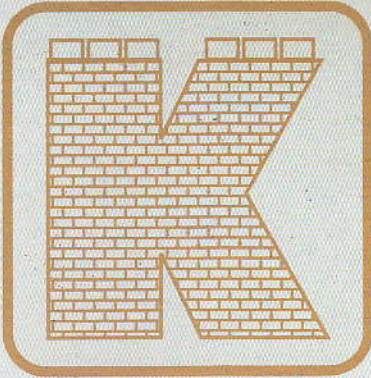


Khyber Tobacco Company Limited



58th
Annual Report
June 2013

Key Performance Indicators



KPIs

		2013	2012	13 vs 12
Sales Revenue	(Rupees in Million)	1,265.81	953.23	312.58
- Local Sales	(Rupees in Million)	854.87	396.52	458.35
- Export Sales	(Rupees in Million)	410.94	556.71	(145.77)
Profit After Tax	(Rupees in Million)	21.73	134.91	(113.18)
Earning Per Share	(Rupees per Share)	18.08	112.26	(94.18)
Shareholder's Equity	(Rupees in Million)	293.57	249.37	44.20
Return on Equity	(%)	7.40	54.10	(46.70)
Current Ratio		1.59	1.82	(0.23)



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	Chief Executive / Executive Director
Mr. Muhammad Sayyad	Non-Executive Director
Mr. Muhammad Faridoon Rehman	Executive Director
Mr. Liaqat Ali Khan	Executive Director
Mr. Amir Siddiqui	Non-Executive Director
Mr. Bilalzada	Non-Executive Director
Mr. Shafiq Afzal Khan	Non-Executive Director

Audit Committee

Mr. Muhammad Sayyad	Chairman
Mr. Muhammad Faridoon Rehman	Member
Mr. Amir Siddiqui	Member

Human Resource Committee

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

Senior Management

Mr. Waseem Ur Rehman	Chief Executive
Mr. Muhammad Sayyad	Marketing Director

Company Secretary

Mr. Liaqat Ali Khan

Bankers

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

Share Registrar

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

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

		2013	2012	2011	2010	2009	2008
Financial Performance-Profitability							
Gross Profit Margin	%	9.84	29.63	34.77	27.87	9.64	12.48
Operating Margin	%	4.01	20.57	26.62	17.12	6.47	9.51
Net Profit Margin	%	2.38	19.24	22.25	14.37	3.60	8.24
Return on equity	%	7.40	54.10	90.08	334.69	(17.09)	(154.09)
Operating Performance-Liquidity							
Total Asset Turnover	Time	1.10	0.91	2.36	2.96	2.74	3.10
Fixed Asset Turnover	Time	2.71	2.47	25.40	39.93	29.70	17.82
Inventory Turnover	Time	4.21	2.36	3.38	6.49	5.79	4.10
Inventory Turnover	Days	86.70	154.66	108.07	56.28	63.05	89.11
Receivable turnover	Time	5.34	7.46	8.12	7.34	10.82	-
Receivable turnover	Days	68.35	48.93	44.94	49.70	33.73	-
Payable Turnover	Time	2.86	4.85	7.15	5.29	4.58	11.48
Payable Turnover	Days	127.62	75.26	51.05	69.03	79.77	31.80
Current Ratio		1.59	1.82	1.68	1.00	0.60	0.80
Quick Ratio		0.89	0.72	0.79	0.59	0.46	0.15
Capital Market/Capital Structure Analysis							
Earning per share (pre tax)	Rs.	31.82	120.97	92.02	34.04	5.85	6.01
Earning per share (after tax)	Rs.	18.08	112.26	78.60	28.99	3.47	4.79
Debt: equity	Rs.	1.19	1.17	1.34	10.04	(3.01)	(16.33)



Financial Performance

2013 2012 2011 2010 2009 2008

Rupees in Million

Summary of Balance sheet

Share Capital	12.02	12.02	12.02	12.02	12.02	12.02
Reserve	281.55	237.35	92.86	(1.61)	(36.45)	(37.74)
Shareholder's funds/Equity	293.57	249.37	104.88	10.41	(24.43)	(25.72)
Capital employed	293.57	249.37	104.88	10.41	(24.43)	(25.72)
Property, plant & Equipment	336.89	283.53	16.71	6.07	3.90	3.92
Long term assets	338.34	284.49	17.67	10.03	4.86	3.95
Net Current Assets	183.72	221.95	91.83	0.38	(29.29)	(7.69)

Summary of Profit and Loss

Sale	914.46	701.35	424.52	242.45	115.90	69.87
Gross Profit	90.00	206.81	147.62	67.57	11.17	8.72
Operating Profit	36.67	144.28	109.08	41.50	7.08	6.08
Profit before tax	38.26	145.39	110.59	40.91	7.03	7.22
Profit after tax	21.73	134.92	94.47	34.84	4.17	5.76

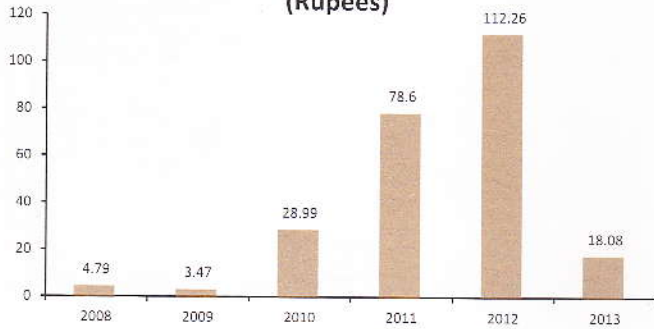
Summary of Cash Flows

Net cash flow from operating activities	109.73	13.52	21.83	12.81	4.39	3.92
Net cash flow from investing activities	(74.08)	(17.40)	(9.25)	(5.35)	(0.92)	-
Net cash flow from financing activities	-	-	-	-	(1.03)	(0.90)
Changes in cash and cash equivalents	35.65	(3.88)	12.58	7.46	2.44	3.02
Cash and cash equivalents- Year end	57.39	21.74	25.62	13.05	5.59	3.15

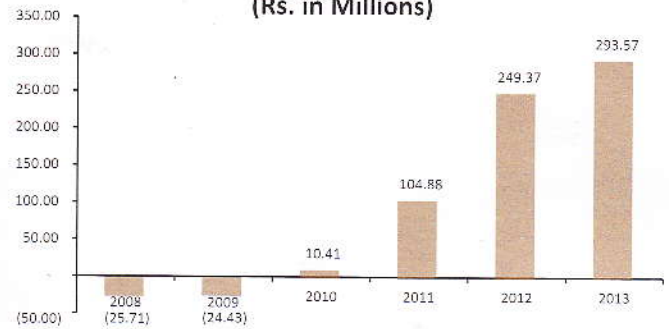


Graphical Analysis

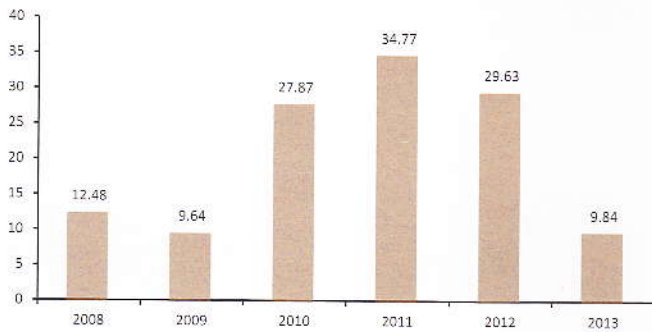
**Earning Per Share - after tax
(Rupees)**



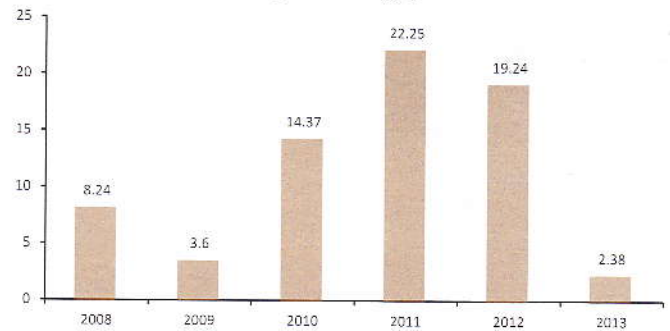
**Shareholder's Equity
(Rs. in Millions)**



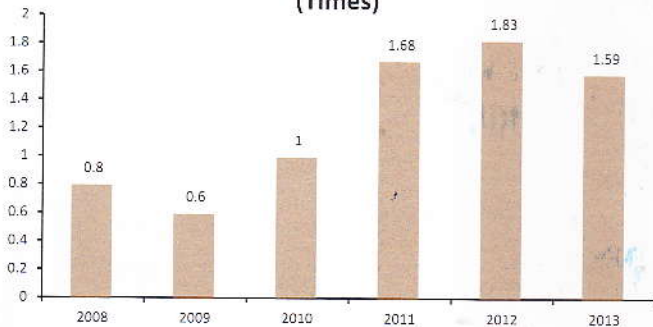
**Gross Profit Margin
(Percentage)**



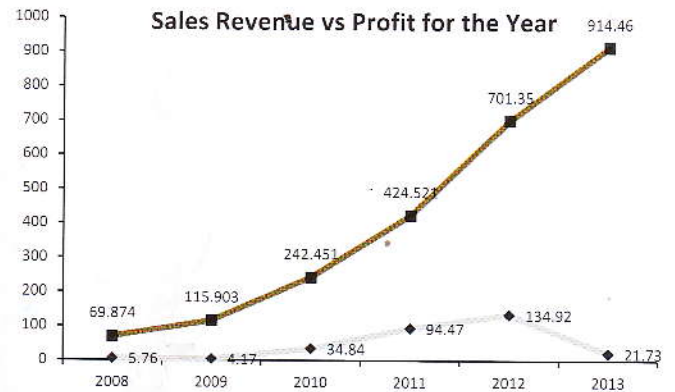
**Net Profit Margin
(Percentage)**



**Current Ratio
(Times)**

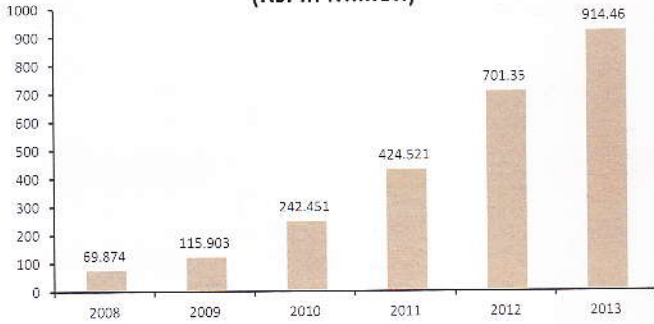


Sales Revenue vs Profit for the Year

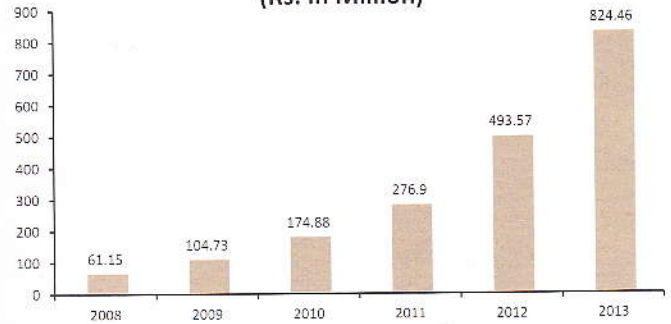


Graphical Analysis

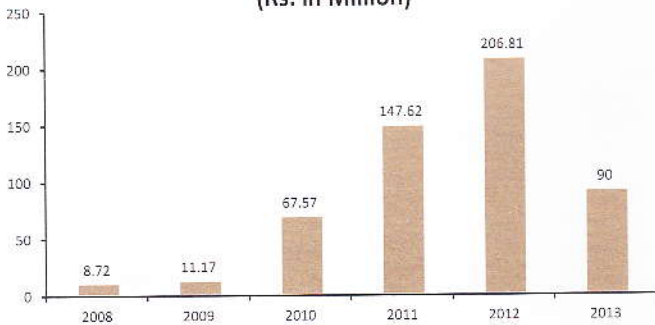
**Net Sales
(Rs. in Million)**



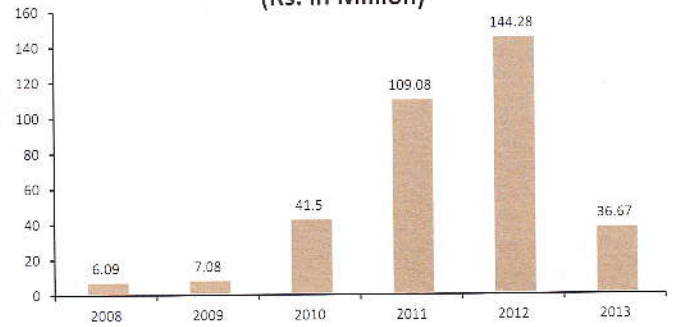
**Cost of Sales
(Rs. in Million)**



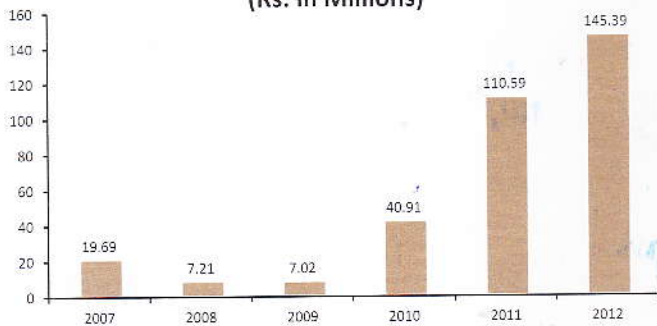
**Gross Profit
(Rs. in Million)**



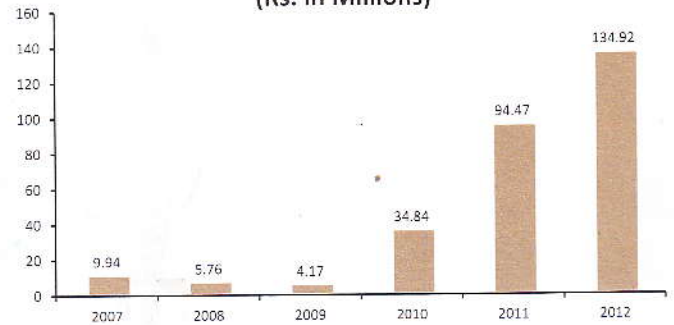
**Operating Profit
(Rs. in Million)**



**Profit before Tax
(Rs. in Millions)**



**Profit after Tax
(Rs. in Millions)**





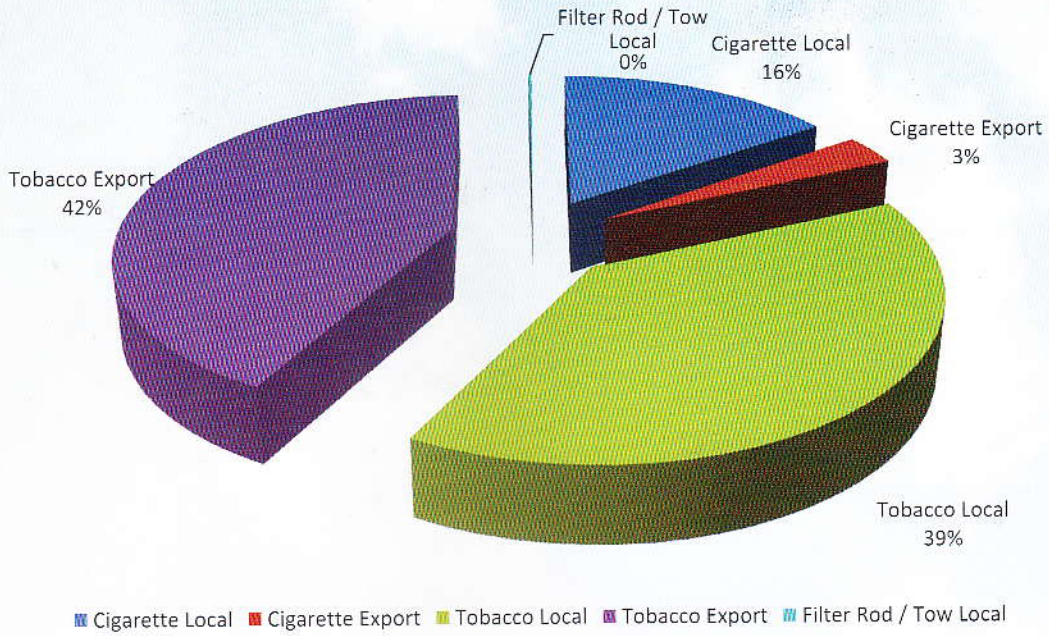
Vertical Analysis

	2013	2012	2011	2010	2009	2008
<u>Profit and Loss Account</u>						
Net Sales	100.0	100.0	100.0	100.0	100.0	100.0
Cost of Sales	90.2	70.4	65.2	72.1	90.4	87.5
Gross Profit	9.8	29.6	34.8	27.9	9.6	12.5
Administrative Expenses	3.7	3.4	3.3	2.7	2.8	3.0
Distribution Cost	1.8	4.5	4.3	6.2	0.2	-
Other Operating Expenses	0.3	1.2	1.5	1.9	0.5	0.8
Operating Profit	4.0	20.6	25.7	17.1	6.1	8.7
Finance Cost	0.3	0.2	0.6	0.3	0.1	0.1
Other Operating Income	0.5	0.3	0.9	0.0	0.1	1.8
Profit before Taxation	4.2	20.7	26.1	16.9	6.1	10.3
Taxation	1.8	1.5	3.8	2.5	2.5	2.1
Profit for the Year	2.4	19.2	22.3	14.4	3.6	8.2
<u>Balance Sheet</u>						
Share Capital & Reserves	35.2	32.2	42.8	9.1	(49.7)	(72.8)
Non-Current Liabilities	4.4	3.0	1.9	-	-	62.2
Current Liabilities	60.4	64.8	55.3	90.9	149.7	110.6
Total Equity and Liabilities	100.0	100.0	100.0	100.0	100.0	100.0
Non-Current Assets	40.6	36.7	7.2	8.7	9.9	11.2
Current Assets	59.4	63.3	92.8	91.3	90.1	88.8
Total Assets	100.0	100.0	100.0	100.0	100.0	100.0

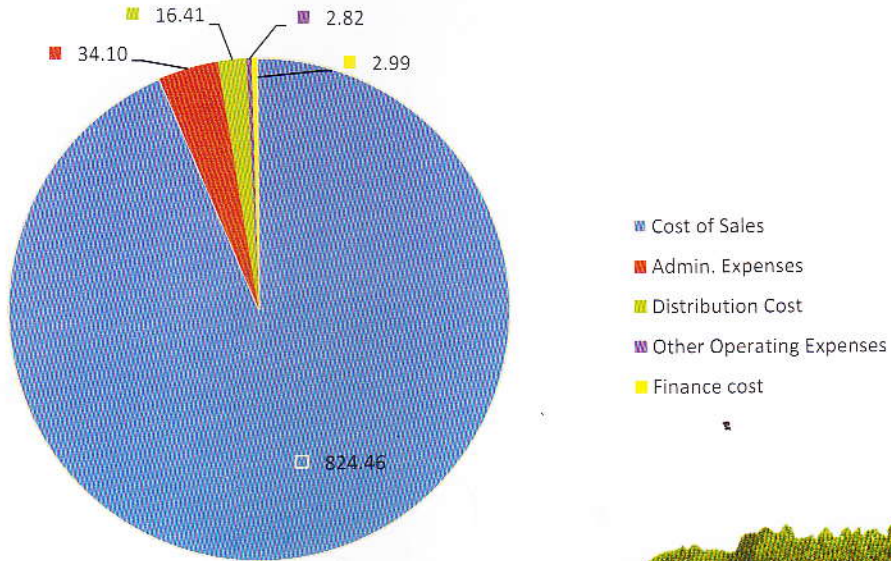
Horizontal Analysis

	2013	2012	2011	2010	2009	2008
<u>Profit and Loss Account</u>						
Net Sales	1,208.7	903.7	507.6	247.0	65.9	100.0
Cost of Sales	1,248.2	707.1	352.8	186.0	71.3	100.0
Gross Profit	931.9	2,282.3	1,592.5	674.7	28.1	100.0
Administrative Expenses	1,542.6	1,053.0	579.6	210.9	59.0	100.0
Distribution Cost	100.0	100.0	100.0	100.0	100.0	100.0
Other Operating Expenses	403.0	1,363.8	1,006.6	713.2	4.8	100.0
Operating Profit	502.6	2,271.0	1,692.7	582.0	16.3	100.0
Finance Cost	2,892.0	1,169.0	2,297.0	617.0	19.0	100.0
Other Operating Income	270.8	93.0	217.1	(90.3)	(94.3)	100.0
Profit before Taxation	429.9	1,914.5	1,432.4	466.8	(2.6)	100.0
Taxation	1,032.9	618.1	1,006.0	316.3	95.7	100.0
Profit for the Year	277.3	2,242.7	1,540.4	504.9	(27.5)	100.0
<u>Balance Sheet</u>						
Share Capital & Reserves	1,241.45	1,069.6	507.8	140.5	5.0	100.0
Non-Current Liabilities	66.79	4.2	(79.0)	(100.0)	(100.0)	100.0
Current Liabilities	1,189.07	1,186.2	247.5	167.5	88.4	100.0
Total Equity and Liabilities	2,260.6	2,093.3	594.3	225.3	39.2	100.0
Non-Current Assets	8,461.16	7,098.5	347.0	153.7	22.9	100.0
Current Assets	1,479.28	1,462.6	625.4	234.3	41.3	100.0
Total Assets	2,260.6	2,093.3	594.3	225.3	39.2	100.0

Breakup of Sales
(Percentage)



Breakup of Costs
(Rupees in Million)





Notice of Annual General Meeting

Notice is hereby given that the 58th Annual General Meeting of the members of Khyber Tobacco Company Limited will God willing be held on Thursday; the 31st of October, 2013 at 11.00 a.m. at its registered office, Khyber Tobacco Company, Nowshera – Malakand Road, Mardan to transact the following business;

ORDINARY BUSINESS

1. To confirm the minutes of the 57th Annual General Meeting held on 08 December, 2012.
2. To receive, consider and adopt the audited accounts of the company for the year ended 30 June, 2013 together with the Directors' and Auditors' Reports thereon.
3. To approve the final cash dividend @ 50% i.e. Rs 5 per share for the year ended 30 June 2013 as recommended by the Board of Directors.
4. To appoint Auditors for the year 2013-14 and fix their remuneration. The present auditors M/s KPMG Taseer Hadi & Co. Chartered Accountants will stand retired on the conclusion of this meeting.

SPECIAL BUSINESS

1. To consider and if deemed appropriate, fix the remuneration of the Chief Executive Officer at Rs. 9.0 million per annum inclusive of all allowances and other benefits for the year ending 30 June 2014.

OTHER BUSINESS

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

09 October, 2013
Mardan

By Order of the Board

Liaqat Ali Khan
Company Secretary



Notes

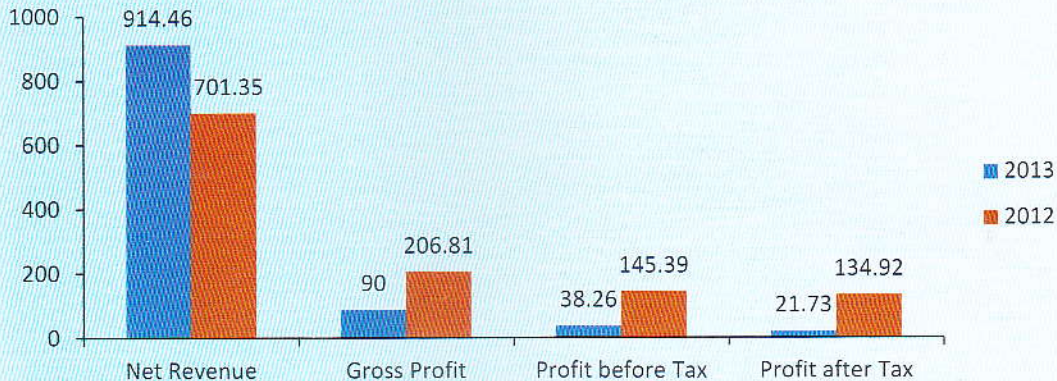
1. The Share Transfer Books of the Company will be closed from 25th October, 2013 to 05th November, 2013 both days inclusive. Transfers received in order at the office of the Company's Share Registrar, Central Depository Company of Pakistan Limited, CDC House, 99-B, Block 'B', S.M.C.H.S. Main Shahrah-e-Faisal, Karachi, at the close of business on 24th October, 2013, 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 office of the Company's Share Registrar 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

I, on behalf of the Board of Directors of Khyber Tobacco Company Limited take great pleasure in presenting the 58th Annual Report and the audited financial statements along with the auditors' report thereon for the year ended June 30, 2013.

THE COMPANY'S FINANCIAL RESULTS

Following is a brief of the Company's financial performance for the year ended 30 June 2013 as compared to the year ended 30 June 2012; (Amounts are presented as Rs. in Millions)



PRODUCTION AND SALES

PRODUCT'S NAME	UNIT OF MEASUREMENT	PRODUCTION		SALE	
		2013	2012	2013	2012
RE-DRIED TOBACCO	KGS	4,234,934	3,594,575	3,714,438	1,080,558
CUT TOBACCO	KGS	424,100	614,340	128,730	68,500
CIGARETTES	STICKS (In Million)	353.53	601.87	393.83	555.44

During the year under review, the company re-dried 4.2 million kgs tobacco at its Green Leaf Threshing plant as compared to 3.6 million kgs in the financial year 2011-12. During the year, the export and local sale of re-dried tobacco rose from 1.75 million kgs in the financial year 2011-12 to 3.7 million kgs, showing an increase of about 114%.

The production of cut tobacco decreased from 0.61 million kgs last year to 0.42 million kgs in the current year. The phenomenal decrease in the export of cigarettes current year as compared to the previous year led to the lower production of cut tobacco.

During the year, the production of cigarettes dropped from 601.87 million sticks in 2011-12 to 353.53 million sticks in 2012-13. Similarly, the sale of cigarettes also dropped from 555.44 million sticks in 2011-12 to 393.83 million sticks in 2012-13. Both the production and sale of cigarettes were lower as compared to last year because of the negligible export of cigarettes as compared to the previous year. However, it is pertinent to note that the production and sale of cigarettes manufactured by the company for the local market has increased as compared to the last year.

OPERATING HIGHLIGHTS

During the year, the overall gloomy economic, energy and law & order situation persisted specifically in the province and generally all over the country; badly affecting the operations and marketing activities of the Company, the management strived its best for the expansion of the local and international sale of tobacco and cigarettes and they succeeded in their endeavors, but upto an extent.

As in previous years, the management maintained its focus on the exports sales of the Company. However, the Company's export sales decreased from Rs. 556.71 million in 2011-12 to Rs.410.93 million in 2012-13 showing a decrease of 26 %. Although the export sales of the company have decreased by 26 %, still the Company has brought in precious foreign exchange of about US \$ 4 million to the country. The management is focusing on sales of tobacco as well as cigarettes in

foreign market because of the good demand of Pakistani tobacco as well as the handsome profit margins involved. The management is striving hard and strongly expects to reinvigorate the export sales of both cigarettes and processed tobacco in the coming year.

Profit before taxation for the year ended 30 June 2013 stood at Rs. 38 million as compared to profit of Rs. 145 million for the previous year. Profit after taxation for the year ended 30 June 2013 amounted to Rs. 21.7 million as compared to profit of Rs. 134.9 million for last year. Inability to achieve the export targets set by the Company based on the export quantum of the previous year has been the basic reason for decline in the Company's profit.

Earnings per share of the Company for the year ended 30 June 2013 on its paid up capital stood at Rs. 18.08 as compared to last year's earnings per share of Rs. 112.26.

BALANCE SHEET

The capital and reserves of your Company rose to Rs. 293.57 million as compared to Rs. 249.37 million at the end of the last financial year. This steady growth in the capital reserves of the company is the evidence of the managements' focus and determination to build 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 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 four 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, 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 export market. The Company, thus, is dependent mainly upon the exports of re-dried tobacco and has captured a good market for its re-dried and cut tobacco in the United Arab Emirates, South Africa, Germany, Belgium, Turkey, Egypt and the Philippines.

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. During the year, the company has set up its very own fire department to cope with any untoward happening in the premises or godowns of the company.

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 and trees in our factory areas in order to put in our share towards the improvement of environment.



SOCIAL RESPONSIBILITY

Your Company regards itself as a responsible corporate citizen. 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 crisis 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 50% i.e. Rs. 5 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. 2.1 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, four are non-executive directors while the remaining three are executive directors. The position of Chairman and Chief Executive Officer are kept separate in line with good governance practice.

The Directors are fully aware of the level of trust shareholders have in them and the immense responsibility they have bestowed on 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. Miftah uddin ceased to hold office as Director of the Company with effect from 21-02-2013 and Mr. Muhammad Sayyad replaced him as director on 22-02-2013. Mr. Fazl e Mabood ceased to hold office as Director of the Company with effect from 21-02-2013 and Mr. Shafiq Afzal replaced him as director on 24-02-2013. Mr. Wali ur Rehman ceased to hold office as Director of the Company with effect from 25-06-2013 and Mr. Bilalzada replaced him as director on 26-06-2013. Mr. Waseem ur Rehman – Director was appointed Chief Executive Officer on 26-06-2013.

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.

Six (06) meetings of the Board of Directors were held between 01 July 2012 to 30 June 2013 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	5
2)	Mr. Liaquat Ali Executive Director	6
3)	Mr. Muhammad Faridoon Rehman Executive Director	6
4)	Mr. Amir Siddiqi Non-Executive Director	4
5)	Mr. Muhammad Sayyad Non-Executive Director	1
6)	Mr. Bilalzada Non-Executive Director	-
7)	Mr. Shafiq Afzal Khan Non-Executive Director	2
8)	Mr. Miftah Uddin Non-Executive Director (Retd)	3
9)	Mr. Fazl e Mabood Non-Executive Director (Retd)	1
10)	Mr. Wali ur Rehman Chief Executive (Retd)	6

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 role 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's Secretary and their spouses and minor children during the year under review except for a transmission due to inheritance of shares in the name of Mr. Waseem ur Rehman – Chief Executive; affected on 9th January, 2013.



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 controls 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 58th Annual General Meeting and are eligible for reappointment as Auditors. The Audit Committee in their meeting held on 03 October, 2013 has recommended the re-appointment of Messrs KPMG Taseer Hadi & Co, Chartered Accountants as the Auditors for the financial year ending 30 June, 2014.

PATTERN OF SHAREHOLDING

The pattern of shareholding as at June 30, 2013 along with disclosure as required under the Code of Corporate Governance is annexed to these financial statements.

The Directors, Chief Executive, Chief Financial Officer, 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 to export about 1.6 million kilograms of re-dried tobacco in the coming year. If succeeded, the Company will earn a handsome profit in the year to come because of a good profit margin on the export of re-dried tobacco.

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 recognition and management.

ACKNOWLEDGEMENT

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 unwavering 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 2013



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

We have reviewed the Directors' Statement of Compliance with the Best Practices ("the Statement") contained in the Code of Corporate Governance prepared by the Board of Directors of Khyber Tobacco Company Limited, ("the Company") to comply with the Listing Regulations No. 35 of Karachi Stock Exchange Limited and Listing Regulation No. 35 of Lahore Stock Exchange Limited, where the Company is listed.

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

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

Further, Sub-Regulation (xiii a) of Listing Regulation 35 notified by the Karachi Stock Exchange Limited vide circular KSE/ N-269 dated 19 January 2009 requires the Company to place before the Board of Director for their consideration and approval related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternative pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedure to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 June 2013.

We highlight below, instances of non-compliance of the requirements of the Code as stated in the Statement of Compliance:

- 1 Note 3 which states that three Directors of the Company are not registered taxpayers.
- 2 Note 6 which states that significant policies have not been approved by the Board as of the date of this report.
- 3 Note 10 which states that position of Chief Financial Officer (CFO) remained vacant during the year.
- 4 Note 12 which states that financial statements of the Company were endorsed by the Senior Manager Finance in place of CFO.

Islamabad
03 October 2013


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



Statement of Compliance (with the code of Corporate Governance)

Name of Company: Khyber Tobacco Company Limited

Year Ended: 30 June 2013

This statement is being presented to comply with the Code of Corporate Governance (Code) as per the Listing Regulations No. 35 of Karachi Stock Exchange Limited and Listing Regulation No. 35 of 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 code in following manner;

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. The present composition of the Board is as follows;

Executive Directors

Muhammad Faridooon Rehman
Waseem Ur Rehman

Non Executive Directors

Liaqat Ali Khan	(Independent)
Muhammad Sayyad	(Independent)
Shafiq Afzal	(Independent)
Amir Siddiqui	(Independent)
Bilal Zada	

The independent directors meet the criteria of independence under clause 1(b) of the CCG.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.
3. All the resident directors of the company except three are registered as taxpayers and none of them has defaulted in payment of loan to a banking company, a DFI or NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Mr. Miftah uddin ceased to hold office as Director of the Company with effect from 21-02-2013 and Mr. Muhammad Sayyad replaced him as director on 22-02-2013. Mr. Fazl e Mabood ceased to hold office as Director of the Company with effect from 21-02-2013 and Mr. Shafiq Afzal replaced him as director on 24-02-2013. Mr. Wali ur Rehman ceased to hold office as Director of the Company with effect from 25-06-2013 and Mr. Bilal Zada replaced him as director on 26-06-2013. Mr. Waseem ur Rehman – Director was appointed Chief Executive Officer on 26-06-2013.
5. The Company has prepared a “Code of Conduct” and has ensured that appropriate steps have been taken to disseminate it through the company along with its supporting policies and procedures.

Statement of Compliance (with the code of Corporate Governance)

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.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, 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. In house orientation was conducted for the directors to apprise them of their duties and responsibilities and to brief them regarding the amendments in the Companies Ordinance/Corporate Law. Four directors attended the course.
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 executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an audit committee. It comprises 3 members, all non-executive directors and the chairman of the committee is an independent 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 an HR and Remuneration committee. It comprises 3 members, of whom 1 is a non-executive director and the chairman of the committee is an independent director.
18. The Board has 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.

Statement of Compliance (with the code of Corporate Governance)

19. The statutory auditors for 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 as disclosed in point 3, 6, 10 and 12 above towards which reasonable progress is being made by the Company to seek compliance by the end of next accounting year.

For & On Behalf of the Board



(Waseem ur Rehman)
Chief Executive

Auditor's Report To The Members

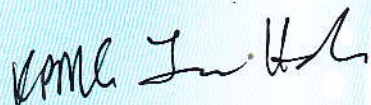
We have audited the annexed balance sheet of Khyber Tobacco Company Limited ("the Company") as at 30 June 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion-
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting polices consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business- and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 2013 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in Central Zakat Fund established under section 7 of that Ordinance.

Islamabad
03 October 2013



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



BALANCE SHEET AS AT 30 JUNE 2013

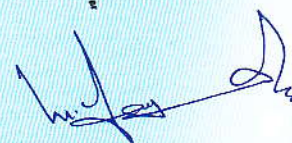
	Note	2013 Rupees	2012 Rupees
SHARE CAPITAL AND RESERVES			
Authorised share capital 2,000,000 (2012: 2,000,000) ordinary shares of Rs. 10 each		<u>20,000,000</u>	<u>20,000,000</u>
Issued, subscribed and paid up capital	4	<u>12,018,410</u>	12,018,410
General reserve		<u>3,312,465</u>	3,312,465
Unappropriated profit		<u>278,238,018</u>	234,042,486
		<u>293,568,893</u>	249,373,361
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - net of tax	5	191,824,554	234,164,911
NON CURRENT LIABILITIES			
Deferred liabilities	6	36,662,442	22,897,587
CURRENT LIABILITIES			
Trade and other payables	7	311,622,783	268,160,517
		<u>833,678,672</u>	<u>774,596,376</u>
CONTINGENCIES AND COMMITMENTS			
	8		

The annexed notes 1 to 27 form an integral part of these financial statements.

CHIEF EXECUTIVE

BALANCE SHEET AS AT 30 JUNE 2013

	Note	2013 Rupees	2012 Rupees
NON CURRENT ASSETS			
Property, plant and equipment	9	336,893,325	283,530,236
Long term deposits		1,444,151	955,230
		338,337,476	284,485,466
CURRENT ASSETS			
Stock in trade	10	217,253,331	297,770,863
Trade debts - considered good	11	177,829,200	128,118,645
Advances to suppliers - considered good		27,702,667	29,102,394
Prepayments		525,467	-
Advance tax - net		9,238,882	309,716
Other receivable	12	5,401,100	13,068,400
Cash and bank balances	13	57,390,549	21,740,892
		495,341,196	490,110,910
		833,678,672	774,596,376



DIRECTOR



PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 Rupees	2012 Rupees
Turnover - net	14	914,463,779	701,348,235
Cost of sales	15	(824,460,201)	(494,537,828)
Gross profit		90,003,578	206,810,407
Distribution cost	16	(16,410,567)	(31,354,797)
Administrative expenses	17	(34,101,475)	(22,967,745)
Other expenses	18	(2,821,881)	(8,212,416)
Finance cost	19	(2,992,451)	(1,269,259)
Other income	20	4,568,168	2,377,881
Profit before taxation		38,245,372	145,384,071
Provision for taxation	21	(16,518,103)	(10,469,669)
Profit for the year		21,727,269	134,914,402
Earnings per share - basic and diluted	25	18.08	112.26

The annexed notes 1 to 27 form an integral part of these financial statements.

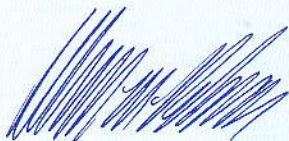
CHIEF EXECUTIVE

DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	2013 Rupees	2012 Rupees
Profit for the year	21,727,269	134,914,402
Other comprehensive income for the year	-	-
Comprehensive income transferred to equity	21,727,269	134,914,402
Components of comprehensive income not reflected in equity		
Surplus on revaluation of property, plant and equipment	-	263,082,116
Deferred tax on revaluation of property, plant and equipment	-	(19,336,536)
	-	243,745,580
Total comprehensive income for the year	21,727,269	378,659,982

The annexed notes 1 to 27 form an integral part of these financial statements.



CHIEF EXECUTIVE




DIRECTOR

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2013 Rupees	2012 Rupees
Profit before taxation		38,245,372	145,384,071
Adjustments for:			
Depreciation	9.1	24,273,938	13,665,743
Finance cost	19	2,992,451	1,269,259
Gain on disposal of property, plant and equipment	20	(4,045,475)	-
Provision for doubtful debts		1,846,652	-
Provision for gratuity	6.2	2,125,431	908,952
		<u>27,192,997</u>	<u>15,843,954</u>
		65,438,369	161,228,025
(Increase) / decrease in current assets			
Stock in trade		80,517,532	(177,009,264)
Trade debts		(51,557,207)	(68,192,115)
Advances to suppliers - considered good		1,399,727	(7,881,840)
Prepayments		(525,467)	-
Other receivable		7,667,300	(13,068,400)
Increase in current liabilities			
Trade and other payables		42,046,322	134,806,423
		<u>79,548,207</u>	<u>(131,345,196)</u>
Cash generated from operations		144,986,576	29,882,829
Finance cost paid		(2,992,451)	(1,269,259)
Income tax paid		(27,670,736)	(15,091,577)
Dividend paid		(4,593,259)	-
Net cash generated from operating activities		<u>109,730,130</u>	<u>13,521,993</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		(89,962,027)	(17,403,058)
Increase in long term security deposits		(488,921)	-
Proceeds from disposal of property, plant and equipment		16,370,475	-
Net cash used in investing activities		<u>(74,080,473)</u>	<u>(17,403,058)</u>
Net increase/ (decrease) in cash and cash equivalents		35,649,657	(3,881,065)
Cash and cash equivalents at beginning of the year		21,740,892	25,621,957
Cash and cash equivalents at end of the year	13	<u>57,390,549</u>	<u>21,740,892</u>

The annexed notes 1 to 27 form an integral part of these financial statements.



CHIEF EXECUTIVE

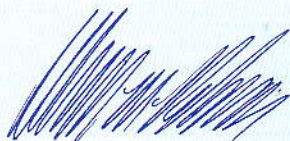


DIRECTOR

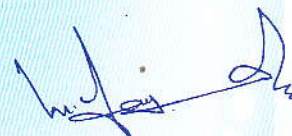
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2013

Share capital	Revenue reserve		Total	
	General reserve	Unappropriated profit		
Rupees				
Balance at 01 July 2011	12,018,410	3,312,465	89,547,415	104,878,290
Total comprehensive income for the year				
Profit for the year	-	-	134,914,402	134,914,402
Transfer from surplus on revaluation of property, plant and equipment - net of tax	-	-	9,580,669	9,580,669
Total comprehensive income for the year	-	-	144,495,071	144,495,071
Balance at 30 June 2012	12,018,410	3,312,465	234,042,486	249,373,361
Balance at 01 July 2012	12,018,410	3,312,465	234,042,486	249,373,361
Total comprehensive income for the year				
Profit for the year	-	-	21,727,269	21,727,269
Transfer from surplus on revaluation of property, plant and equipment - net of tax	-	-	17,546,539	17,546,539
Transfer from surplus on revaluation of property, plant and equipment on disposal	-	-	10,930,929	10,930,929
Total comprehensive income for the year	-	-	50,204,737	50,204,737
Transactions with owners, recorded directly in equity				
Final dividend of Rs 5 per share relating to the year ended 30 June 2012	-	-	(6,009,205)	(6,009,205)
Total transactions with owners, recorded directly in equity	-	-	(6,009,205)	(6,009,205)
Balance at 30 June 2013	12,018,410	3,312,465	278,238,018	293,568,893

The annexed notes 1 to 27 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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 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 International Accounting Standard 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 on the historical cost basis except for the following;

- certain items of property, plant and equipment are carried at revalued amounts less accumulated
- liability related to gratuity is measured at present value.

2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistan Rupees which is the Company's functional and presentation currency.

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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by the management in application of the approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

2.4.1 Property, plant and equipment

The Company reviews useful lives and residual value of property, plant and equipment on a regular basis. Any change in estimates in future years which might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment loss. Further, management also on a periodic basis reviews the carrying amounts of certain classes of property, plant and equipment which are carried at revalued amounts. Any change in estimate in future years which might affect the carrying amount of these classes with a corresponding effect on the surplus on revaluation of property, plant and equipment, related deferred tax liability and related charge of incremental depreciation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2.4.2 Stock in trade

The Company reviews the carrying value of stock in trade to assess any diminution in carrying values. Net realizable value is determined with reference to estimated selling price less estimated expenditures to make the sales.

2.4.3 Provision against trade debts, advances and other receivables

The Company reviews the recoverability of its trade debts, advances and other receivables to assess amount of bad debts and provision required there against on annual basis.

2.4.4 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.

2.4.5 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 disclosures or provisions are made.

2.4.6 Provision of staff retirement gratuity

The present value of the obligation for gratuity depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge for the year include the discount rate, expected increase in eligible salary and mortality rate. Any changes in these assumptions will impact the carrying amount of obligations for gratuity.

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 2013:

IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no material impact on financial statements of the Company.

IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.

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.

Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.

Annual Improvements 2009–2011 (effective for annual periods beginning on or after 1 January 2013). The new cycle of improvements contains amendments to the following four standards, with consequential amendments to other standards and interpretations.

IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the 'third statement of financial position', when required, is only required if the effect of restatement is material to statement of financial position.

IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories. The amendments have no impact on financial statements of the Company.

IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12

IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

IFRIC 21- Levies an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). 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.

IAS 39 Financial Instruments: Recognition and Measurement- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective for annual periods beginning on or after 1 January 2014). The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

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.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 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

Provision for current taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any.

Deferred

Deferred tax liabilities are recognized for all major taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is accounted for using the balance sheet liability method in respect of all major taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of tax. The amount of deferred tax recognized is based on expected manner of realization or settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantially enacted at the balance sheet date.

Taxable temporary difference are adjusted by the portion of income expected to fall under presumptive tax regime in accordance with the requirement of Accounting Technical Release - 27 of the Institute of Chartered Accountants of Pakistan. The effect of the adjustment is charged or credited to income currently.

3.2 Provisions

A provision is recognized in 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

3.3 Property, plant and equipment

These are stated at cost, which includes purchase price, import duties and directly attributable costs less accumulated depreciation and impairment loss, if any, except for buildings on leasehold, plant and machinery and furniture and fixtures which are stated at revalued amount less accumulated depreciation thereon and impairment loss, if any.

Normal repairs and maintenance are charged to profit and loss account as and when incurred whereas major improvements and modifications are capitalized.

Capital work in progress is stated at cost including where appropriate, related borrowing costs less impairment loss, if any. These costs are transferred to operating fixed assets as and when assets are available for use.

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

Depreciation is recognized in profit and loss account on straight line basis at rates given in the note 9 to these financial statements. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment is acquired or capitalized while no depreciation is charged for the month in which property, plant and equipment is disposed off.

Gains and losses on disposals of property, plant and equipment are taken to profit and loss account. When revalued assets are sold, the amount included in the surplus on revaluation of property, plant and equipment are transferred to retained earnings.

3.4 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 or its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted at their present value using pre-tax discount rate that reflects current market assessment of the time value of money and the risk specific to the asset. For 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 group of assets (the "cash generating unit, 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 estimate used to determine the recoverable amount. An impairment loss is reversed if there has been a change in the estimate 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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 has a negative effect on the estimated future cash flows of that asset that can be estimate 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.

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 estimate 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.

3.5 Foreign currency transactions

Transactions in foreign currencies are translated into functional currency at exchange rates at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at balance sheet date are translated to the functional currency at the exchange rates at that date. Exchange differences are included in the profit and loss account.

3.6 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 of work in process and finished goods comprises of direct materials, labor and appropriate manufacturing overheads. Net realizable value signifies estimated selling price less estimated costs to complete and cost necessary to be incurred to effect such sale.

Materials in transit are stated at cost comprising invoice value plus other charges paid 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 a sale.

3.7 Staff retirement benefits

Gratuity

The Company operates a defined benefit plan comprising an unfunded gratuity scheme covering all eligible employees completing the minimum qualifying period of service as specified by the scheme. Annual provisions to cover the obligations under the scheme are based on actuarial estimates and are charged to income. Actuarial valuations are carried out using the Projected Unit Credit Method. The Company's policy for the recognition of actuarial gains and losses is based on immediate recognition of actuarial gains and losses. Latest valuation was conducted as at 30 June 2013.

The amount recognized in the balance sheet represents the present value of defined benefit obligations adjusted for actuarial gains and losses, unrecognized past service cost and interest cost.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

Revenue recognition

Revenue from 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 risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The transfer of risk and rewards occur when the goods are dispatched.

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. Financial assets are derecognized when the Company loses control of the contractual rights that comprise the financial asset. 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 using effective interest method.

Trade debts and other receivables

Trade debts and other receivables are initially recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances at banks.

Dividend

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

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 2013

4. ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

2013	2012		Note	2013 Rupees	2012 Rupees
Number of shares					
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
<u>1,201,841</u>	<u>1,201,841</u>			<u>12,018,410</u>	<u>12,018,410</u>

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

Opening balance as on 01 July	251,469,184	-
Surplus on revaluation during the year	-	263,082,116
Surplus on property, plant and equipment disposed off during the year	(11,689,193)	-
	<u>239,779,991</u>	<u>263,082,116</u>
Surplus transferred to unappropriated profit in respect of incremental depreciation charged during the year:		
- Net of deferred tax	(17,546,539)	(9,580,669)
- Related deferred tax liability	(2,548,446)	(2,032,263)
	<u>(20,094,985)</u>	<u>(11,612,932)</u>
Surplus on revaluation of property, plant and equipment as at 30 June	<u>219,685,006</u>	<u>251,469,184</u>
Related deferred tax liability:		
On revaluation surplus as on 01 July	(17,304,273)	-
On revaluation surplus during the year	-	(92,078,741)
Adjustment on property, plant and equipment disposed off during the year	758,264	-
Transferred to profit and loss account in respect of incremental depreciation charged during the year	2,548,446	2,032,263
Tax rate adjustment due to change in ratio of export sales	(13,862,890)	72,742,205
	<u>(27,860,453)</u>	<u>(17,304,273)</u>
	<u>191,824,554</u>	<u>234,164,911</u>

6. DEFERRED LIABILITIES

Deferred taxation	6.1	30,138,648	18,499,225
Staff retirement benefit - gratuity	6.2	6,523,794	4,398,362
		<u>36,662,442</u>	<u>22,897,587</u>

6.1 Deferred tax liability is recognised on following major temporary differences:

Taxable temporary differences

Surplus on revaluation of property, plant and equipment	27,860,453	17,304,273
Excess of accounting book value of property, plant and equipment other than revalued amounts over their tax base	2,681,436	1,292,926

Deductible temporary differences

Provisions for doubtful debts	(403,241)	(97,974)
	<u>30,138,648</u>	<u>18,499,225</u>

6.1.1 Movement of deferred tax liability is as follows:

Opening balance	18,499,225	1,130,887
Effect of tax on revaluation of property, plant and equipment	13,862,890	19,336,536
Effect of tax credit for the year	(2,223,467)	(1,968,198)
Closing balance	<u>30,138,648</u>	<u>18,499,225</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

		2013 Rupees	2012 Rupees
6.2	Staff retirement benefit - gratuity		
	Amount recognised in balance sheet is as follows:		
	Present value of defined benefit obligation	6,523,794	4,486,434
	Transitional liability recognised	-	(88,072)
		<u>6,523,794</u>	<u>4,398,362</u>
	Movement in present value of defined benefit obligation is as follows:		
	Opening balance	4,398,362	3,489,411
	Expense for the year	2,125,431	908,951
	Closing balance	<u>6,523,793</u>	<u>4,398,362</u>
	Expense recognised in profit and loss account is as follows:		
	Current service cost	1,690,502	1,000,379
	Interest cost	560,804	458,194
	Transitional liability recognised	88,072	88,072
	Actuarial gains recognised	(213,947)	(637,693)
		<u>2,125,431</u>	<u>908,952</u>
	Actuarial assumptions	<u>2013</u>	<u>2012</u>
	Valuation discount rate	12%	12%
	Salary increase rate	12%	12%
	Mortality rate	EFU (61-66) Mortality Table	EFU (61-66) Mortality Table
7.	TRADE AND OTHER PAYABLES	<u>2013 Rupees</u>	<u>2012 Rupees</u>
	Creditors	234,364,371	212,516,998
	Advances from customers	31,313,512	31,704,475
	Workers' Profit Participation Fund	6,610,622	7,560,930
	Workers' Welfare Fund	1,504,675	651,486
	Accrued liabilities	10,490,963	5,845,741
	Withholding tax payable	793,642	44,476
	Sales tax and excise duty payable	18,624,477	5,320,840
	Unclaimed dividend	2,409,017	993,071
	Tobacco development cess payable	5,511,504	3,522,500
		<u>311,622,783</u>	<u>268,160,517</u>
7.1	Workers' Profit Participation Fund		
	Balance at the beginning of the year	7,560,930	5,529,732
	Provision for the year	1,968,692	7,560,930
	Payments during the year	(2,919,000)	(5,529,732)
		<u>6,610,622</u>	<u>7,560,930</u>
7.2	This includes salary payable to Chief Executive Officer and Directors amounting to Rs. 1.8 million and Rs. 4.52 million (2012: Rs. Nil and Rs. 0.16 million) respectively.		
8.	CONTINGENCIES AND COMMITMENTS		
8.1	There are no contingencies as at year end.		
8.2	Commitments	<u>2013 Rupees</u>	<u>2012 Rupees</u>
	In respect of letters of credit against import of machinery and spares	10,230,000	25,421,687
	In respect of leasehold land	97,461	105,138

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

9. PROPERTY, PLANT AND EQUIPMENT

	Rupees							Total
	Buildings on leasehold land	Plant and machinery	Tools and equipment	Furniture and fixtures	Computers	Vehicles	Capital work in progress (Note 9.3)	
Cost/ revalued amounts								
Balance at 01 July 2011	5,753,436	35,527,203	9,208,107	1,177,570	78,300	728,629	-	52,473,245
Additions during the year	-	15,355,988	123,000	-	1,574,240	-	349,830	17,403,058
Surplus on revaluation	142,752,420	120,007,879	-	321,817	-	-	-	263,082,116
Reversal of accumulated depreciation	(5,086,536)	(27,201,082)	-	(918,707)	-	-	-	(33,206,325)
Balance at 30 June 2012	143,419,320	143,689,988	9,331,107	580,680	1,652,540	728,629	349,830	299,752,094
Balance at 01 July 2012	143,419,320	143,689,988	9,331,107	580,680	1,652,540	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
Depreciation								
Balance at 01 July 2011	5,086,536	27,201,082	1,808,107	918,707	19,379	728,629	-	35,762,440
Charge for the year	4,222,404	8,706,321	660,026	30,007	46,985	-	-	13,665,743
Reversal of accumulated depreciation	(5,086,536)	(27,201,082)	-	(918,707)	-	-	-	(33,206,325)
Balance at 30 June 2012	4,222,404	8,706,321	2,468,133	30,007	66,364	728,629	-	16,221,858
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
On 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
Carrying amounts - 2013	129,636,168	116,411,925	6,716,813	498,412	1,269,725	1,625,930	80,734,352	336,893,325
Carrying amounts - 2012	139,196,916	134,983,667	6,862,974	550,673	1,586,176	-	349,830	283,530,236
Rate of depreciation per annum	13 years	10% - 20%	10%	10%	30%	20%		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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

	Note	2013 Rupees	2012 Rupees
Cost of sales	15	20,147,369	11,342,567
Administrative expenses	17	4,126,569	2,323,176
		24,273,938	13,665,743

9.2 Buildings on leasehold land, plant and machinery and furniture and fixtures are revalued on 21 February 2012. Valuation has been carried out by an independent valuer, M/s Construction Management Services under the market value basis. These revaluations 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	Disposals WDV	Closing cost	Accumulated depreciation	Carrying Value
	Rupees					
Buildings on leasehold land	5,753,436	390,830	-	6,144,266	5,691,609	452,657
Plant and machinery	50,883,191	6,405,997	(2,080,975)	55,208,213	28,926,367	26,281,846
Furniture and fixtures	1,177,570	-	-	1,177,570	1,050,575	126,995
June 2013	57,814,197	6,796,827	(2,080,975)	62,530,049	35,668,551	26,861,498
June 2012	43,268,815	14,545,382	-	57,814,197	34,552,125	23,262,072

9.3 Breakup of capital work in progress is as follows;

	2013 Rupees	2012 Rupees
Plant, machinery and other equipment	68,142,657	-
Building and civil works	-	349,830
Stores and spares held for capitalisation	7,775,095	-
Other directly attributable expense	4,816,600	-
	80,734,352	349,830

9.4 Detail of property, plant and equipment disposed off during the year is as follows;

	Note	Revalued amount	Book value	Sale proceeds	(Loss) / gain	Sold to
		Rupees				
Plant and machinery						
MK-8 cigarette making machine	9.4.1	3,500,000	3,325,000	2,621,775	(703,225)	V.V.M. - Netherlands
MK-8 cigarette making machine	9.4.1	3,500,000	3,150,000	4,812,045	1,662,045	V.V.M. - Netherlands
Molins HLP packing line	9.4.1	6,500,000	5,850,000	8,936,655	3,086,655	V.V.M. - Netherlands
		13,500,000	12,325,000	16,370,475	4,045,475	

9.4.1 These disposals are made by negotiations and as per the Company's policy.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

		2013	2012
		Rupees	Rupees
10. STOCK IN TRADE			
Raw and packing material		203,327,576	274,164,937
Work in process		378,899	2,428,210
Finished stock		13,546,856	21,177,716
		<u>217,253,331</u>	<u>297,770,863</u>
11. TRADE DEBTS - considered good			
Trade debts - considered good		177,829,200	128,118,645
Trade debts - considered doubtful		3,179,631	1,332,979
		<u>181,008,831</u>	<u>129,451,624</u>
Provision for doubtful debts		(3,179,631)	(1,332,979)
		<u>177,829,200</u>	<u>128,118,645</u>
12. OTHER RECEIVABLE			
This represents margin retained by Habib Bank Limited against letters of credit. (Also refer note 8).			
13. CASH AND BANK BALANCES	Note	2013	2012
		Rupees	Rupees
Cash in hand		145,039	18,076
Cash at bank			
Current accounts			
- Foreign currency		40,288	4,926,672
- Local currency		57,205,222	16,796,144
		<u>57,390,549</u>	<u>21,740,892</u>
14. TURNOVER - net			
Gross turnover			
- Local		854,873,546	396,520,838
- Export		410,938,729	556,707,921
		<u>1,265,812,275</u>	<u>953,228,759</u>
Government levies			
-Excise duty		(248,741,259)	(189,947,366)
-Sales tax		(60,867,016)	(48,947,058)
		<u>956,204,000</u>	<u>714,334,335</u>
Discounts		(41,740,221)	(12,986,100)
		<u>914,463,779</u>	<u>701,348,235</u>
15. COST OF SALES			
Raw and packing material consumed	15.1	729,434,824	431,597,386
Royalty		1,767,650	3,056,590
Fuel and power		25,053,453	15,381,787
Stores, spare parts and loose tools consumed		8,130,479	3,783,230
Repairs and maintenance		2,855,194	925,832
Salaries and wages	15.2	25,252,242	18,039,096
Insurance		1,562,153	-
Rent expense		576,667	969,580
Depreciation	9.1	20,147,368	11,342,567
		<u>814,780,030</u>	<u>485,096,068</u>
Opening work in process		2,428,210	6,351,147
Closing work in process		(378,899)	(2,428,210)
Cost of goods manufactured		<u>816,829,341</u>	<u>489,019,005</u>
Opening finished stock		21,177,716	26,696,539
Closing finished stock		(13,546,856)	(21,177,716)
		<u>824,460,201</u>	<u>494,537,828</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

		2013 Rupees	2012 Rupees
15.1	Raw and packing materials consumed		
	Opening balance	274,164,937	87,713,913
	Raw and packing material purchases	658,597,463	618,048,410
	Closing balance	<u>(203,327,576)</u>	<u>(274,164,937)</u>
		<u>729,434,824</u>	<u>431,597,386</u>
15.2	Salaries and wages include staff retirement benefits amounting to Rs. 1.6 million (2012: Rs. 0.59 million)		
16.	DISTRIBUTION COST	Note	
		2013 Rupees	2012 Rupees
	Customs, clearance and freight on export	12,849,118	20,396,745
	Freight on local sale	2,066,370	1,563,540
	Advertising and promotion	1,495,079	9,394,512
		<u>16,410,567</u>	<u>31,354,797</u>
17.	ADMINISTRATIVE EXPENSES		
	Salaries and wages	14,302,379	10,636,682
	Insurance	21,926	86,565
	Fuel and power	4,354,310	2,985,717
	Communication	833,910	1,360,237
	Printing and stationery	829,347	1,124,543
	Security charges	1,746,000	927,000
	Depreciation	4,126,569	2,323,176
	Legal and professional	1,262,944	795,801
	Auditors' remuneration	1,978,486	1,771,500
	Donation	728,440	309,960
	Repair and maintenance	33,110	229,400
	Rent expenses	280,000	-
	Provision for doubtful debts	1,846,652	-
	Other	1,757,402	417,164
		<u>34,101,475</u>	<u>22,967,745</u>
17.1	Salaries and wages include staff retirement benefits amounting to Rs. 0.52 million (2012: Rs. 0.32 million)		
17.2	Auditors' remuneration	2013 Rupees	2012 Rupees
	Annual audit fee	600,000	500,000
	Half yearly review fee	400,000	350,000
	Other certification charges	120,000	120,000
	Taxation services	681,500	681,500
	Out of pocket expenses	176,986	120,000
		<u>1,978,486</u>	<u>1,771,500</u>
17.3	Donations are made to deceased employees' families and to disabled children.		
18.	OTHER EXPENSES		
	Workers' Profit Participation Fund	1,968,692	7,560,930
	Workers' Welfare Fund	853,189	651,486
		<u>2,821,881</u>	<u>8,212,416</u>
19.	FINANCE COST		
	Bank charges and commissions	2,992,451	1,269,259
		<u>2,992,451</u>	<u>1,269,259</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 Rupees	2012 Rupees
20. OTHER INCOME		
Income from financial assets		
Exchange gain-net	85,085	2,377,881
Income from non financial assets		
Gain on disposal of property, plant and equipment	4,045,475	-
Other income	437,608	-
	<u>4,483,083</u>	<u>-</u>
	<u>4,568,168</u>	<u>2,377,881</u>
21. PROVISION FOR TAXATION		
Provision for taxation - Current	18,741,570	12,437,867
- Deferred	(2,223,467)	(1,968,198)
	<u>16,518,103</u>	<u>10,469,669</u>

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

	2013 Rupees	2012 Rupees
Accounting profit	38,245,372	145,384,071
Applicable tax rate	35%	35%
Tax on accounting profit at applicable rate of 35% (2012: 35%)	13,385,880	50,884,425
Effect of export sales restriction	910,440	(655,914)
Effect of permanent differences	4,235,733	(31,692,788)
Tax effect of lower rates on certain income	(2,013,950)	(8,066,054)
	<u>16,518,103</u>	<u>10,469,669</u>

	2013 Rupees	2012 Rupees
22. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES		
Chief executive		
Managerial remuneration and allowances	1,800,000	-
Directors		
Managerial remuneration and allowances	4,523,000	1,620,000
Number of directors	2	2
Executives		
Managerial remuneration and allowances	1,617,588	-
Number of executives	2	-

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

23. 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.

23.1 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:

	Note	2013 Rupees	2012 Rupees
Long term deposits		1,444,151	955,230
Trade debts	11	177,829,200	128,118,645
Other receivable	12	5,401,100	13,068,400
Bank balances	13	57,245,510	21,722,816
		241,919,961	163,865,091

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

Banks and financial institutions	62,646,610	34,791,216
Others	179,273,351	129,073,875
	241,919,961	163,865,091

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

Domestic	113,052,271	66,508,335
Middle East	64,776,929	61,610,310
	177,829,200	128,118,645

The Company's most significant customer is a dealer in Middle East from whom Rs. 64.7 million (2012: Rs. 61.6 million) is receivable at the year end.

Impairment losses

The aging of trade debts at the reporting date is:

	Gross 2013 Rupees	Impairment 2013 Rupees	Gross 2012 Rupees	Impairment 2012 Rupees
Aging				
Past due 1-30 days	102,323,923	-	80,078,668	-
Past due 31-90 days	75,356,366	-	48,039,724	-
Past due 90-365 days	148,911	-	253	-
Over 365 days	3,179,631	3,179,631	1,332,979	1,332,979
	181,008,831	3,179,631	129,451,624	1,332,979

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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

	2013 Rupees	2012 Rupees
Opening balance	1,332,979	1,332,979
Provision made during the year	1,846,652	-
Closing balance	3,179,631	1,332,979

The allowance account in respect of trade debts is 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.

23.2 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	Six months or less	Six to twelve months
2013				
Rupees				
Financial liabilities				
Trade and other payables	280,309,271	280,309,271	280,309,271	-
	280,309,271	280,309,271	280,309,271	-
2012				
Financial liabilities				
Trade and other payables	236,456,042	236,456,042	236,456,042	-
	236,456,042	236,456,042	236,456,042	-

23.3 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.

23.3.1 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.

	2013		2012	
	Rupees	USD	Rupees	USD
Trade debts	64,776,929	658,035	61,610,310	651,409
Bank balance	40,288	409	4,926,672	52,090
Advances from customers	(31,271,298)	(317,669)	(31,583,871)	(333,938)
Creditors	(3,252,033)	(33,036)	(9,197,407)	(97,245)
	30,293,886	307,740	25,755,704	272,316

The following significant exchange rates are applied during the year;

	Average rates		Balance sheet date rate	
	2013	2012	2013	2012
Rupees / Dollars	95.95	88.01	98.44	94.58

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

Sensitivity analysis

A five percent strengthening of the Pakistan Rupee against US Dollar at 30 June would have decreased 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 2012.

	Profit or loss Rupees
30 June 2013	
Effect in US Dollar - loss	<u>(1,514,694)</u>
	<u>(1,514,694)</u>
30 June 2012	
Effect in US Dollar - loss	<u>(1,287,785)</u>
	<u>(1,287,785)</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.

23.3.2 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.

23.4 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:

	Note	2013		2012	
		Carrying amount	Fair values	Carrying amount	Fair values
Assets carried at amortized cost					
Long term deposits		1,444,151	1,444,151	955,230	955,230
Trade debts	11	177,829,200	177,829,200	128,118,645	128,118,645
Other receivable	12	5,401,100	5,401,100	13,068,400	13,068,400
Cash and bank balances	13	57,390,549	57,390,549	21,740,892	21,740,892
		<u>242,065,000</u>	<u>242,065,000</u>	<u>163,883,167</u>	<u>163,883,167</u>
Liabilities carried at amortized cost					
Trade and other payables		280,309,271	280,309,271	236,456,042	236,456,042
		<u>280,309,271</u>	<u>280,309,271</u>	<u>236,456,042</u>	<u>236,456,042</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.

23.5 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 2013

24. 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. Transaction with related parties are as follows:

	2013 Rupees	2012 Rupees
Transaction with associated undertakings under common directorship		
Rental of machine	94,167	-
Amount paid against wrapping material	-	3,499,643
Transaction with key management personnel		
Key management personnel - salary	6,323,000	1,620,000

25. EARNINGS PER SHARE

	2013	2012
Profit for the year (Rupees)	21,727,269	134,914,402
Weighted average number of ordinary shares in issue (Numbers)	1,201,841	1,201,841
Earnings per share - basic (Rupees)	18.08	112.26

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

26. PLANT CAPACITY

	2013	2012
Available capacity - million cigarettes per annum	1,038	1,140
Actual production - million cigarettes per annum	354	602

Actual production of cigarettes was sufficient to meet the market demand.

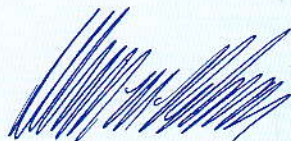
27. GENERAL

27.1 Number of persons employed

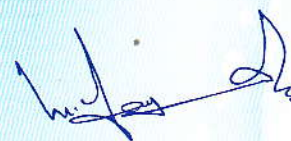
	2013	2012
Employees on year end	229	194
Average employees during the year	211	178

27.1 The Board of Directors proposed final dividend at the rate of Rs. 5/- per share in its meeting held on 03 October, 2013 for approval of the members at the Annual General Meeting to be held on 31 October, 2013.

27.2 These financial statements were authorised for issue by the Board of Directors of the Company in their meeting held on 03 October, 2013.



CHIEF EXECUTIVE



DIRECTOR

PATTERN OF SHAREHOLDING AS AT JUNE 30, 2013

No. Of Shareholders	Categories				Total Shares
332	From	1	to	100	9,414
239	From	101	to	500	65,569
60	From	501	to	1000	44,223
82	From	1001	to	5000	178,690
5	From	5001	to	10000	29,082
2	From	10001	to	15000	26,578
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
724					1,201,841

	No. of Shares
Associated Companies, Undertakings and Related Parties	-
NIT and CIP	-
Directors CEO and their spouse and minor children	401,601
Executives	-
Public Sector Companies and corporations	43,248
Banks, Development Finance Institutions, Non Banking	-
Finance Institutions, Insurance companies, Modaraba and Mutual Funds	1,569
Others	386
Individuals	755,037
	1,201,841

PATTERN OF SHAREHOLDING AS AT JUNE 30, 2013

Categories Of Shareholders	Number	Shares Held	%
Directors CEO and their spouse and minor children	7	401,601	33.42
Executives	-	-	-
Associated Companies, Undertakings and Related Parties	-	-	-
Investment Companies	1	290	0.02
Modarabas & Mutual Funds	-	-	-
Insurance Companies	1	1,569	0.13
Public Sector Companies and corporations	2	42,958	3.57
Financial Institutions	-	-	-
Individuals	713	755,037	62.82
Others	3	386	0.03
	727	1,201,841	100

No. of Shares

Associated Companies, Undertakings and Related Parties

-

Public Sector Companies and Corporations

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

Directors CEO and their spouse and minor children

Mr. Waseem ur Rahman	384,101
Mr. Bilalzada	5,000
Mr. Liaqat Ali Khan	2,500
Mr. Muhammad Faridooon Rehman	2,500
Mr. Amir Siddiqui	2,500
Mr. Muhammad Sayyad	2,500
Mr. Shafiq Afzal Khan	2,500

Shareholding 10% or more voting interest

Mr. Umair Sami	389,099
Mr. Waseem ur Rehman	384,101