2013	2014	2013
RE-DRIED TOBACCO	KGS	3,774,920	4,234,934	2,342,231	3,714,438
CUT TOBACCO	KGS	378,700	424,100	36,025	128,730
CIGARETTES	STICKS (In Million)	379.59	353.53	394.32	393.83

During the year under review, the company redried 3.8 million kgs Green Leaf at its Green Leaf Threshing plant as compared to 4.2 million kgs in the financial year 2012-13. During the year, the export and local sale of re-dried tobacco has declined to 2.3 million kgs from 3.7 million kgs in the financial year 2012-13, showing a decline of about 38%.

Cut Tobacco Production declined by 11% from 0.42 million kgs last year to 0.38 million kgs in the current year mainly due to decrease in the export of both cigarettes and cut tobacco.

During the year, the production of cigarettes increased to 379.59 million sticks from 353.53 million sticks in the last year. The sale of cigarettes increased to 394.32 million sticks from 393.83 million sticks in 2012-13.

Operating Highlights

During the year, uncertainty prevailed over economic and political situation that coupled with unfavorable law & order conditions badly affecting the operations and marketing activities of the Company. However the management strived its best for the expansion of the local and international markets and they succeeded in their endeavors up to a reasonable extent.

Revenues from tobacco exportation witnessed about 2% increase in spite of the difficulties that arose from the unfavorable law & order situation. Although there has been huge decrease in the export sales of the company especially in cigarettes, still the Company has been able to bring in precious foreign exchange of about US \$ 4.81million to the country. The management is focusing on export of tobacco as well as cigarettes into global market.

Profit before taxation for the year ended 30 June 2014 stood at Rs. 176.21 million as compared to profit of Rs.38.03 million for the previous year. Profit after taxation for the year ended 30 June 2014 amounted to Rs.142.27 million as compared to profit of Rs.21.3 million for last year. The ability to get attractive prices for the re dried tobacco in the foreign market has been the main source of good profit margin this year compared to the year 2012-13..

Earnings per share of the Company for the year ended 30 June 2014 on its paid up capital stood at Rs.118 as compared to last year's earnings per share of Rs. 17.90.

Balance Sheet

The capital and reserves of your Company rose to Rs.444.61 million as compared to Rs.293.57 million at the end of the last financial year. This remarkable increase in the capital reserves of the company is the evidence of the managements' focus and determination to build up a strong capital base of the company.

Plants' performance

Your Company's management follows an elaborate plan of preventive maintenance, which it has adopted, right from the beginning. This proactive approach ensures efficient and stable operations with minimum disruptions. The installed plant is not operated at the optimum level because of the fact that the installed plant and machinery is about 50 years old and is running at about 60% of its maximum capacity.

Your company's management is actively involved in sourcing and procurement of up-graded and efficient plant and machinery in all the departments i.e. GLT (Green Leaf Threshing), PPD (Primary Production Department), CMD (Cigarette Making Department) and CPD (Cigarette Packing Department).

In spite of the facts mentioned above, during the year under review, the installed plant and machinery operated satisfactorily.

Quality Assurance

Khyber Tobacco Company Limited is a company driven by efficiency and quality consciousness. Strict quality control procedures are applied to ensure that these aims are achieved.

Marketing

As we know, the Company has re-started its production of Cigarettes about a couple of years ago after a long spell of dependency on only the sale of re-dried tobacco, the Company is facing stiff competition in the local market. The management is striving for the development of its brands in both the local and international market.

As mentioned above, the company's installed plant and machinery is about 50 years old and not operating at the optimum level. This results in the inability to meet the quality requirements of the cigarette export market. The Company, thus, is dependent mainly upon the export of re-dried tobacco and has captured a good market for its re-dried and cut tobacco across the Globe.

Health, Safety and Environment

Your Company attaches highest priority to the health and safety of its personnel who are an essential and valuable component of its operations. Initiatives including safety meetings, incident reporting, safety audits, good housekeeping and hygiene controls are actively and consistently pursued to instill safe behavior in all personnel.

Your Company actively pursues protection and up gradation of the environment by ensuring that its plants continue to comply with established environmental quality standards at all times. The management is focusing also on meeting the stringent environmental quality standards prescribed by the 'Environment Protection Authority of Pakistan'. To achieve the objective, Your Company always participates in various environment uplift programs including the Tree Plantation drive each year by planting hundreds of plants in order to put in our share towards the improvement of environment.

Social Responsibility

Your Company regards itself as a responsible corporate entity. With the resumption of operating activities, the Company has taken its social responsibilities, particularly towards the local community, very seriously and takes pride in its active participation in the development and welfare of the under-privileged. In the badly affected area of the country both by the energy crises and the law and order situation, the management prefers to provide job opportunities to the local people of the area which greatly helps in the social up gradation of the local masses.

KEY OPERATING AND FINANCIAL DATA

A Summary of key operating and financial data of the company for the last six years is annexed to these financial statements.

DIVIDEND

The Directors have recommended a final cash dividend of 100% i.e. Rs. 10 per share on the issued share capital of the company.

HUMAN CAPITAL

The Company's human resource strategy focuses on maximizing return on investment in the organization's human capital to minimize financial risk. We seek to achieve this by aligning the supply of skilled and qualified individuals and the capabilities of the current workforce with the organization's ongoing and future business plans and requirements to maximize return and to secure the future survival and success.

EMPLOYEE RETIREMENT BENEFITS

The Company introduced an unfunded gratuity scheme in the year 2010-11 for all the permanent employees of the company. A provision of Rs. 2.9 million was created in the current year's financial statements for employees' benefits.

CORPORATE GOVERNANCE

We ensure best practices of Corporate Governance by adopting a set of processes, customs and policies, to help us direct and control management activities with good business sense, objectivity, accountability and integrity.

We have made corporate governance a system of structuring, operating and controlling the Company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers. We adhere to the best ethical practices and comply with applicable legal and regulatory requirements.

The Statement on Compliance with Code of Corporate Governance is annexed to these financial statements.

THE BOARD

The Board comprises of seven members, of which five are non-executive directors while the remaining two are executive directors. The position of Chairman and Chief Executive Officer are kept separate in line with good governance practices.

The Directors are fully aware of the level of trust that shareholders have in them and the immense responsibility that they have bestowed upon them for smooth running of the Company and safe guarding its assets.

For the purpose of ensuring consistency and standardization, the Board has devised formal policies for conducting business and ensures their monitoring through an independent Internal Audit, which continuously ensures adherence to Company policies and reports any deviations observed to the Audit Committee.

Mr. Amir Siddiqui ceased to hold office as Director of the Company with effect from 20-03-2014 and Mr. Hazrat Bilal replaced him within seven days. The term of the current directors expired on 17th June 2014 and new election of directors was conducted on 18 June 2014 to elect the directors for the next term of three years.

BOARD OF DIRECTORS MEETINGS

Legally, the Board is required to meet at least once per quarter to monitor the Company's performance aimed at effective and timely accountability of its management.

Seven(07) meetings of the Board of Directors were held between 01 July 2013 to 30 June 2014 and the attendance of each director is given below. The Directors of the Company did not have any personal interest in decisions taken by the Board in these meetings.

DIRECTORS' ATTENDANCE

	Directors' Name	No. of meetings attended
1)	Mr. Waseem Ur Rehman Chief Executive	6
2)	Mr. Liaquat Ali Khan Executive Director	7
3)	Mr. Muhammad Faridoon Rehman Executive Director (Retd)	2
4)	Mr. Amir Siddiqi Non Executive Director(Retd)	-
5)	Mr. Muhammad Sayyad Non-Executive Director	7
6)	Mr. Bilalzada Non-Executive Director	7
7)	Mr. Shafiq Afzal Khan Non-Executive Director	6
8)	Mr. Hazrat Bilal Non-Executive Director	2
9)	Mr. Khalil Ur Rehman Non-Executive Director	-

Committees of the Board

In order to ensure effective implementation of a sound internal control system and compliance with the Code of Corporate Governance, the Board has constituted various committees. Composition of these committees is shown on page 5 of the annual report.

Corporate Governance

The company is committed to high standards of corporate governance to ensure business integrity and upholding the confidence of all the stakeholders. The Board of Directors is accountable to the shareholders for good corporate governance and the management of the company is continuing to comply with the provisions of best practices set out in the Code of Corporate Governance particularly with regard to independence of non-executive directors. The Company remains committed to conduct its business in line with listing regulations of the Stock Exchanges, which clearly defines the roles and responsibilities of the Board of Directors and the management. Vision & Mission statements, Core values and Statement of Ethics & Business Practices have been prepared and approved by the Board. Significant policies as required under the Code of Corporate Governance have been framed and are under review of the Board.

The following specific statements are being given to comply with the requirement of the Code of Corporate Governance;

There has been no transaction in the shares of the Company by the Chief Executive Officer, Directors, Company Secretary and their spouses and minor children during the year under review except the transfer of 2500 shares from Mr. Bilalzada to Mr. Khalil Ur Rehman.

The financial statements prepared by the management of the Company fairly present its state of affairs, the results of its operations, cash flows and changes in equity.

The Company has maintained proper books of account.

Appropriate accounting policies have been adopted and consistently applied in preparation of financial statements and

accounting estimates are based on reasonable and prudent judgment.

International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.

The system of internal control is sound in design and has been effectively implemented. The system itself is also subject to continuous review for enhancement wherever and whenever necessary.

There are no doubts about 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.

Key operating and financial data of the last six (06) years in summarized form is annexed to these financial statements.

AUDITORS

The Auditors Messrs KPMG Taseer Hadi & Co, Chartered Accountants retire at the conclusion of the 59th Annual General Meeting and are eligible for reappointment as Auditors. The Audit Committee in their meeting held on 03 October, 2014 has recommended the re-appointment of Messrs KPMG Taseer Hadi & Co, Chartered Accountants as the Auditors for the financial year ending 30 June, 2015.

PATTERN OF SHAREHOLDING

The pattern of shareholding as at June 30, 2014 along with disclosure as required under the Code of Corporate Governance is annexed to these financial statements.

The Directors, Chief Executive, the Secretary and their spouses and minor children have reportedly carried out no trading in the shares of the Company.

FUTURE PROSPECTS

As mentioned earlier, the management is focusing on the foreign market for cigarettes and tobacco, especially re-dried tobacco because the foreign markets have good demand for Pakistani tobacco. The Company expects a good performance in the tobacco export sector in the coming financial year which will enable the Company to earn a handsome profit.

The management is also working on the up-gradation and expansion of the installed Green Leaf Threshing line to enable the quality processing of heavy orders both in the local and international market. The management is also endeavoring for the expansion of local sales by working on brand management and recognition.

Acknowledgements

At the end, I on behalf of the Board would like to thank our valued customers for their continued trust in our products. We are making all out efforts to widen the range of our brands with the highest of quality standards. We also thank our vendors, distributors and the financial institutions for their extended cooperation.

The success we achieved would not have been possible without the firm support of our shareholders and all the stakeholders; our suppliers, customers, local community and our dedicated and hardworking employees. I would also like to mention here the tireless efforts of the Company's management, members of the Board of Directors and staff at all levels, without their dedication and hard work, the financial and operational results mentioned in this report would not have been accomplished.

On behalf of the Board



Waseem ur Rehman
Chief Executive

03 October 2014

Review Report to the Members on Directors' Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the 'Code') prepared by the Board of Directors of Khyber Tobacco Company Limited (the 'Company') for the year ended 30 June 2014 to comply with the requirements of Listing Regulation No. 35 of the Karachi Stock Exchange Limited, Listing Regulation No. 35 of the Lahore Stock Exchange Limited, where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

As a part of our audit of the 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 of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended 30 June 2014.

Further, we highlight below instances of non – compliance with the requirements of the Code as reflected in the note reference where these are stated in the Statement of Compliance:

- i. As disclosed in point 3 of the Statement, one of the resident directors is not a registered taxpayer as required by the Code;
- ii. As disclosed in the point 5 of the Statement, the Company has not placed the Code of Conduct along with its supporting policies and procedures at its website as required by the Code;
- iii. As disclosed in the point 6 of the Statement, significant policies of the Company are approved by the Board as required by the Code and the board is in process of developing a mechanism for an annual evaluation of the board's own performance which was required to be put into place as required by the Code;
- iv. As disclosed in the point 10 of the Statement, the position of Chief Financial Officer remained vacant during the year and the board has not made appointment as required by the Code;
- v. As disclosed in the point 12 of the Statement, the financial statements of the Company were not endorsed by Chief Financial Officer as required by the Code;
- vi. As disclosed in the point 15 of the Statement, the audit committee does not consist of majority of independent directors as required by the Code; and
- vii. As disclosed in the point 17 of the Statement, the Human Resource and Remuneration Committee does not include majority of non executive directors as required by the Code.



KPMG Taseer Hadi & Co.
Chartered Accountants
Engagement Partner: Syed Bakhtiyar Kazmi

Islamabad
03 October 2014

Statement of Compliance (with the code of Corporate Governance)

Name of Company: Khyber Tobacco Company Limited

Year Ended: 30 June 2014

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 35 of Listing Regulations of Karachi Stock Exchange Limited and Lahore Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the CCG in following manner;

1. The Company encourages representation of independent non-executive directors and directors representing minority interest on its board of directors. At present the board includes:

Independent/ non-executive directors	
	Mr. Shafiq Afzal
	Mr. Muhammad Sayyad
	Mr. Bilalzada
	Mr. Hazrat Bilal
	Mr. Khalil Ur Rehman
Executive directors	
	Mr. Liaqat Ali Khan
	Mr. Waseem Ur Rehman

The independent directors meet the criteria of independence under clause i (b) of the CCG.

2. The Directors have confirmed that none of them is serving as a director in more than seven listed companies, including this Company.
3. Except one, all the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking Company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as defaulter by that stock exchange.
4. One casual vacancy occurred on the board on 20 March 2014 and was filled by the Directors within 7 days.
5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures. However, the Company is in the process of placing it on its website.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. These documents except for the significant policies have been approved by the Board. The board is also in the process of developing a

Statement of Compliance (with the code of Corporate Governance)


mechanism for an annual evaluation of the Board's own performance which shall be effective in forthcoming financial year.

7. All powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non- executive directors, have been taken by the board/ shareholders.
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 and the board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days, before the meetings. The minutes of the meeting were appropriately recorded and circulated.
9. Four of the directors have attended directors' training program during the year 2013. The remaining directors shall obtain certifications under directors' training program upto 2016.
10. There was no new appointment of Company secretary, however the Board has approved the appointment and remuneration of Internal Auditor. The position of Chief Financial Officer remained vacant during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and Senior Finance Manager in place of CFO, before approval of the Board.
13. The directors, CEO and executive do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the CCG except wherever mentioned otherwise.
15. The board has formed an audit committee. It comprises 3 members, of whom 2 are non executive directors and chairman of the committee is an independent / non executive director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed a Human Resource and Remuneration committee. It comprises 3 members, of whom two are non-executive directors and chairman of the committee is a non-executive director.

Statement of Compliance (with the code of Corporate Governance)

18. The Board outsourced its internal audit function to M/s Shahid Waheed Younas Jamil & Co, (SWYJ) Chartered Accountants who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.
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 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 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchanges.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchanges.
23. We confirm that all other material principles enshrined in the CCG have been complied with, except for whatever mentioned otherwise with reasons.

For & On Behalf of the Board



(Waseem ur Rehman)
Chief Executive

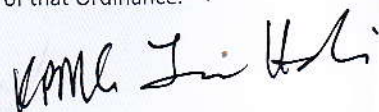
Auditor's Report To The Members

We have audited the annexed balance sheet of Khyber Tobacco Company Limited (the "Company") as at 30 June 2014 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion-
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied except for changes as stated in note 3.5 with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business- and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2014 and of the profit, its cash flows and change in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under Zakat and Ushr Ordinance, 1980(XVIII of 1980), was deducted by the Company and deposited in Central Zakat Fund established under section 7 of that Ordinance.



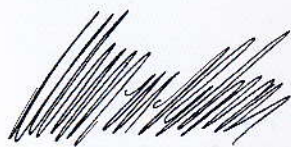
KPMG Taseer Hadi & Co.
Chartered Accountants
Engagement Partner
Syed Bakhtiyar Kazmi

Islamabad
02 October 2014

BALANCE SHEET AS AT 30 JUNE 2014

	Note	2014 Rupees	2013 Rupees
SHARE CAPITAL AND RESERVES			
Share capital	4	12,018,410	12,018,410
General reserve		3,312,465	3,312,465
Unappropriated profit		429,280,064	278,238,018
		444,610,939	293,568,893
Surplus on revaluation of property, plant and equipment - net of tax	5	169,449,558	191,824,554
NON CURRENT LIABILITIES			
Deferred liabilities	6	46,022,755	36,662,442
CURRENT LIABILITIES			
Trade and other payables	7	189,899,589	311,622,783
		849,982,841	833,678,672
CONTINGENCIES AND COMMITMENTS			
	8		

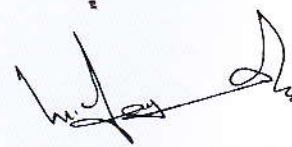
The annexed notes 1 to 29 form an integral part of these financial statements.



CHIEF EXECUTIVE

BALANCE SHEET AS AT 30 JUNE 2014

	Note	2014 Rupees	2013 Rupees
NON CURRENT ASSETS			
Property, plant and equipment	9	375,701,793	336,893,325
Long term deposits		2,699,151	1,444,151
		378,400,944	338,337,476
CURRENT ASSETS			
Stock in trade	10	313,714,910	217,253,331
Trade debts - considered good	11	29,860,674	177,829,200
Advances	12	6,956,517	27,702,667
Prepayments		88,430	525,467
Advance tax - net		20,456,881	9,238,882
Other receivable	13	360,900	5,401,100
Non current asset held for sale	14	73,456,430	-
Cash and bank balances	15	26,687,155	57,390,549
		471,581,897	495,341,196
		849,982,841	833,678,672

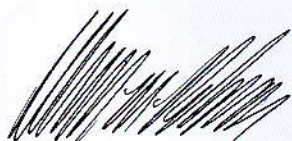


DIRECTOR

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 Rupees	2013 Rupees
Turnover - net	16	890,002,499	914,463,779
Cost of sales	17	(651,266,517)	(824,609,964)
Gross profit		238,735,982	89,853,815
Distribution cost	18	(9,867,601)	(16,410,567)
Administrative expenses	19	(46,014,786)	(34,165,659)
Other operating expenses	20	(11,199,559)	(2,821,881)
Finance cost	21	(4,825,331)	(2,992,451)
Other income	22	9,378,589	4,568,168
Profit before taxation		176,207,294	38,031,425
Taxation	23	(33,928,358)	(16,518,103)
Profit for the year		142,278,936	21,513,322
Earnings per share - basic and diluted	27	118.38	17.90

The annexed notes 1 to 29 form an integral part of these financial statements.



CHIEF EXECUTIVE



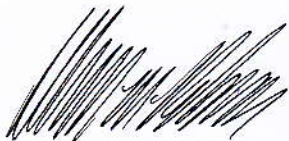
DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	2014 Rupees	2013 Rupees
Profit for the year	142,278,936	21,513,322
Other comprehensive income for the year		
Change in accounting policy for recognition of actuarial (losses) / gains	(1,078,036)	213,947
Total comprehensive income for the year	<u>141,200,900</u>	<u>21,727,269</u>

The annexed notes 1 to 29 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Note	2014 Rupees	2013 Rupees
	176,207,294	38,031,425
Profit before taxation		
Adjustments for:		
Depreciation	9.1 24,582,700	24,273,938
Finance cost	21 4,825,331	2,992,451
Gain on disposal of property, plant and equipment	22 -	(4,045,475)
Provision for doubtful debts	11 -	1,846,652
Provision for doubtful advances	12 2,886,603	-
Liabilities written back	22 (2,427,530)	-
Provision for gratuity	6.2 2,876,929	2,339,378
	<u>32,744,033</u>	<u>27,406,944</u>
	208,951,327	65,438,369

Changes in:

Stock in trade
Trade debts
Advances
Prepayments
Other receivable
Trade and other payables

(96,461,579)	80,517,532
147,968,526	(51,557,207)
17,859,547	1,399,727
437,037	(525,467)
5,040,200	7,667,300
(122,061,082)	42,046,322
<u>(47,217,351)</u>	<u>79,548,207</u>
161,733,976	144,986,576
(2,346,347)	(2,992,451)
(47,720,830)	(27,670,736)
6.2 (49,500)	-
<u>(4,218,095)</u>	<u>(4,593,259)</u>

Cash generated from operations
Finance cost paid
Income tax paid
Gratuity paid
Dividend paid

6.2

Net cash generated from operating activities

107,399,204 109,730,130

CASH FLOWS FROM INVESTING ACTIVITIES

Additions to property, plant and equipment
Increase in long term security deposits
Proceeds sale of property plant and equipment

9 (136,847,598)	(89,962,027)
(1,255,000)	(488,921)
-	16,370,475
<u>(138,102,598)</u>	<u>(74,080,473)</u>
(30,703,394)	35,649,657

Net cash used in investing activities

Net (decrease) / increase in cash and cash equivalents

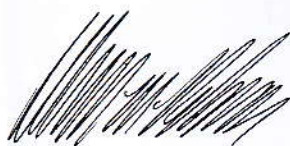
Cash and cash equivalents at beginning of the year

57,390,549 21,740,892

Cash and cash equivalents at end of the year

15 26,687,155 57,390,549

The annexed notes 1 to 29 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1. THE COMPANY AND ITS OPERATIONS

Khyber Tobacco Company Limited (the "Company") is a public listed company incorporated in Pakistan on 15 October 1954 under the Companies Act, 1913 since repealed and replaced by the Companies Ordinance, 1984 and is listed on the Karachi and Lahore stock exchanges. The Company is engaged in the manufacture and sale of cigarettes, cut tobacco and redried tobacco. The Company's registered office is situated at Nowshera-Malakand Road, Mardan.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

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

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for the following:

- certain items of property, plant and equipment are carried at revalued amounts less accumulated depreciation; and
- liability related to staff retirement benefit is measured at value determined through actuarial valuation.

2.3 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistan Rupees (PKR), which is the Company's functional and presentation currency. Figures have been rounded off to the nearest rupee, unless otherwise stated.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Information about critical judgments in applying policies that have the most significant effect on the amounts recognized in the financial statements is as follows:

a) Property, plant and equipment

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

The Company reviews useful lives and residual value of property, plant and equipment on a regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment's with a corresponding effect on the depreciation charge and impairment.

Further, the Company also reviews the carrying amounts of certain classes of property, plant and equipment which are carried at revalued amounts on regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment's with a corresponding effect on the surplus on revaluation of property, plant and equipment, related deferred tax liability and related charge of incremental depreciation.

b) Impairment of assets

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. Any change in estimates in future years might affect the carrying amounts of respective assets with a corresponding effect on depreciation/ amortization charge and impairment.

c) Stock in trade

The Company reviews the carrying amount of stock in trade on a regular basis to assess any diminution in carrying value. Carrying value of stock in trade is adjusted where the net realisable value is below the cost.

d) Provision against trade debts, advances and other receivables

The carrying amounts of trade debts, advances and other receivables are assessed on a regular basis and if there is any doubt about the realizability of their carrying amounts, appropriate amount of provision is made.

e) Taxation

The Company takes into account the current income tax law and decisions taken by the taxation authorities. Instances where the Company's views differ from the views taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

The Company also regularly reviews the trend of proportion of incomes between Presumptive Tax Regime income and Normal Tax Regime income and the change in proportions, if significant, is accounted for in the year of change.

f) Provisions and contingencies

The Company reviews the status of all the legal cases on a regular basis. Based on the expected outcome and lawyers' judgments, appropriate disclosure or provision is made.

g) Staff retirement benefits plan - gratuity

The Company adopts certain actuarial assumptions as disclosed in note 6.2 to these financial statements for determination of present value of defined benefit obligations. Any change in these assumptions in future years might affect profit and loss in those years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2.5 Standards, interpretations and amendments to approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2014:

IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation is not likely to have an impact on Company's financial statements.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not likely to have a material impact on the Company's financial statements.

Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment is not likely to have an impact on the Company's financial statements.

Amendments to IAS 39 "Financial Instruments. Recognition and Measurement" Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 1 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are not likely to have an impact on the Company's financial statements.

Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. The amendments are not likely to have an impact on the Company's financial statements.

Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

IFRS 10 'Consolidated Financial Statements' – (effective for annual periods beginning on or after 1 January 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements. This standard has no effect on the financial statements of the Company.

IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now called joint operations. Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after 1 January 2016. This standard has no effect on the Company's financial statements.

'IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, into one place. This standard is not likely to have material impact on the financial statements of the Company.

IFRS 13 'Fair Value Measurement' effective for annual periods beginning on or after 1 January 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards IFRS 12 'Disclosure Interest in Other Entities' (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, into one place. This standard is not likely to have a material impact on the Company's financial statements, other than certain increased disclosures.

Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning on or after 1 January 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment has no impact on the financial statements of the Company.

'Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. The amendment has no impact on the financial statements of the Company.

Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards. The impact of these amendments on the financial statements of the Company is immaterial.

- IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.
- IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.
- IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.
- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.
- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.
- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as stated in note 3.5.

3.1 Property, plant and equipment

Items of property plant and equipment are measured at cost less accumulated depreciation and any impairment losses except for the buildings, plant and machinery and fixture and fittings which are stated at revalued amounts less accumulated depreciation there on and impairment loss, if any. Items of capital

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

work in progress are stated at cost less impairment loss, if any. These costs are transferred to items of property, plant and equipment as and when assets are available for use.

Cost of property plant and equipment comprise of purchase price non-refundable local taxes and other directly attributable costs.

Any gain or loss on disposal of an item of property plant and equipment are recognized in profit and loss account. When revalued assets are sold, the amounts included in the surplus on revaluation of property, plant and equipment are transferred to retained earnings.

Normal repair and maintenance is charged to the profit and loss account.

Surplus arising on revaluation is credited to the surplus on revaluation of property, plant and equipment account. Deficit arising on subsequent revaluation of property, plant and equipment is adjusted against the balance in the above mentioned surplus account. The surplus on revaluation of property, plant and equipment to the extent of incremental depreciation charged on the related assets is transferred to equity net of deferred tax.

Depreciation is charged on depreciable amount using the straight line method at rates specified in note 9. Full month depreciation is charged in the month of addition while no depreciation is charged in the month of disposal.

3.2 Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale or distribution rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Company's accounting policies. Thereafter the assets, are measured at the lower of their carrying amount and fair value less costs to sell.

3.3 Stock in trade

Stocks of raw and packing materials, work in process and finished goods are valued at the lower of weighted average cost and net realizable value. Cost is based on weighted average cost principles and comprise of costs of purchase and other costs incurred in bringing the assets to their present location and condition. Items considered obsolete base on physical form of related items are fully provided for.

Materials in transit are stated at cost comprising invoice value plus other charges incurred thereon less impairment, if any.

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

3.4 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash and bank balances.

3.5 Staff retirement benefits

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Defined benefit plan

The Company maintains an unfunded gratuity scheme for all its eligible employees. Annual provision for gratuity is made on the basis of actuarial valuation carried out by using the Projected Unit Credit Method. Latest valuation was conducted as at 30 June 2014.

Change in accounting policy - defined benefit plan

IAS 19 (as revised in June 2011) "Employee Benefit" became effective during the period. The amendments to IAS 19 change accounting for defined benefit plans. The most significant change relates to the accounting for change in defined benefit obligations and fair value of plan assets when they occur, and hence eliminate 'corridor limit' permitted under the previous version of IAS 19 and accelerate the recognition of past service cost. Now, all actuarial gain and losses are recognized immediately through other comprehensive income. Furthermore, the interest cost and expected return on plan assets used in previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in June 2011), which is calculated by applying the discount rate on net defined liability or asset. IAS 19 (as revised in June 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures. The financial statements have not been restated as the effect of retrospective application of this change in accounting policy is not material.

3.6 Foreign currency transactions

Transactions in foreign currencies are recorded at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into PKR at the rate of exchange ruling on the balance sheet date and exchange differences, if any, are charged to income for the year.

3.7 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are determined by discounting the expected future cash flows at a pre tax discount rate that reflects current market assessment of time value of money and risk specific to the liability. The unwinding of discount is recognized as finance cost.

3.8 Financial instruments

Financial assets and liabilities are recognized in the balance sheet when the Company becomes a party to the contractual provisions of an instrument. The Company derecognizes the financial assets and liabilities when it ceases to be a party to such contractual provision of the instruments. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account.

Trade and other payables

Liabilities for trade and other amounts payable are initially recognized at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Trade debts and other receivables

Trade debts and other receivables are initially recognised at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortised cost using effective interest method, less any impairment losses. Known bad debts are written off, when identified.

Off-setting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

3.9 Impairment

Non-financial assets

The carrying amounts of non-financial assets other than inventories and deferred tax asset, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit and loss account.

Impairment loss recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired may include default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss account.

3.10 Borrowing cost

Markup, interest and other charges on borrowings are capitalized up to the date when the qualifying assets are substantially ready for their intended use. Borrowing cost is included in the related property, plant and equipment acquired/ constructed out of the proceeds of such borrowings. All other markup, interest and related charges are charged to the profit and loss account in the period in which they are incurred.

3.11 Revenue recognition

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when significant risk and rewards of ownership have been transferred to the customers, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of transfer of risk and rewards varies depending on the individuals terms of the sale agreements. For some international shipments transfer occurs on the loading of goods onto the relevant carrier at the port.

3.12 Taxation

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

Current

The Company accounts for current taxation on the basis of taxable income at the current rates of taxation after taking into account tax credits and rebates, if any, and any adjustment to tax payable in respect of previous year in accordance with the provisions of the Income Tax Ordinance, 2001.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Deferred

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and tax credits can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is recognized using the balance sheet liability method, providing for temporary difference between the carrying value of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authorities on the same taxable entity, but the Company intends to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realised and settled simultaneously.

The effects on deferred taxation of the portion of income expected to fall under presumptive tax regime is adjusted in accordance with the requirement of Accounting Technical Release - 27 of the Institute of Chartered Accountants of Pakistan. Deferred tax is charged or credited to income.

3.13 Dividend

Dividend is recognized as a liability in the period in which it is declared.

3.14 Earnings per share

The Company presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

4. SHARE CAPITAL

4.1 Authorized share capital

This represents 2,000,000 (2013: 2,000,000) ordinary shares of Rs. 10 each.

4.2 Issued, subscribed and paid up share capital

2014	2013		2014	2013
Number of shares			Rupees	Rupees
497,500	497,500	Ordinary shares of Rs. 10 each issued for cash	4,975,000	4,975,000
704,341	704,341	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	7,043,410	7,043,410
1,201,841	1,201,841		12,018,410	12,018,410

Directors of the Company hold 399,101 i.e. 33.21% (2013: 401,601 i.e. 33.41%) ordinary shares of Rs. 10 at the balance sheet date.

5. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - net of tax

Opening balance as on 01 July

Surplus on property, plant and equipment disposed off during the year

Surplus transferred to unappropriated profit in respect of incremental depreciation charged during the year:

- Net of deferred tax

- Related deferred tax liability

Surplus on revaluation of property, plant and equipment as at 30 June

Related deferred tax liability

On revaluation surplus as on 01 July

Adjustment on property, plant and equipment disposed off during the year

Transferred to profit and loss account in respect of incremental depreciation

Tax rate adjustment due to change in ratio of export sales

2014	2013
Rupees	Rupees
219,685,006	251,469,184
-	(11,689,193)
219,685,006	239,779,991
(15,850,351)	(17,546,539)
(2,941,263)	(2,548,446)
(18,791,614)	(20,094,985)
200,893,392	219,685,006
(27,860,452)	(17,304,273)
-	758,264
2,941,263	2,548,446
(6,524,645)	(13,862,889)
(31,443,834)	(27,860,452)
169,449,558	191,824,554

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Expected gratuity expense for the next financial year is Rs. 3,767,349 (2013: Rs. 2,627,784).

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumption set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased / (decreased) as a result of a change in the respective assumptions by one percent.

	Defined benefit obligation	
	1 percent increase	1 percent decrease
	Effect in Rupees	
Discount rate	(1,098,204)	1,347,245
Salary increase rate	1,324,314	(1,107,103)

The above sensitivities are based on average duration of the benefit obligation determined at the date of the last actuarial valuation at 30 June 2014 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned.

	Note	2014 Rupees	2013 Rupees
7. TRADE AND OTHER PAYABLES			
Creditors		101,276,015	234,364,371
Advances from customers		25,758,624	31,313,512
Workers' Profit Participation Fund	7.1	18,193,783	6,610,622
Workers' Welfare Fund		2,095,381	1,504,675
Accrued liabilities	7.2	25,072,533	10,490,963
Withholding tax payable		473,949	793,642
Sales tax and excise duty payable		4,600,393	18,624,477
Unclaimed dividend		4,200,127	2,409,017
Tobacco development cess payable		8,228,784	5,511,504
		<u>189,899,589</u>	<u>311,622,783</u>
7.1 Workers' Profit Participation Fund			
Balance at the beginning of the year		6,610,622	7,560,930
Provision for the year		9,104,178	1,968,692
Interest on funds utilised in the Company's business		2,478,983	-
Payments during the year		-	(2,919,000)
		<u>18,193,783</u>	<u>6,610,622</u>
7.2	This includes salary payable to Chief Executive Officer and Directors (related parties) amounting to Rs. 10.8 million and Rs. 1.02 million (2013: Rs. 1.8 million and Rs. 4.52 million) respectively.		
8. CONTINGENCIES AND COMMITMENTS			
8.1	There are no contingencies as at year end.		
8.2 Commitments			
In respect of letters of credit against import of machinery		1,236,000	10,230,000
In respect of leasehold land		89,785	97,461

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

9. PROPERTY, PLANT AND EQUIPMENT

Cost / revalued amounts

Balance at 01 July 2012	143,419,320	143,689,988	9,331,107	580,680	1,052,540	728,629	349,830	299,752,094
Additions during the year	41,000	6,405,997	751,233	-	162,000	1,867,445	80,734,352	89,962,027
Disposal	-	(13,500,000)	-	-	-	-	-	(13,500,000)
Transfers	349,830	-	-	-	-	-	(349,830)	-
Balance at 30 June 2013	143,810,150	136,595,985	10,082,340	580,680	1,814,540	2,596,074	80,734,352	376,214,121

Balance at 01 July 2013

Additions during the year	143,810,150	136,595,985	10,082,340	580,680	1,814,540	2,596,074	80,734,352	376,214,121
Transfer to non-current asset held for sales (Note 14)	-	19,115,258	1,892,096	10,000	84,600	-	(73,456,430)	136,847,598
Transfers	2,035,595	-	835,000	967,400	-	-	(3,837,995)	(73,456,430)
Balance at 30 June 2014	145,845,745	155,711,243	12,809,436	1,558,080	1,899,140	2,596,074	119,185,571	439,605,289

Accumulated depreciation

Balance at 01 July 2012	4,222,404	8,706,321	2,468,133	30,007	66,364	728,629	-	16,221,858
Charge for the year	9,951,578	12,652,739	897,394	52,261	478,451	241,515	-	24,273,938
Disposal	-	(1,175,000)	-	-	-	-	-	(1,175,000)
Balance at 30 June 2013	14,173,982	20,184,060	3,365,527	82,268	544,815	970,144	-	39,320,796

Balance at 01 July 2013

Charge for the year	14,173,982	20,184,060	3,365,527	82,268	544,815	970,144	-	39,320,796
Balance at 30 June 2014	23,533,422	33,231,332	4,459,121	199,829	1,042,355	1,437,437	-	63,903,496

Carrying value - June 2014

Carrying value - June 2013	122,312,323	122,479,911	8,350,315	1,358,251	856,785	1,158,637	119,185,571	375,701,793
Rate of depreciation per annum	129,636,168	116,411,925	6,716,813	498,412	1,269,725	1,625,930	80,734,352	336,893,325
	7.14%	10% - 20%	10%	10%	30%	20%		

9.1 Depreciation on property, plant and equipment has been allocated as follows;

Note	2014	2013
	Rupees	Rupees
Cost of sales	17	20,403,641
Administrative expenses	19	20,147,369
		4,126,569
		24,582,700
		24,273,938

9.2 Buildings on leasehold land, plant and machinery and furniture and fixtures were revalued on 21 February 2012. Valuation was carried out by an independent valuer, M/S Construction Management Services under the market value basis. This revaluation resulted in a net surplus of Rs. 263.08 million, had there been no revaluation, related figure of revalued assets would have been as follows;

	Opening cost	Additions	Transfer from capital work in progress	Disposals WDV	Closing cost	Accumulated depreciation	Carrying value
Buildings on leasehold land	6,144,266	-	2,035,595	-	8,179,861	5,918,411	2,261,450
Plant and machinery	55,208,213	19,115,258	-	-	74,323,471	32,357,612	41,965,859
Furniture and fixtures	1,177,570	10,000	967,400	-	2,154,970	1,125,187	1,029,783
30 June 2014	67,530,049	19,125,258	3,002,995	-	84,658,302	39,401,210	45,257,092
30 June 2013	57,814,197	6,796,827	-	(2,080,975)	62,530,049	35,668,550	26,861,499

9.3 Breakup of capital work in progress is as follows;

	2014	2013
	Rupees	Rupees
Plant, machinery and other equipment	101,550,743	68,142,657
Stores and spares held for capitalization	12,041,460	7,775,095
Other directly attributable expense	5,593,368	4,816,600
	119,185,571	80,734,352

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

		2014 Rupees	2013 Rupees
10. STOCK IN TRADE	Note		
Raw and packing material		308,722,692	203,327,576
Work in process		83,716	378,899
Finished stock		4,908,502	13,546,856
		<u>313,714,910</u>	<u>217,253,331</u>
11. TRADE DEBTS - considered good			
Trade debts - considered good		29,860,674	177,829,200
Trade debts - considered doubtful		3,179,631	3,179,631
		<u>33,040,305</u>	<u>181,008,831</u>
Provision for doubtful debts		(3,179,631)	(3,179,631)
		<u>29,860,674</u>	<u>177,829,200</u>
12. ADVANCES			
Advances to employees - considered good		41,000	750,000
Advances to suppliers			
- considered good		6,915,517	26,952,667
- considered doubtful		2,886,603	-
		<u>9,802,120</u>	<u>26,952,667</u>
Provision for doubtful advances	19	(2,886,603)	-
		<u>6,915,517</u>	<u>27,702,667</u>
13. OTHER RECEIVABLE			
This represents margin retained by Habib Bank Limited against letters of credit amounting to Rs. 360,900 (2013: Rs. 5.5 million.). (Also refer note 8.2).			
14. NON CURRENT ASSETS HELD FOR SALE		2014 Rupees	2013 Rupees
Transfer from capital work in progress		73,456,430	-
		<u>73,456,430</u>	<u>-</u>
This represents carrying value of Green Leaf Thrashing unit (GLT) held for sale under agreement negotiated during the year which is expected to be executed within next twelve months.			
15. CASH AND BANK BALANCES		2014 Rupees	2013 Rupees
Cash in hand		252,311	145,039
Cash at bank			
Current accounts			
- Foreign currency		39,997	40,288
- Local currency		26,394,847	57,205,222
		<u>26,687,155</u>	<u>57,390,549</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

		2014 Rupees	2013 Rupees
16. TURNOVER - net	Note		
Gross turnover			
- Local		968,083,067	854,873,546
- Export		417,600,447	410,938,729
		<u>1,385,683,514</u>	<u>1,265,812,275</u>
Government levies			
- Excise duty		(360,657,190)	(248,741,259)
- Sales tax		(97,469,940)	(60,867,016)
		<u>927,556,384</u>	<u>956,204,000</u>
Discounts		(37,553,885)	(41,740,221)
		<u>890,002,499</u>	<u>914,463,779</u>
17. COST OF SALES			
Raw and packing material consumed	17.1	529,264,099	729,434,824
Royalty		1,686,000	1,767,650
Fuel and power		41,202,741	25,053,453
Stores, spare parts and loose tools consumed		8,417,847	8,130,479
Repairs and maintenance		1,330,985	2,855,194
Salaries, wages and other benefits	17.2	35,304,408	25,402,005
Insurance		1,034,259	1,562,153
Machine hiring charges		3,689,000	576,667
Depreciation	9.1	20,403,641	20,147,368
		<u>642,332,980</u>	<u>814,929,793</u>
Opening work in process		378,899	2,428,210
Closing work in process		(83,716)	(378,899)
Cost of goods manufactured		<u>642,628,163</u>	<u>816,979,104</u>
Opening finished stock		13,546,856	21,177,716
Closing finished stock		(4,908,502)	(13,546,856)
		<u>651,266,517</u>	<u>824,609,964</u>
17.1 Raw and packing materials consumed			
Opening balance		203,327,576	274,164,937
Raw and packing material purchases		634,659,215	658,597,463
Closing balance		(308,722,692)	(203,327,576)
		<u>529,264,099</u>	<u>729,434,824</u>
17.2 Salaries, wages and other benefits include staff retirement benefits amounting to Rs. 2.3 million (2013: Rs. 1.6 million)			
18. DISTRIBUTION COST			
Customs, clearance and freight on export		7,318,401	12,849,118
Freight on local sale		2,549,200	2,066,370
Advertising and promotion		-	1,495,079
		<u>9,867,601</u>	<u>16,410,567</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

19. ADMINISTRATIVE EXPENSES	Note	2014 Rupees	2013 Rupees
Salaries, wages and other benefits	19.1	21,135,106	14,366,563
Insurance		40,153	21,926
Fuel and power		6,694,647	4,354,310
Communication		1,183,940	833,910
Printing and stationery		734,629	829,347
Security charges		2,542,551	1,746,000
Depreciation	9.1	4,179,059	4,126,569
Legal and professional		1,789,759	1,262,944
Auditors' remuneration	19.2	2,160,000	1,978,486
Repair and maintenance		538,560	33,110
Rent expenses		595,000	280,000
Provision for doubtful debts		-	1,846,652
Provision for doubtful advances to suppliers	12	2,886,603	-
Donation		300,000	728,440
Others		1,234,779	1,757,402
		<u>46,014,786</u>	<u>34,165,659</u>

19.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs.0.52 million (2013: Rs. 0.52 million)

19.2 Auditors' remuneration	2014 Rupees	2013 Rupees
Annual audit fee	700,000	600,000
Half yearly review fee	450,000	400,000
Other certification charges	140,000	120,000
Taxation services	720,000	681,500
Out of pocket expenses	150,000	176,986
	<u>2,160,000</u>	<u>1,978,486</u>
20. OTHER OPERATING EXPENSES		
Workers' Profit Participation Fund	9,104,178	1,968,692
Workers' Welfare Fund	2,095,381	853,189
	<u>11,199,559</u>	<u>2,821,881</u>
21. FINANCE COST		
Bank charges	2,346,347	2,992,451
Interest on Workers' Profit Participation Fund	2,478,984	-
	<u>4,825,331</u>	<u>2,992,451</u>
22. OTHER INCOME		
Income from financial assets		
Exchange gain-net	2,895,771	85,085
Income from non financial assets		
Gain on disposal of property, plant and equipment	-	4,045,475
Liabilities written back	2,427,530	-
Scrap sale	4,055,288	437,608
	<u>9,378,589</u>	<u>4,568,168</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

23. TAXATION	2014 Rupees	2013 Rupees
Current		
- For the year	39,085,046	18,741,570
- Prior	(4,086,891)	-
	34,998,155	18,741,570
Deferred	(1,069,797)	(2,223,467)
	<u>33,928,358</u>	<u>16,518,103</u>

23.1 Numerical reconciliation between tax charge and product of accounting profit multiplied by the applicable tax rate is as follows:

	2014 Rupees	2013 Rupees
Accounting profit	176,207,294	38,031,425
Applicable tax rate	34%	35%
Tax on accounting profit at applicable rate of 34% (2013: 35%)	59,910,480	13,310,999
Effect of export sales restrictions	499,784	910,440
Effect of permanent differences	2,387,177	4,310,614
Tax effect of prior years	(4,086,891)	-
Tax effect of change in tax rate	(269,416)	-
Tax effect of export income charged at lower tax rate	(24,494,343)	(2,013,950)
	<u>33,946,790</u>	<u>16,518,103</u>

23.2 The assessments of the Company upto and including the Tax Year 2013 stood finalized under the Self Assessment Scheme envisaged in the Income Tax Ordinance, 2001.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

24. Financial instruments

The Company has exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee of the Company oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

24.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade debts, deposits, other receivables, margin on letter of guarantee, and bank balances. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	2014 Rupees	2013 Rupees
Long term deposits	2,699,151	1,444,151
Trade debts	29,860,674	177,829,200
Other receivable	360,900	5,401,100
Bank balances	26,434,844	57,245,510
	<u>59,355,569</u>	<u>241,919,961</u>

The maximum exposure to credit risk for financial assets at the reporting date by type of counter party was:

Banks and financial institutions	26,795,744	62,646,610
Others	32,559,825	179,273,351
	<u>59,355,569</u>	<u>241,919,961</u>

The maximum exposure to the credit risk for trade debts at reporting date by geographical region is:

Domestic	26,060,211	113,052,271
Middle East	3,800,463	64,776,929
	<u>29,860,674</u>	<u>177,829,200</u>

The Company's most significant customer is a dealer in Middle east from whom Rs. 5.3 million (2013: Rs. 64.7 million) is outstanding at the year end. Further in domestic market most significant customer from whom Rs. 15.05 million (2013: Rs. 3.1 million) is outstanding at year end.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Impairment losses

The aging of trade debts at the reporting date is:

	Gross 2014 Rupees	Impairment 2014 Rupees	Gross 2013 Rupees	Impairment 2013 Rupees
Aging				
Past due 1-30 days	14,680,951	-	102,323,923	-
Past due 31-90 days	77,220	-	75,356,366	-
Past due 90-365 days	11,808,816	-	148,911	-
Over 365 days	6,473,318	3,179,631	3,179,631	3,179,631
	33,040,305	3,179,631	181,008,831	3,179,631

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2014 Rupees	2013 Rupees
Opening balance	3,179,631	1,332,979
Provision made during the year	-	1,846,652
Closing balance	3,179,631	3,179,631

The allowance in respect of trade receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

Based on past experience and negotiations, management of the Company believes that over due balances against which impairment has not been recorded have reasonable prospect of recovery.

24.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity 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. The Company uses different methods which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a reasonable period, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities, including expected interest payments and excluding the impact of netting agreements:

	Carrying amount	Contractual cash flows	Within six months or less	Six to twelve months
2014	Rupees			
Financial liabilities				
Trade and other payables	157,445,191	157,445,191	157,445,191	-
	157,445,191	157,445,191	157,445,191	-
2013				
Financial liabilities				
Trade and other payables	260,180,119	260,180,119	260,180,119	-
	260,180,119	260,180,119	260,180,119	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

24.3 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 or the market price due to 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 only.

24.3.1 Currency risk

Exposure to currency risk

Pakistan Rupee is the functional currency of the Company and as a result currency exposures arise from transactions and balances in currencies other than the Pakistan Rupee. Currently, the Company is exposed to currency risk pertaining to trade debts and bank balance in foreign currency.

	2014		2013	
	Rupees	USD	Rupees	USD
Trade debts	3,800,463	38,470	64,776,929	658,035
Bank balance	39,997	405	40,288	409
Creditors	(10,647,354)	(107,778)	(3,252,033)	(33,036)
	<u>(6,806,894)</u>	<u>(68,903)</u>	<u>61,565,184</u>	<u>625,408</u>

The following significant exchange rates applied during the year

	Average rates		Balance sheet date rate	
	2014	2013	2014	2013
Rupees / Dollars	100.91	95.95	98.79	98.44

Sensitivity analysis

A five percent strengthening of the Pakistan Rupee against US Dollar at 30 June would have increased profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is performed on the same basis for 2013.

	Profit or loss Rupees
30 June 2014	
Effect in US Dollar - Gain	<u>340,345</u>
	<u>340,345</u>
30 June 2013	
Effect in US Dollar - Loss	<u>(3,078,259)</u>
	<u>(3,078,259)</u>

A five percent weakening of the Pakistan Rupee against US Dollar at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

24.3.2 Interest rate risk

The interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Currently, the company is not exposed to interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

24.4 Fair value of financial assets and liabilities

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	30 June 2014		30 June 2013	
	Carrying amount	Fair values	Carrying amount	Fair values
Assets carried at amortized cost				
Long term deposits	2,699,151	2,699,151	1,444,151	1,444,151
Trade debts	29,860,674	29,860,674	177,829,200	177,829,200
Other receivables	360,900	360,900	5,401,100	5,401,100
Cash and bank balances	26,687,155	26,687,155	57,390,549	57,390,549
	<u>59,607,880</u>	<u>59,607,880</u>	<u>242,065,000</u>	<u>242,065,000</u>
Liabilities carried at amortized cost				
Trade and other payables	157,445,191	157,445,191	260,180,119	260,180,119
	<u>157,445,191</u>	<u>157,445,191</u>	<u>260,180,119</u>	<u>260,180,119</u>

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

Non - derivative financial assets

The fair value of non-derivative financial assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

24.5 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net profit after taxation divided by total shareholders' equity. The Board of Directors also monitors the level of dividend to ordinary shareholders. There were no changes to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

25. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
			Rupees			
	2014	2013	2014	2013	2014	2013
Managerial remuneration and allowances	9,000,000	1,800,000	1,020,000	4,523,000	1,390,000	1,617,588
Number of persons	1	1	1	2	3	2

25.1 No remuneration and meeting fee has been paid to non executive directors.

25.2 Number of persons include those who worked part of the year.

26. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of associated companies, directors and close family members, companies with common directorship, executives, key management personnel and major shareholders of the Company. Balances with related parties are shown elsewhere in the notes to the financial statements. Balances with related parties are disclosed in note 4 and 7.2 transactions with related parties are disclosed in note 25 to the financial statements. Transactions and balances with related parties other than those disclosed elsewhere in these financial statements are as follows:

		2014	2013
	Note	Rupees	Rupees
Transaction with associated undertakings under common directorship			
Machine hiring charges		-	94,167
Payable balance at year end - unsecured		-	3,273,447

Transaction with key management personnel

Remuneration, allowances and benefits	26.1	12,015,505	8,331,005
Short term loan received during the year		39,900,000	-
Repayment of short term loan		39,900,000	-

26.1 Remuneration, allowances and benefits

Managerial remuneration and allowances	10,020,000	6,323,000
Dividend paid	1,995,505	2,008,005
	12,015,505	8,331,005

27. EARNINGS PER SHARE

	2014	2013
Profit for the year (Rupees)	142,278,936	21,513,322
Weighted average number of ordinary shares in issue (Numbers)	1,201,841	1,201,841
Earnings per share - basic (Rupees)	118	17.90

There is no dilution effect on the basic earnings per share of the Company.

28. PLANT CAPACITY

	2014	2013
Available capacity - million cigarettes per annum	1,038	1,038
Actual production - million cigarettes per annum	379.59	353.53
Actual production was sufficient to meet the market demand.		

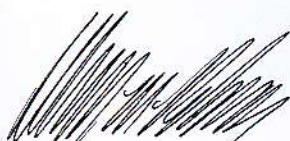
29. GENERAL

29.1 Number of persons employed

	2014	2013
Employees on year end	217	229
Average employees during the year	223	211

29.2 The Board of Directors proposed final dividend at the rate of Rs.10 per share in its meeting held on 03 October 2014.

29.3 These financial statements were authorized for issue by the Board of Directors of the Company in their meeting held on 03 October 2014.



CHIEF EXECUTIVE



DIRECTOR

PATTERN OF SHAREHOLDING

AS AT JUNE 30, 2014

KHYBER TOBACCO COMPANY LIMITED

No. of Shareholders	Categories				Total Shares
373	From	1	to	100	12,784
270	From	101	to	500	74,354
62	From	501	to	1000	46,601
77	From	1001	to	5000	168,057
5	From	5001	to	10000	29,082
2	From	10001	to	15000	22,678
1	From	30001	to	35000	32,127
1	From	40001	to	45000	42,958
1	From	380001	to	385000	384,101
1	From	385001	to	390000	389,099
793					1,201,841

	No. of shares
Associated companies, Undertakings, and related parties	-
Public sector companies and corporations	43,248
Directors, CEO and their spouse and minor children	399,101
Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds	1,369
Foreign companies	200
Others	386
Individuals	757,537
	1,201,841

PATTERN OF SHAREHOLDING

AS AT JUNE 30, 2014

KHYBER TOBACCO COMPANY LIMITED

Categories of Shareholders	Number	Shares Held	Percentage
Directors, CEO and their spouse(s) and minor children	7	399,101	33.21
Executives	-	-	-
Associated companies, Undertakings and Related parties	-	-	-
Public Sector Companies and Corporations	2	43,248	3.60
Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds	2	1,369	0.11
Mutual Funds	-	-	-
General Public Foreign	1	200	0.02
General Public Local	777	757,337	63.01
Foreign Companies	1	200	0.02
Others	3	386	0.03
Totals	793	1,201,841	100.00

No. of shares

Associated Companies, Undertakings and Related parties

Public Sector companies and corporations

Investment Corporation of Pakistan	290
State Life Insurance corporation of Pakistan	42,958

Directors, CEO and their spouse(s) and minor children

Waseem Ur Rehman	384,101
Bilalzada	2,500
Liaqat Ali Khan	2,500
Muhammad Sayyad	2,500
Shafiq Afzal	2,500
Khalil Ur Rehman	2,500
Hazrat Bilal	2,500

Share holders holding 5% or more

	Shares Held	Percentage
Umair Sami	389,099	32.38
Waseem-ur-Rahman	384,101	31.96