

Shabbir Tiles and Ceramics Limited

2010  
annual report





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## **Vision Statement**

While Maintaining Our “Stile” Brand As Market Leader, We Continue To Delight Our Customers By Also Bringing In International Brands In The Field Of Building Materials, By Offering The Best Quality And Innovative Products At Competitive Prices, Taking Into Account The Stakeholders’ Interest.





## **Mission Statement**

Our mission is to maintain our position as the leader in the tile industry in Pakistan and for this purpose we will continue to focus on:

- We are committed to quality products and will provide our customers with innovative sizes, designs and colour scheme that they will be delighted to have and shall provide them with excellent services to earn their loyalty.
- We shall treat our employees fairly and shall provide conducive working environment for them to learn and to grow with the Company.
- The Company shall earn adequate profits for its progress and growth and for providing reasonable return to its shareholders.





## Shabbir Tiles and Ceramics Limited

### COMPANY INFORMATION

<b>BOARD OF DIRECTORS</b>	RAFIQ M HABIB ALIREZA M. ALLADIN ALI S. HABIB ABDUL HAI M. BHAIMIA MANSOOR G. HABIB ALI SAJJAD DHARAMSEY NAZIM F. HAJI	<i>Chairman</i> <i>Chief Executive</i>
<b>AUDIT COMMITTEE</b>	MANSOOR G. HABIB ALI SAJJAD DHARAMSEY NAZIM F. HAJI	<i>Chairman</i>
<b>COMPANY SECRETARY</b>	AZIZ AHMED	
<b>AUDITORS</b>	ERNST & YOUNG FORD RHODES SIDAT HYDER Chartered Accountants	
<b>LEGAL ADVISOR</b>	M. Akram Zuberi & Co. Advocate Supreme Court	
<b>BANKERS</b>	Habib Metropolitan Bank Limited Royal Bank of Scotland National Bank of Pakistan Bank AL Habib Limited Habib Bank Limited	
<b>REGISTERED OFFICE</b>	15th Milestone, National Highway, Landhi, Karachi-75120 Phones: (021) 35015024 - 25, 35014044 - 45 Fax: (021) 35015545 E-mail : info@stile.com.pk URL : http://www.stile.com.pk	
<b>KARACHI DISPLAY CENTRE &amp; SALES OFFICE</b>	Makro Cash & Carry, CAA, Near Star Gate, Main Shahrah-e-Faisal, Karachi. Phone: (92-21) 34601372-74 Fax: (92-21) 34601375	
<b>LAHORE SALES OFFICE</b>	17-A, Tariq, Block New Garden Town, Lahore. Phone: (92-42) 5914771, 73-75 / 5847900 Fax: (92-42) 5858163	
<b>ISLAMABAD SALES OFFICE</b>	9th & 10th Lower Ground Floor, Aries Tower, Shamsabad, Muree Road, Rawalpindi. Phone: (92-51) 4575315-18 Fax: (92-51) 4575319	
<b>PESHAWAR SALES OFFICE</b>	UG-46 & UG-47, Ground Floor, Dean Trade Centre & Hotel Towers Islamia Road, Peshawar Cantt. Phone: (92-91) 5522522, 5253160-61 Fax: (92-91) 5253161	
<b>MULTAN SALES OFFICE</b>	17-A, First Floor, Aslam Arcade, Shah Kareem Land, Near Multan Hospital, Multan. Phone: (92-61) 4783097 Fax; (92-61) 4646439	
<b>FAISALABAD SALES OFFICE</b>	P-2 / 2B, 213 Main Susan Road, Faisalabad. Phones: (92-41) 8548243, 8710103 Fax: (92-41) 8548244	
<b>REGISTRAR AND SHARE TRANSFER OFFICE</b>	Noble Computer Services (Pvt.) Ltd., Mezzanine Floor, Siddiqsons Towers, House of Habib Building, 3 Jinnah Cooperative Housing Society, Main Sharah-e-Faisal, Karachi. Phones: (021) 34325482-87	
<b>FACTORY: UNIT-I</b>	15th Milestone, National Highway, Landhi, Karachi-75120 Phones : (021) 35015024 - 25 / 35014044 - 45	
<b>UNIT-II</b>	Deh Khanto, Tappo Landhi, Distirict Malir, Bin Qasim Town, Karachi.	



## Shabbir Tiles and Ceramics Limited

### NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Thirty Second Annual General Meeting of Shabbir Tiles & Ceramics Limited will be held at the auditorium of Institute of Chartered Accountants of Pakistan (ICAP), Near Three Swords, Clifton, Karachi, on Thursday, October 28, 2010 at 10:30 a.m. to transact the following business:

#### ORDINARY BUSINESS

1. To receive, consider and adopt the audited accounts of the Company for the year ended June 30, 2010 alongwith the reports of the Directors and the Auditors thereon.
2. To appoint auditors for the year ending June 30, 2011 and to fix their remuneration.

By Order of the Board

**AZIZ AHMED**  
Company Secretary

Karachi : September 30, 2010.

#### NOTES:

1. The share transfer books of the Company will remain closed from October 22, 2010 to October 28, 2010 (both days inclusive). Transfers received in order at the office of the Company's Share Registrar M/s. Noble Computer Services (Pvt.) Limited, Mezzanine Floor, Siddiqsons Towers, House of Habib Building, 3-Jinnah C. H. Society, Main Shahrah-e-Faisal, Karachi, at the close of business on October 21, 2010 will be treated in time for the entitlement to attend the Annual General Meeting.
2. A member eligible to attend and vote at the meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. Proxies to be effective must be received by the Company not less than 48 hours before the time for holding of the meeting.

**CDC Account Holders will further have to follow the under mentioned guidelines as laid down in Circular No. 1 dated January 26, 2000 issued by Securities & Exchange Commission of Pakistan.**

#### A. For Attending the Meeting:

- (i) In case of individuals, the Account holder and sub-account holder whose registration details are uploaded as per the Regulations, shall authenticate his/her identity by showing his/her original Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting.
- (ii) In case of corporate entity, 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. For Appointing Proxies:**

- (i) In case of individuals, the Account holder and sub-account holder whose registration details are uploaded as per the Regulations, shall submit the proxy form as per 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 of CNIC or Passport of the beneficial owners and 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 corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form to the Company.



### THIRTY SECOND REPORT OF THE DIRECTORS FOR THE YEAR ENDED JUNE 30, 2010

Dear Shareholders,

The Directors of your Company take pleasure in presenting the annual report and the Company's audited accounts for the operating year ended June 30, 2010.

The Directors report is prepared under section 236 of the Companies Ordinance, 1984 and clause (xix) of the Code of Corporate Governance. This report is to be submitted to the members at the Thirty Second Annual General Meeting of the Company to be held on October 28, 2010.

#### CHANGES OF DIRECTORS

During the year under review Mr. Kersi D. Kapadia, Director of the Company who served the Company with great commitment and energy for over three decades passed away on December 19, 2009. The Board of Directors wishes to place on record their great sense of loss and deepest sympathy to the deceased's family. The vacancy was filled by Mr. Ali Sajjad Dharamsey for the remaining term.

The shareholders at their meeting held on May 5, 2010, elected unopposed seven Directors of the Company for the next term of three years ending May 2013. Thereafter, the Directors in their meeting re-elected Mr. Rafiq M. Habib and Mr. Alireza M. Alladin as Chairman and Chief Executive Officer of the Company, respectively for the next term of three years ending May 2013. The CEO will be entitled to annual remuneration of Rs. 7.5 million and other benefits which include interalia Company maintained car, Provident Fund, Club subscription and telephone as per his contract entered with the Company.

#### ECONOMIC OVERVIEW

Leading indicators were on a recovery phase after a deep and broad slowdown during 2008-2009. Investment condition as well as intentions appears to have improved noticeably, though with considerable uncertainty.

However, from the onset of fiscal year 2010-11 Pakistan is encountering devastating natural calamities in its history in the shape of seemingly unending rains and floods resulting in an economic losses guesstimated at over a trillion of rupees. Additionally, the continuing targeted killings, arsons, carnage and deteriorating law and security concerns and shutdowns in Karachi from the beginning of July 2010 is also compounding the economic recovery with billions of rupees financial losses and remains a threat of highest levels. Given the magnitude of these factors associated with acute power shortages, high inflation and lending rates we reckon that these will have notable negative consequences on the fiscal budgetary estimates and business climate during 2010-2011.

#### PERFORMANCE REVIEW

The fiscal year 2009-10 was a highly challenging and turbulent year on account of slow recovery from global economic recession and financial meltdown which also adversely affected Pakistan. From the onset activities in housing and construction sectors were on a declining path. Additionally, numerous other adverse factors have also affected the economy.

In this difficult backdrop, the management had an uphill task of commencing full year operation of unit-2 having a production capacity of 6.4 million square meters (msm) of Floor & Ceramic tiles of varying sizes. The unit-2 is a state-of-the-art technology and equipment and is designed to produce high quality tiles with significant efficiencies in energy consumption. The management has been successful in its endeavor with a record production of 10.29 msm from both units as against 7.72 msm of same period last year. The msm net sales were 9.87 as against 7.15 of corresponding period last year. The sales revenue of the Company for the period under review were an all time high amounting to Rs. 4.06 billion as against Rs. 2.85 billion of the same period last year. The gross profit was recorded as Rs. 1.06 billion as against Rs. 785 million in corresponding period last year. This performance should be taken against backdrop of highly turbulent and disruptive year. Selling, marketing and distribution expenses at Rs. 560 million increased by 45.83%





over last year mainly reflected increased freight cost, 42.34% sales growth and inflationary factors. Administrative expenses at Rs. 58 million increased by 1.75% which was less than the general level of inflation and sales growth of 42.34% compared to last year. Gross margin this year at 26.08% declined by 1.43% compared to last year due to increases in raw and packaging prices and escalation in utilities cost. The Company absorbed these negative impacts to an extent through good sales growth, simplification and rationalization initiatives undertaken in manufacturing and commercial operation. Your company suffered a pre-tax loss of Rs. 51.383 million after accounting for a mammoth financial charges of Rs. 495.4 million and depreciation of Rs. 308 million against last years pre-tax profit of Rs. 74 million which is mainly due to setting up of unit 2 and resulting high working capital loan requirements. The proactive approach of your Company with high emphasis on cost leadership, services and value addition for customers played a key role in maintaining the Company's market leadership. The basic earnings per share paisas 69 in negative for the year under review as compared to paisas 71 in positive last year.

### **APPROPRIATION**

In view of negative earnings per share your Directors have passed over dividend for the year and accordingly, no appropriation is made.

### **CONTRIBUTION TO NATIONAL EXCHEQUER**

During the year, the Company contributed Rs. 727.6 million to the National Exchequer in the shape of direct and indirect taxes and earned valuable foreign exchange through the export.

### **CERTIFICATION OF ISO 9002**

During the year the Quality management system of your Company was rectified by Lloyd's Register Quality Assurance to ISO 9002 standard. The quality management system is applicable to "Design and Manufacturing of Porcelain and Ceramics Tiles and other materials" meeting ISO 13006.

### **CORPORATE SOCIAL RESPONSIBILITY**

Your Company being a compassionate organization believes in contributing towards the development of community with objective of sheltering the deprived natives through donation and social welfare programs realizing its responsibilities towards its environment and inhabitants. Our current efforts of CSR activities are focused upon children education, women support and health care programs. Your Company not only emphasized on increasing the number of children in the school but has also acknowledged the need to upgrade the available facilities in its premises by bringing improvements such as free uniforms, free books & stationary, up gradation of the staff's salaries and revamp of premises.

### **HUMAN RESOURCES**

Our Human Resource practices are symptomatic of quality philosophy and help us in integrating people, processes and technology to promote a culture of excellence. We believe that investment in human capital is the key source of competitive advantage and sustained growth.

### **SAFETY & ENVIRONMENT**

As the leading player in the Tiles manufacturing of the country and consistent focus on HSSE, your Company has continued to maintain a good track record and play a leadership role in HSSE.

### **AUDITORS**

The Auditors retire and offer themselves for reappointment. The Audit Committee recommends the reappointment of Messrs. Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants as Auditors for the ensuing year 2011. The Board of Directors endorses recommendation of the Audit committee for their re-appointment at a fee to be mutually agreed.



### CORPORATE & FINANCIAL REPORTING FRAME WORK

The Directors are pleased to state that your Company has complied with the provisions of the Code of Corporate Governance as required by Securities & Exchange Commission of Pakistan. Following are the statements on Corporate and Financial reporting framework:

- The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flow statement and statement of changes in equity.
- The company has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- In preparation of financial statements, approved accounting standards as applicable in Pakistan have been followed.
- The system of internal control is sound in design. The system is being continuously monitored by internal audit and through other such monitoring procedures. The process of monitoring internal controls will continue with the objective to further strengthen the controls and improve the system.
- There is no doubt about the Company's ability to continue as going concern.
- There has been no material departure from the best practices of the corporate governance as detailed in the listing regulations.
- A summary of key operating and financial data of the Company of the last six years is annexed in the report on page No. 11.
- Information about the taxes and levies is given in the notes to the accounts.
- The value of investments of Provident Fund stood at Rs. 65.25 million as on June 30, 2010 (un-audited) and Rs. 56.524 million as on June 30, 2009 (audited).
- During the year the Board of Directors held four meetings which were attended by them as indicated below:

#### Number of Meetings attended

Mr. Rafiq M. Habib	4
Mr. Alireza M. Alladin	4
Mr. Ali S. Habib	4
Mr. Abdul Hai M. Bhaimia	4
Mr. Kersi D. Kapadia (Late)	2
Mr. Mansoor G. Habib	4
Mr. Nazim F. Haji	2
Mr. Ali Sajjad Dharamsey	2

Leave of absence was granted to the Directors who could not attend the meeting.

### PATTERN OF SHAREHOLDING

Pattern of shareholding is shown on page No. 41-42.

**TRADE OF COMPANY'S SHARES**

During the financial year no share transfers involving Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minor children were reported.

**FUTURE OUTLOOK**

Prospects of a global recovery in 2010-11 remain fragile and murky. However, we approach 2011 with cautious optimism despite uncertainty and speculations which have ridden the nation to a considerable extent. The aftermath of the ferocious floods raging through the country are bound to have colossal impact on the economy for some years, and the accurate extent of which will be known in coming months. Many of the Company's key markets are impacted and this may negatively affect the business and operation results of the Company in coming months. The management, however, is assessing the quantum of this impact and is focusing and planning to improve utilization of the plant capacity during the fiscal year 2010-11. Similarly, the deteriorating security concern is also severely affecting the business climate. Despite these our aim is to ensure that our performance exceeds expectation of our shareholders, not only during this difficult year of 2011 but beyond.

**APPROVAL AND AUTHORIZATION**

The Board of Directors of the Company in their meeting held on September 23, 2010 approved the Directors' report and authorized Mr. Alireza M. Alladin, Chief Executive Officer of the Company to sign the report on its behalf.

**SUBSEQUENT EVENTS**

No material changes or commitments affecting the financial position of the Company have occurred between the end of financial year of the Company and the date of this report.

**RELATED PARTIES**

The transactions between the related parties were made at arm's length prices determined in accordance with comparable uncontrolled prices method. The Company has fully complied with the best practices in transfer pricing as contained in the listing regulations of Stock Exchanges in Pakistan.

**ACKNOWLEDGEMENT**

The Board of Directors recognizes the enormous contribution of all staff members in achieving the Company objectives. "The STILE" spirit continues to form part of our value system that drives our success.

On behalf of the Board I would also appreciate the continuous support of our valued dealers, customers and stakeholders and we look forward to deliver successful results in future to the best of our abilities.

On behalf of the Board

**ALIREZA M. ALLADIN**  
Chief Executive

Karachi: September 23, 2010



## Shabbir Tiles and Ceramics Limited

### PERFORMANCE OF LAST SIX YEARS

	30TH JUNE 2010 (RS.'000s)	30TH JUNE 2009 (RS.'000s)	30TH JUNE 2008 (RS.'000s)	30TH JUNE 2007 (RS.'000s)	30TH JUNE 2006 (RS.'000s)	30TH JUNE 2005 (RS.'000s)
<b>ASSETS EMPLOYED</b>						
Property , plant & Equipment	3,826,126	4,113,866	1,527,609	730,863	594,628	475,850
Investment property	522	623	724	825	926	1,027
Long-term loans, advances & deposits	15,836	15,517	18,777	23,804	24,480	20,399
<b>Working capital</b>						
Current assets	1,792,732	1,565,475	941,186	612,769	588,704	514,467
Current liabilities	1,779,982	1,485,960	659,639	469,582	437,390	353,979
	12,750	79,515	281,547	143,187	151,314	160,488
	<b>3,855,234</b>	<b>4,209,521</b>	<b>1,828,657</b>	<b>898,679</b>	<b>771,348</b>	<b>657,764</b>
<b>FINANCED BY</b>						
Shareholders' equity						
Share Capital	360,638	360,638	163,926	136,605	113,835	94,865
Share Premium	389,764	389,764	-	-	-	-
Reserves	464,793	514,403	581,152	430,777	388,742	350,317
	1,215,195	1,264,805	745,078	567,382	502,577	445,182
Long Term Finance	2,543,980	2,769,983	791,743	-	6,750	33,750
Liabilities against assets subject to finance leases	13,768	69,474	163,385	264,745	213,823	139,428
Deferred liabilities	82,291	105,259	128,451	66,552	48,198	39,404
	<b>3,855,234</b>	<b>4,209,521</b>	<b>1,828,657</b>	<b>898,679</b>	<b>771,348</b>	<b>657,764</b>
<b>Ratio Analysis</b>						
Turnover (Net)	4,061,423	2,853,257	2,035,165	1,699,745	1,583,682	1,158,168
% of Growth	42.34%	40.20%	19.73%	7.33%	36.74%	40.12%
Gross profit	1,059,379	784,812	533,650	440,411	432,253	312,281
Gross profit ( % )	26.08%	27.51%	26.22%	25.91%	27.29%	26.96%
Administrative Expenses	57,718	56,794	37,020	34,835	29,876	23,093
% of Turnover -net	1.42%	1.99%	1.82%	2.05%	1.89%	1.99%
Distribution Cost	559,697	383,930	276,118	219,688	218,775	149,330
% of Turnover -net	13.78%	13.46%	13.57%	12.92%	13.81%	12.89%
Financial Charges	495,362	266,836	62,065	51,813	43,816	19,591
% of Turnover -net	12.20%	9.35%	3.05%	3.05%	2.77%	1.69%
Profit before taxation	(51,383)	73,548	144,765	126,143	126,004	112,608
% of Turnover -net	-1.27%	2.58%	7.11%	7.42%	7.96%	9.72%
Profit after taxation	(49,610)	47,747	95,986	81,881	71,624	76,292
% of Turnover -net	-1.22%	1.67%	4.72%	4.82%	4.52%	6.59%
Cash dividend	-	-	-	-	17,076	14,230
Cash dividend ( % )	-	-	-	-	15.00%	15.00%
Bonus Shares	-	-	32,785	27,321	22,767	18,973
Bonus Shares ( % )	-	-	20.00%	20.00%	20.00%	20.00%
<b>Break-up value of Rs. 5/= share</b>	<b>16.85</b>	<b>17.54</b>	<b>22.73</b>	<b>20.77</b>	<b>22.07</b>	<b>23.46</b>
<b>Basic and diluted earnings per share (Rs.)</b>	<b>(0.69)</b>	<b>0.71</b>	<b>2.90</b>	<b>2.50</b>	<b>2.62</b>	<b>4.02</b>
<b>Receivables no. of days</b>	<b>73</b>	<b>64</b>	<b>50</b>	<b>57</b>	<b>59</b>	<b>83</b>
<b>Current ratio</b>	<b>1.01</b>	<b>1.05</b>	<b>1.43</b>	<b>1.30</b>	<b>1.35</b>	<b>1.45</b>
<b>No of employees</b>	<b>900</b>	<b>837</b>	<b>611</b>	<b>621</b>	<b>559</b>	<b>510</b>



### STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2010

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges. The purpose of the Code is to establish a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

Shabbir Tiles and Ceramics Limited (the Company) has applied the principles contained in the Code in the following manner:

- 1) The Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors (the Board). At present, the Board comprises of seven directors which includes six non-executive directors.
- 2) The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Company.
- 3) All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- 4) Casual vacancy occurring in the Board during the year was duly filled in within the prescribed period.
- 5) The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
- 6) The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- 7) All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
- 8) The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- 9) The Company has maintained proper records in respect of related party transactions. All the related party transactions and the related pricing method have been reviewed and approved by the Board.
- 10) An Orientation Course on Code of Corporate Governance was conducted on December 14, 2009 for the directors.
- 11) No new appointment of CFO, Company Secretary as been made during the year.
- 12) The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.



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## Shabbir Tiles and Ceramics Limited

- 13) The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
- 14) The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
- 15) The Company has complied with all the corporate and financial reporting requirements of the Code.
- 16) The Board has formed an audit committee which comprises of three non-executive directors.
- 17) The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code.
- 18) The Board has outsourced the internal audit function to Noble Computer Services (Private) Limited who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.
- 19) The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
- 20) The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
- 21) We confirm that all other material principles contained in the Code have been complied with except that the position of the Company Secretary and CFO is held by the same person. The said decision has been taken by the Board keeping in view the size of the Company.

On behalf of the Board

**ALIREZA M. ALLADIN**  
Chief Executive

Karachi: September 23, 2010



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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Shabbir Tiles and Ceramics Limited (the Company) to comply with the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Company's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquire of the Company's 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 on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii a) of Listing Regulation 35 of the Karachi, Lahore and Islamabad Stock Exchanges requires the Company to place before the Board of Directors for their consideration and approval of related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit 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 procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Company for the year ended 30 June 2010.

Karachi: September 23, 2010

**ERNST & YOUNG FORD RHODES SIDAT HYDER**  
Chartered Accountants



**AUDITORS' REPORT TO THE MEMBERS**

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

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

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as stated in note 4.1 to the financial statements with which we concur;
  - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2010 and of the loss, its comprehensive loss, cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

**Chartered Accountants**  
**Audit Engagement Partner: Arslan Khalid**  
**Date: September 23, 2010**  
**Karachi.**





## Shabbir Tiles and Ceramics Limited

### PATTERN OF SHAREHOLDING AS ON 30TH JUNE, 2010

NUMBER OF SHAREHOLDERS	SHARE HOLDING			TOTAL SHARES HELD
	FROM	--	TO	
851	1	--	100	27,411
722	101	--	500	201,665
332	501	--	1,000	253,378
564	1,001	--	5,000	1,273,472
137	5,001	--	10,000	986,325
40	10,001	--	15,000	491,566
22	15,001	--	20,000	380,728
26	20,001	--	25,000	590,295
6	25,001	--	30,000	161,748
13	30,001	--	35,000	413,716
5	35,001	--	40,000	183,586
7	40,001	--	45,000	290,438
4	50,001	--	55,000	212,490
3	55,001	--	60,000	171,264
3	60,001	--	65,000	183,686
2	65,001	--	70,000	138,873
3	75,001	--	80,000	231,513
1	80,001	--	85,000	82,200
1	85,001	--	90,000	86,570
3	90,001	--	95,000	279,087
4	95,001	--	100,000	388,470
2	100,001	--	105,000	207,378
2	130,001	--	135,000	264,996
1	140,001	--	154,000	140,215
1	145,001	--	150,000	147,200
1	165,001	--	170,000	165,376
1	170,001	--	175,000	172,752
1	195,001	--	200,000	196,378
1	245,001	--	250,000	250,000
1	290,001	--	295,000	290,941
3	310,001	--	315,000	940,755
1	335,001	--	340,000	338,346
1	340,001	--	345,000	340,991
1	415,001	--	420,000	415,236
1	460,001	--	465,000	461,010
1	475,001	--	480,000	477,567
1	500,001	--	505,000	503,051
1	505,001	--	510,000	505,032
1	625,001	--	630,000	627,178
1	635,001	--	640,000	638,211
1	645,001	--	650,000	650,000
1	695,001	--	700,000	696,555
1	710,001	--	715,000	710,967
1	735,001	--	740,000	735,429
2	755,001	--	760,000	1,512,975
1	775,001	--	780,000	775,968
1	835,001	--	840,000	836,352
4	900,001	--	905,000	3,602,572
4	1,040,001	--	1,045,000	4,166,718
2	1,250,001	--	1,255,000	2,509,056
1	1,255,001	--	1,260,000	1,258,180
1	1,340,001	--	1,345,000	1,343,724
1	1,870,001	--	1,875,000	1,870,943
2	1,880,001	--	1,885,000	3,763,170
1	2,115,001	--	2,120,000	2,118,794
1	2,135,001	--	2,140,000	2,138,494
1	2,165,001	--	2,170,000	2,165,080
1	3,535,001	--	3,540,000	3,535,939
1	5,905,001	--	5,910,000	5,905,620
1	17,720,001	--	17,725,000	17,720,301
2,801				72,127,931



## Shabbir Tiles and Ceramics Limited

### COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS AS AT JUNE 30, 2010

CATEGORY NO.	CATEGORIES OF SHARE HOLDERS	NUMBER OF SHARES HELD	CATEGORY WISE NO. OF SHARE HOLDERS	CATEGORY WISE NO. OF SHARE-HOLDERS	PERCENTAGE %
1	INDIVIDUALS		2,736	24,222,201	33.58
2	INVESTMENT COMPANIES		1	25,000	0.03
3	JOINT STOCK COMPANIES		19	2,675,033	3.71
4	DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR CHILDREN Mr. Rafiq M. Habib Mr. Ali S. Habib Mr. Alireza M. Alladin Mr. Abdul Hai M. Bhaimia Mr. Ali Sajjad Dharamsey Mr. Mansoor G. Habib Mr. Nazim Fida Hussain Haji Mrs. Jamila Rafiq W/o Mr. Rafiq M. Habib Mrs. Rukhsana Ismail W/o Mr. Abdul Hai M. Bhaimia	1,254,528 1,254,528 7,990 199,999 2,000 4,180 21,978 415,236 541,403	12	3,701,842	5.13
5	EXECUTIVE		--	--	--
6	NIT/ICP National Bank of Pakistan, Trustee Deptt. IDBP (ICP UNIT) Investment Corporation of Pakistan National Investment Trust Limited	3,535,939 3,985 1,400 91,057	4	3,632,381	5.04
7	ASSOCIATED COMPANIES, UNDERTAKINGS & RELATED PARTIES Thal Limited-Pakistan Papersack Division Habib Insurance Company Limited	1,881,585 2,165,080	2	4,046,665	5.61
8	PUBLIC SECTOR COMPANIES AND CORPORATIONS		--	--	--
9	BANKS, DFIs, NBFIs, ISURANCE COMPANIES MODARABAS AND MUTUAL FUNDS		5	3,049,553	4.23
10	FOREIGN INVESTORS		13	29,031,280	40.25
11	CO-OPERATIVE SOCIETIES		2	38,278	0.05
12	CHARITABLE TRUSTS		5	1,569,253	2.18
13	OTHERS		2	136,445	0.19
	TOTAL		2,801	72,127,931	100

#### SHARE-HOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE LISTED COMPANY

TOTAL PAID-UP CAPITAL OF THE COMPANY 72,127,931 SHARES  
10% OF THE PAID-UP CAPITAL OF THE COMPANY 7,212,793 SHARES

NAME(S) OF SHARE-HOLDER(S)	DESCRIPTION	NO. OF SHARES HELD	PERCENTAGE %
ROBERT FINANCE CORPORATION AG	FALLS IN CATEGORY # 10	21,097,275	29.25
TOTAL		21,097,275	29.25



# Shabbir Tiles and Ceramics Limited

## PROXY FORM

I/We \_\_\_\_\_ of \_\_\_\_\_  
 being a member(s) of **SHABBIR TILES AND CERAMICS LIMITED** and a holder of \_\_\_\_\_  
 \_\_\_\_\_ ordinary shares as per Share Register Folio No. \_\_\_\_\_  
 or CDC Participant ID No. \_\_\_\_\_ Account No. \_\_\_\_\_  
 hereby appoint \_\_\_\_\_ of \_\_\_\_\_  
 who is also member of **SHABBIR TILES AND CERAMICS LIMITED** Vide Folio No. \_\_\_\_\_  
 or CDC Participant ID No. \_\_\_\_\_ Account No. \_\_\_\_\_  
 or failing him/her \_\_\_\_\_ of \_\_\_\_\_  
 who is also member of **SHABBIR TILES AND CERAMICS LIMITED** Vide Folio No. \_\_\_\_\_  
 or CDC Participant ID No. \_\_\_\_\_ Account No. \_\_\_\_\_

as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the Thirty Second Annual General Meeting of the Company to be held on 28th day of October, 2010 and at any adjournment thereof.

As witness my / our hand / seal this \_\_\_\_\_ day of \_\_\_\_\_ 2010

Signed by the said

Witness \_\_\_\_\_ (Signature)      Witness \_\_\_\_\_ (Signature)

Name \_\_\_\_\_ Name \_\_\_\_\_

Address \_\_\_\_\_ Address \_\_\_\_\_

CNIC No. \_\_\_\_\_ CNIC No. \_\_\_\_\_

**Please affix  
Rs. 5/-  
Revenue  
Stamp**

SIGNATURE OF MEMBER(S)

\_\_\_\_\_

### NOTES :

1. This proxy form duly completed and signed must be received at the Registered Office of the Company, 15th Mile Stone, National Highway, Landhi, Karachi, not less than 48 hours before the time of holding the meeting.

P.T.O.



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## Shabbir Tiles and Ceramics Limited

2. No person shall act as proxy unless he himself is a member of the Company, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

### **FOR CDC ACCOUNT HOLDERS / CORPORATE ENTITIES**

In addition to the above the following requirements have to be met :

- a) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- b) Attested copy of CNIC or the passport of the beneficial owners shall be furnished with the proxy form.
- c) The proxy shall produce his / her original CNIC or original passport at the time of the meeting.
- d) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form to the Company.



## Shabbir Tiles and Ceramics Limited

### BALANCE SHEET AS AT JUNE 30, 2010

	Note	2010 (Rupees in '000)	2009
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	3,826,126	4,113,866
Investment property	7	522	623
Long-term loans and advances	8	2,843	4,047
Long-term deposits	9	12,993	11,470
		<u>3,842,484</u>	<u>4,130,006</u>
<b>CURRENT ASSETS</b>			
Stores and spare parts	10	125,630	112,843
Stock-in-trade	11	637,232	646,498
Trade debts	12	897,711	565,391
Loans, advances, deposits, prepayments and other receivables	13	39,380	49,567
Taxation – net		17,547	43,316
Cash and bank balances	14	75,232	147,860
		<u>1,792,732</u>	<u>1,565,475</u>
<b>TOTAL ASSETS</b>		<u><b>5,635,216</b></u>	<u><b>5,695,481</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital 120,000,000 (2009: 120,000,000) Ordinary shares of Rs.5/- each		<u>600,000</u>	<u>600,000</u>
Issued, subscribed and paid-up capital	15	360,638	360,638
Share premium		389,764	389,764
Reserves		464,793	514,403
		<u>1,215,195</u>	<u>1,264,805</u>
<b>NON-CURRENT LIABILITIES</b>			
Long-term finance	16	2,543,980	2,769,983
Liabilities against assets subject to finance lease	17	13,768	69,474
Deferred tax liability	18	82,291	105,259
		<u>2,640,039</u>	<u>2,944,716</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	19	439,987	529,126
Accrued mark-up		156,412	227,069
Short-term borrowings	20	826,991	626,766
Current maturity of long-term finance	16	253,383	-
Current maturity of liabilities against assets subject to finance lease	17	65,369	93,183
Sales tax and excise duty payable		37,840	9,816
		<u>1,779,982</u>	<u>1,485,960</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	21		
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>5,635,216</b></u>	<u><b>5,695,481</b></u>

The annexed notes from 1 to 39 form an integral part of these financial statements.

**ALIREZA M. ALLADIN**  
Chief Executive

**ABDUL HAI M. BHAIMIA**  
Director



## Shabbir Tiles and Ceramics Limited

### PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 (Rupees in '000)	2009
Turnover - net	22	4,061,423	2,853,257
Cost of sales	23	(3,002,044)	(2,068,445)
<b>Gross profit</b>		<b>1,059,379</b>	<b>784,812</b>
Distribution costs	24	(559,697)	(383,930)
Administrative expenses	25	(57,718)	(56,794)
		<b>(617,415)</b>	<b>(440,724)</b>
Other operating income	26	3,920	2,367
<b>Operating profit</b>		<b>445,884</b>	<b>346,455</b>
Finance costs	27	(495,362)	(266,836)
Other charges	28	(1,905)	(6,071)
		<b>(497,267)</b>	<b>(272,907)</b>
<b>(Loss) / profit before taxation</b>		<b>(51,383)</b>	<b>73,548</b>
Taxation	29	1,773	(25,801)
<b>(Loss) / profit after taxation</b>		<b>(49,610)</b>	<b>47,747</b>
		<b>Rupee</b>	<b>Rupee</b>
<b>Basic and diluted (loss) / earnings per share</b>	30	<b>(0.69)</b>	<b>0.71</b>

The annexed notes from 1 to 39 form an integral part of these financial statements.

**ALIREZA M. ALLADIN**  
Chief Executive

**ABDUL HAI M. BHAIMIA**  
Director



## Shabbir Tiles and Ceramics Limited

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2010

	2010 (Rs. in 000')	2009
<b>(Loss) / profit for the year</b>	<b>(49,610)</b>	47,747
<b>Other comprehensive income / (loss)</b>		
Net gain on cash flow hedge transferred to property, plant and equipment	-	(81,710)
<b>Total comprehensive income / (loss) for the year</b>	<b><u>(49,610)</u></b>	<b><u>(33,963)</u></b>

The annexed notes from 1 to 39 form an integral part of these financial statements.

**ALIREZA M. ALLADIN**  
Chief Executive

**ABDUL HAI M. BHAIMIA**  
Director



## Shabbir Tiles and Ceramics Limited

### CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 (Rupees in '000)	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss) / profit before taxation		(51,383)	73,548
Adjustments for:			
Depreciation		308,097	194,861
Finance costs		495,362	266,836
Gain on disposal of property, plant and equipment		(2,147)	(854)
		<u>801,312</u>	<u>460,843</u>
		749,929	534,391
(Increase) / decrease in current assets			
Stores and spare parts		(12,787)	(48,309)
Stock-in-trade		9,266	(369,966)
Trade debts		(332,320)	(253,611)
Loans, advances, deposits, prepayments and other receivables		10,187	(1,846)
(Decrease) / increase in current liabilities			
Trade and other payables		(61,115)	340,579
		<u>(386,769)</u>	<u>(333,153)</u>
<b>Cash generated from operations</b>		<b>363,160</b>	<b>201,238</b>
Income tax refund / (paid)		4,572	(45,001)
Finance costs paid		(566,018)	(230,372)
Long-term loans and advances		1,204	(3,146)
Long-term deposits		(1,523)	6,410
<b>Net cash used in operating activities</b>		<b>(198,605)</b>	<b>(70,871)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(12,551)	(2,646,715)
Proceeds from disposal of property, plant and equipment		6,888	3,987
<b>Net cash used in investing activities</b>		<b>(5,663)</b>	<b>(2,642,728)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Receipt of long-term finance		27,380	1,978,240
Repayment of liabilities against assets subject to finance lease		(95,965)	(133,491)
Receipts of short-term borrowings		76,230	97,980
Proceeds from issue of right shares		-	553,690
<b>Net cash inflow from financing activities</b>		<b>7,645</b>	<b>2,496,419</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(196,623)</b>	<b>(217,180)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	31	<b>(371,961)</b>	<b>(154,781)</b>
<b>Cash and cash equivalents at the end of the year</b>	31	<b>(568,584)</b>	<b>(371,961)</b>

The annexed notes from 1 to 39 form an integral part of these financial statements.

**ALIREZA M. ALLADIN**  
Chief Executive

**ABDUL HAI M. BHAIMIA**  
Director





## Shabbir Tiles and Ceramics Limited

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2010

Issued, subscribed and paid-up capital	RESERVES					Total reserves	Total equity
	Capital reserve	Revenue reserves			Hedging reserve		
	Share premium	General reserve	Accumulated (loss) / profit				
----- (Rupees in '000) -----							
<b>Balance as at June 30, 2008</b>	163,926	-	403,000	96,442	81,710	581,152	745,078
Profit for the year after taxation	-	-	-	47,747	-	47,747	47,747
Other comprehensive income / (loss)	-	-	-	-	(81,710)	(81,710)	(81,710)
Total comprehensive income / (loss)	-	-	-	47,747	(81,710)	(33,963)	(33,963)
Issue of right shares @ 1 : 1	163,926	389,764	-	-	-	389,764	553,690
Issue of bonus shares @ 2 : 10	32,786	-	-	(32,786)	-	(32,786)	-
Transfer to general reserve	-	-	63,000	(63,000)	-	-	-
<b>Balance as at June 30, 2009</b>	<b>360,638</b>	<b>389,764</b>	<b>466,000</b>	<b>48,403</b>	<b>-</b>	<b>904,167</b>	<b>1,264,805</b>
Transfer to general reserve	-	-	48,000	(48,000)	-	-	-
Loss for the year after taxation	-	-	-	(49,610)	-	(49,610)	(49,610)
Other comprehensive income / (loss)	-	-	-	-	-	-	-
Total comprehensive income / (loss)	-	-	-	(49,610)	-	(49,610)	(49,610)
<b>Balance as at June 30, 2010</b>	<b>360,638</b>	<b>389,764</b>	<b>514,000</b>	<b>(49,207)</b>	<b>-</b>	<b>854,557</b>	<b>1,215,195</b>

The annexed notes from 1 to 39 form an integral part of these financial statements.

**ALIREZA M. ALLADIN**  
Chief Executive

**ABDUL HAI M. BHAIMIA**  
Director



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

**1. THE COMPANY AND ITS OPERATIONS**

Shabbir Tiles and Ceramics Limited (the Company) was incorporated in Pakistan as a public limited company, under the Companies Act 1913 (now the Companies Ordinance, 1984) on November 07, 1978 and is listed on all Stock Exchanges in Pakistan. The Company is primarily engaged in the manufacture and sale of tiles and trading of allied building products. The registered office of the Company is situated at 15<sup>th</sup> Milestone, National Highway, Landhi, Karachi.

**2. STATEMENT OF COMPLIANCE**

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

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

The following revised standards, interpretations and amendments with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard, interpretation or amendment:

	<b>Standards, interpretations and amendments</b>	<b>Effective date (accounting periods beginning on or after)</b>
IFRS 2	Share-based Payments: Amendments relating to Group Cash - settled Share-based Payment Transactions	January 01, 2010
IAS 24	Related Parties Disclosure (Revised)	January 01, 2011
IAS 32	Financial Instruments: Presentation - Classification of Rights Issues (Amendment)	February 01, 2010
IFRIC 14	Prepayments of a Minimum Funding Requirements (Amendment)	January 01, 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 01, 2010

The Company expects that the adoption of the above revisions, interpretations and amendments of the standards will not affect the Company's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB as a result of its annual improvement project in April 2009. Such improvements are generally effective for accounting periods beginning on or after January 01, 2010. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

**3. BASIS OF MEASUREMENT**

**3.1** These financial statements have been prepared under the historical cost convention.

**3.2** These financial statements are presented in Pak Rupees which is the Company's functional and presentation currency.



#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 4.1 The accounting policies adopted in preparation of these financial statements are consistent with those of the previous financial year except as follows:

##### **IAS 1 - "Presentation of financial statements (Revised)"**

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line item in the statement of changes in equity. In addition, the standard introduces the statement of comprehensive income which presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Company has elected to present two statements.

#### 4.2 Property, plant and equipment

##### **Owned**

These are stated at cost less accumulated depreciation except for freehold land and capital work-in-progress, which are stated at cost.

Cost in relation to certain fixed assets, including capital work-in-progress, signifies historical cost and financial charges on borrowings for financing the projects until such time as the projects are substantially ready for their intended use.

Depreciation is charged to income using the straight line method, other than freehold land which is determined to have an indefinite life, at the rates specified in note 6 to the financial statements. Depreciation on additions is charged from the month in which the asset is put to use and on disposals upto the month immediately preceding the deletion. Assets residual values and useful lives are reviewed and adjusted, if appropriate at each balance sheet date.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains and losses on disposal of fixed assets are taken to profit and loss account currently.

##### **Leased**

Assets held under finance leases are capitalized at the lower of present value of the minimum lease payments at the inception of the lease term and the fair value of leased assets. The related obligations under finance lease less finance charges allocated to future periods are shown as liabilities. Finance costs are calculated at the rate implicit in the lease and are charged to profit and loss account. Depreciation is charged to income applying the same basis as for owned assets.

#### 4.3 Investment property

Investment property represents the portion of freehold land and building let out on rent and is stated at cost, determined on the basis of area (square feet) rented out less accumulated depreciation and impairment, if any.

Depreciation is charged to income applying the straight line method at the rate specified in note 7 to the financial statements. Depreciation on additions is charged from the month in which an asset is put to use and on deletions up to the month immediately preceding the deletion.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains and losses on disposal are taken to profit and loss account for the year.

#### 4.4 Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated and impairment losses are recognized in the profit and loss account.



### 4.5 Borrowing costs

Borrowing and other related costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as an expense in the period in which they are incurred.

### 4.6 Stores and spare parts

These are valued at the lower of cost, determined on a weighted average cost basis, and Net Realizable Value. Provision is made for slow moving and obsolete items.

Items in transit and bonded warehouse are valued at cost comprising invoice value plus other charges incurred thereon accumulated to the balance sheet date.

### 4.7 Stock-in-trade

These are valued at the lower of Net Realizable Value and cost determined as follows:

Raw and packing materials	- weighted average cost.
Work-in-process and finished goods	- cost of direct materials and labour plus attributable overheads.
Finished goods – imported products	- weighted average cost.
Stock in transit and bonded warehouse	- invoice price plus other charges paid thereon.

Provision is made for slow moving and obsolete items.

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

### 4.8 Trade debts

Trade debts originated by the Company are recognized and carried at original invoice amount less provision for doubtful debts. Provision for doubtful debts is based on the management's assessment of customers' outstandings and creditworthiness. Bad debts are written-off as and when identified.

### 4.9 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash and bank balances net of short-term running finances. The cash and cash equivalents are readily convertible to known amount of cash and are therefore subject to insignificant risk of changes in value.

### 4.10 Financial instruments

All financial assets and liabilities are recognized at the time when the Company becomes party to the contractual provisions of the instrument and are derecognized in the case of assets, when the contractual rights under the instruments are realized, expired or surrendered and in the case of liability, when the obligation is discharged, cancelled or expired.

Any gain/ loss on the recognition and derecognition of the financial assets and liabilities is included in the profit and loss account.

### 4.11 Offsetting of financial assets and financial liabilities

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

### 4.12 Long and short-term borrowings

These are recorded at the proceeds received. Installments due within one year are shown as a current liability and mark-up on borrowings is charged as an expense on an accrual basis.



### 4.13 Trade and other payables

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

### 4.14 Provisions

Provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of past event and it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation of which reliable estimate can be made.

### 4.15 Taxation

#### Current

The Company falls under the final tax regime under Section 148 and 154 of the Income Tax Ordinance, 2001, to the extent of commercial imports and export sales. Provision for tax on local sales and other income is based on current rates of taxation after taking into account tax credits and rebates available, if any. Amount of final tax paid under Section 148 of the Income Tax Ordinance, 2001 on stock in hand is recognised as prepaid in accordance with Technical Release - 30 of the Institute of Chartered Accountants of Pakistan.

#### Deferred

Deferred taxation is provided proportionate to local sales, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account.

### 4.16 Staff retirement benefits

#### Defined contribution plan

The Company operates a recognised provident fund for its permanent employees. Equal monthly contributions are made to the fund by the Company and the employees in accordance with the rules of the scheme. The Company has no further obligation once the contributions have been paid. The contributions made by the Company are recognised as employee benefit expense when they are due.

#### Compensated absences

The Company provides for its estimated liability towards unavailed earned leaves accumulated by employees on an accrual basis using current salary level.

### 4.17 Foreign currency translation

Transactions in foreign currencies are recorded at the rates ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences on foreign currency translations are taken to the profit and loss account.



### 4.18 Revenue recognition

Sales are recognized when goods are dispatched to the customers.

Return on bank deposits is recognized on accrual basis.

Rental income arising on investment property is accounted for on a straight-line basis over the lease term on ongoing basis.

### 4.19 Related party transactions

All transactions with related parties are priced on an arm's length basis. Prices for these transactions are determined on the basis of admissible valuation methods.

### 4.20 Research and development costs

Research and development costs are expensed as incurred, except for development costs that relate to design of new or improved products which are recognised as an asset to the extent that it is expected that such asset will meet the recognition criteria mentioned in IAS-38 "Intangible Assets".

### 4.21 Dividend and appropriation to reserves

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

## 5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In the process of applying the accounting policies, management has made the following estimates and judgements which are significant to the financial statements:

	<b>Notes</b>
- determining the residual values and useful lives of property, plant and equipment and investment property	4.2, 4.3, 4.4, 6 & 7
- impairment of inventories / adjustment of inventories to their net realizable value	4.6, 4.7, 10 & 11
- recognition of taxation and deferred tax	4.15, 18 & 29
- contingencies	21

## 6. PROPERTY, PLANT AND EQUIPMENT

	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>(Rupees in '000)</b>	
Operating assets – tangible	6.1	<b>3,818,024</b>	4,113,866
Capital work-in-progress – plant and machinery		<b>8,102</b>	-
		<b><u>3,826,126</u></b>	<b><u>4,113,866</u></b>



## Shabbir Tiles and Ceramics Limited

### 6.1 Operating assets – tangible

2010	COST			ACCUMULATED DEPRECIATION				Book Value as at June 30, 2010	Depreciation rate %	
	As at July 01, 2009	Additions	(Disposals) / transfers* / adjustment**	As at June 30, 2010	As at July 01, 2009	Charge for the year	(Disposals) / transfers*			As at June 30, 2010
(Rupees in '000)										
<b>Owned</b>										
Freehold land	266,135	-	-	266,135	-	-	-	-	266,135	-
Buildings on freehold land	750,124	-	10,807*	760,931	59,190	31,822	4,300*	95,312	665,619	5-10
Plant and machinery (note 6.1.1)	3,356,158	3,876	167,436* 8,753**	3,518,717	530,145	230,296	66,258*	826,699	2,692,018	5-20
Furniture and fixture	32,252	-	-	32,252	9,047	5,750	-	14,797	17,455	20
Office equipment	16,268	3,752	(130)	19,890	9,403	2,874	(128)	12,149	7,741	20-33
Computers and accessories	12,542	2,741	(197)	15,086	10,161	2,258	(196)	12,223	2,863	50
Vehicles	28,350	2,834	(11,409) 6,575*	26,350	15,739	3,067	(6,671) 4,066*	16,201	10,149	20
	4,461,829	13,203	(11,736) 184,818* 8,753**	4,639,361	633,685	276,067	(6,995) 74,624*	977,381	3,661,980	
<b>Leased</b>										
Building on freehold land	31,887	-	10,807*	21,080	8,093	2,809	4,300*	6,602	14,478	10
Plant and machinery	343,574	-	167,436*	176,138	93,810	25,065	66,258*	52,617	123,521	10-20
Vehicles	22,416	12,445	6,575*	28,286	10,252	4,055	4,066*	10,241	18,045	20
	397,877	12,445	184,818*	225,504	112,155	31,929	74,624*	69,460	156,044	
<b>Total</b>	<b>4,859,706</b>	<b>25,648</b>	<b>(11,736)</b> <b>8,753**</b>	<b>4,864,865</b>	<b>745,840</b>	<b>307,996</b>	<b>(6,995)</b>	<b>1,046,841</b>	<b>3,818,024</b>	

6.1.1 Represents an adjustment amounting to Rs. 8.753 million (2009: Nil) resulting from the final settlement of the suppliers liability in respects of the construction work relating to plant and machinery.

2009	COST			ACCUMULATED DEPRECIATION				Book Value as at June 30, 2009	Depreciation rate %	
	As at July 01, 2008	Additions	(Disposals) / transfers*	As at June 30, 2009	As at July 01, 2008	Charge for the year	(Disposals) / transfers*			As at June 30, 2009
(Rupees in '000)										
<b>Owned</b>										
Freehold land	266,135	-	-	266,135	-	-	-	-	266,135	-
Buildings on freehold land	74,947	668,911	6,266*	750,124	36,123	20,589	2,478*	59,190	690,934	5-10
Plant and machinery	559,340	2,659,047	(5,910) 143,681*	3,356,158	366,508	115,162	(5,597) 54,072*	530,145	2,826,013	5-20
Furniture and fixture	9,627	22,625	-	32,252	6,199	2,848	-	9,047	23,205	20
Office equipment	10,826	5,442	-	16,268	7,557	1,846	-	9,403	6,865	20-33
Computers and accessories	9,833	2,908	(199)	12,542	8,914	1,394	(147)	10,161	2,381	50
Vehicles	18,368	8,823	(6,013) 7,172*	28,350	11,032	3,378	(3,246) 4,575*	15,739	12,611	20
	949,076	3,367,756	(12,122) 157,119*	4,461,829	436,333	145,217	(8,990) 61,125*	633,685	3,828,144	
<b>Leased</b>										
Building on freehold land	38,153	-	6,266*	31,887	6,852	3,718	2,478*	8,092	23,795	10
Plant and machinery	487,255	-	143,681*	343,574	106,811	41,071	54,072*	93,810	249,764	10-20
Vehicles	28,224	1,364	7,172*	22,416	10,073	4,755	4,575*	10,253	12,163	20
	553,632	1,364	157,119*	397,877	123,736	49,544	61,125*	112,155	285,722	
<b>Total</b>	<b>1,502,708</b>	<b>3,369,120</b>	<b>(12,122)</b>	<b>4,859,706</b>	<b>560,069</b>	<b>194,761</b>	<b>(8,990)</b>	<b>745,840</b>	<b>4,113,866</b>	



## Shabbir Tiles and Ceramics Limited

	Note	2010 (Rupees in '000)	2009
<b>6.2</b> Depreciation charge for the year has been allocated as follows:			
Cost of sales	23	<b>298,152</b>	186,057
Distribution costs	24	<b>5,728</b>	5,319
Administrative expenses	25	<b>4,116</b>	3,385
		<b><u>307,996</u></b>	<u>194,761</u>

**6.3** The following operating assets were disposed off during the year:

Particulars	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain/(loss)	Mode of disposal	Particulars of buyer
	----- (Rupees in '000) -----						
<b>Office equipment</b>							
Photocopy Machines	130	128	2	20	18	Trade-in	International Communication System, Karachi
<b>Computers and accessories</b>							
Laptop	67	67	-	19	19	Trade-in	M/s Soft Tech Computers, Karachi
Laptop	59	59	-	15	15	Trade-in	M/s Computer Experts, Karachi
Laptop	71	70	1	1	-	Insurance Claim	M/s Habib Insurance Company, Karachi
	197	196	1	35	34		
<b>Vehicles</b>							
Toyota Corolla ANN-914	879	369	510	632	122	Company Policy	Mr. Nasir Kaleem (Employee)
Suzuki Cultus AGS - 568	590	469	121	383	262	Company Policy	Mr. Faisal Majeed (Employee)
Suzuki Baleno AET - 168	774	740	34	285	251	Tender	Mr. Nasir Kaleem (Employee)
Suzuki Ravi KQ - 5107	496	19	477	496	19	Insurance Claim	M/s Habib Insurance Company, Karachi.
Suzuki Cultus AGS - 363	590	470	120	350	230	Tender	Mr. Amanullah Khan (Employee)
Suzuki Baleno LRK-4330	739	693	46	280	234	Tender	Mr. Fateh Mohammad (Employee)
Daihatsu Coure AHS-289	459	357	102	247	145	Company Policy	Mr. M.A. Jinnah (Employee)
Daihatsu Coure AHY-804	459	357	102	238	136	Company Policy	Mr. Zafar Hussain (Employee)
Suzuki Cultus AQZ-497	682	167	515	573	58	Company Policy	Mr. Yousuf Shah (Employee)
Daihatsu Coure AGD-781	399	341	58	82	24	Company policy	Mr. Faisal Manzoor (Employee)
Toyota Corolla APJ-747	1,130	458	672	866	194	Company Policy	Mr. Fateh Mohammad (Employee)
Parado BD-2888	1,280	342	938	1,000	62	Negotiation	Mr. Shawar Gul (Sector 5/A, Plot No. L-364Qasba Township)
Suzuki Baleno IDN-1928	774	731	43	286	243	Company policy	Mr. Aftab Abbas (Employee)
Toyota Corolla AES-095	546	350	196	240	44	Company Policy	Mr. Abdul Rehman (Employee)
Daihatsu Coure LPZ-2054	434	347	87	127	40	Company Policy	Mr. Wasiullah (Employee)
Suzuki Cultus ARD-858	704	155	549	581	32	Company Policy	Mr. Abdul Razzak (Employee)
Daihatsu Coure AME-861	474	306	168	167	(1)	Company Policy	Mr. Mamoon Abbasi (Employee)
	11,409	6,671	4,738	6,833	2,095		
	<b>11,736</b>	<b>6,995</b>	<b>4,741</b>	<b>6,888</b>	<b>2,147</b>		

## 7. INVESTMENT PROPERTY

	COST		ACCUMULATED DEPRECIATION		BOOK VALUE	Depreciation rate %
	As at July 01	As at July 01	Charge for the year	As at June 30	As at June 30	
	----- (Rupees in '000) -----					
Freehold land	3	-	-	-	3	-
Building on freehold land	1,083	463	101	564	519	10
<b>2010</b>	<b>1,086</b>	<b>463</b>	<b>101</b>	<b>564</b>	<b>522</b>	
<b>2009</b>	<b>1,086</b>	<b>362</b>	<b>101</b>	<b>463</b>	<b>623</b>	

The fair value of investment property, as at June 30, 2010 is Rs. 5.63 million (2009: Rs. 5.47 million), which has been determined on the basis of a valuation carried out by an independent valuer.





## Shabbir Tiles and Ceramics Limited

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>8. LONG-TERM LOANS AND ADVANCES – unsecured, considered good</b>			
<b>Loans</b>			
Employees	8.1	4,467	3,933
Less: Current maturity	13	3,901	3,640
		<u>566</u>	<u>293</u>
<b>Advances</b>			
Sui Southern Gas Company Limited	8.2	3,754	5,198
Less: Current maturity	13	1,477	1,444
		<u>2,277</u>	<u>3,754</u>
		<u>2,843</u>	<u>4,047</u>

8.1 Represent interest free loans given to employees for the purchase of household equipment and are recoverable within two years of disbursement.

8.2 Represents advance given to Sui Southern Gas Company Limited in respect of new gas line to be adjusted in 48 equal monthly installments along with interest at the rate of 0.18% per month.

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>9. LONG-TERM DEPOSITS</b>			
Security deposits			
- leases		2,856	2,277
- Utilities		2,893	2,959
- Rent	9.1	6,674	5,664
- Others		570	570
		<u>12,993</u>	<u>11,470</u>

9.1 Includes Rs. 1.83 million (2009: Rs. 1.83 million) deposits paid to a related party Makro-Habib Pakistan Limited.

	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>10. STORES AND SPARE PARTS</b>		
Stores	28,331	26,939
Spare parts		
- in hand	93,095	73,978
- in transit	4,204	11,926
	<u>97,299</u>	<u>85,904</u>
	<u>125,630</u>	<u>112,843</u>

	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>11. STOCK-IN-TRADE</b>		
Raw and packing materials		
- in hand	224,667	314,842
- in transit	1,168	21,102
	<u>225,835</u>	<u>335,944</u>
Work-in-process	31,014	39,788
Finished goods		
- in hand	380,383	267,741
- in transit	-	3,025
	<u>380,383</u>	<u>270,766</u>
	<u>637,232</u>	<u>646,498</u>



## Shabbir Tiles and Ceramics Limited

	Note	2010 (Rupees in '000)	2009
<b>12. TRADE DEBTS</b>			
Unsecured, considered good		<u>897,711</u>	<u>565,391</u>
<b>12.1 Include receivable from the following related parties</b>			
- Thal Limited		606	-
- Dynea Pakistan Limited		33	103
- Makro-Habib Pakistan Limited		<u>1,682</u>	<u>167</u>
		<u>2,321</u>	<u>270</u>
<b>12.2 The ageing of trade debts at June 30 is as follows</b>			
Neither past due nor impaired		447,928	491,477
Past due but not impaired			
- 31 to 90 days		360,952	52,837
- 91 to 180 days		72,070	18,459
- over 180 days		16,761	2,618
		<u>449,783</u>	<u>73,914</u>
		<u>897,711</u>	<u>565,391</u>
<b>13. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
<b>Loans – unsecured, considered good</b>			
Current portion of loans due from employees	8	3,901	3,640
<b>Advances – unsecured, considered good</b>			
Employees		580	370
Suppliers and contractors		7,846	3,420
Current portion of advance to Sui Southern Gas Company Limited	8	1,477	1,444
Others		412	238
		<u>10,315</u>	<u>5,472</u>
<b>Deposits</b>			
Lease		540	9,253
Container charges		1,985	1,725
		<u>2,525</u>	<u>10,978</u>
<b>Prepayments</b>			
Rent	13.1	22,377	18,920
Others		-	194
		<u>22,377</u>	<u>19,114</u>
<b>Other receivables</b>			
Sales tax on fixed assets		-	9,908
Insurance claims		1	60
Others		261	395
		<u>262</u>	<u>10,363</u>
		<u>39,380</u>	<u>49,567</u>

13.1 Includes Rs. 8.58 million (2009: Rs. 8.17 million) rent paid to a related party Makro-Habib Pakistan Limited.



## Shabbir Tiles and Ceramics Limited

	Note	2010 (Rupees in '000)	2009
<b>14. CASH AND BANK BALANCES</b>			
<b>In hand</b>			
- local currency		3,052	1,722
- foreign currency		-	14
		<u>3,052</u>	<u>1,736</u>
<b>With banks in</b>			
- current accounts		48,984	81,132
- deposit accounts	14.1	23,196	64,992
		<u>72,180</u>	<u>146,124</u>
		<u>75,232</u>	<u>147,860</u>

14.1 These carry profit rates ranging from 5% to 8% (2009: 5% to 8%) per annum and includes balance of Rs. 0.56 million (2009: 0.49 million) with a bank as a guarantee margin.

### 15. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

#### Ordinary shares of Rs. 5/- each

2010 (Number of shares in '000)	2009		2010 (Rupees in '000)	2009
39,648	39,648	Fully paid in cash	198,241	198,241
1,150	1,150	Issued for consideration other than cash	5,750	5,750
31,329	31,329	Issued as fully paid bonus shares	156,647	156,647
<u>72,127</u>	<u>72,127</u>		<u>360,638</u>	<u>360,638</u>

15.1 The shares held by the related parties as at June 30, 2010 were 4,046,665 (2009: 4,046,665) Ordinary shares of Rs.5/- each.

	Note	2010 (Rupees in '000)	2009
<b>16. LONG-TERM FINANCE – secured</b>			
Loan I	16.1 & 16.3	1,797,363	2,769,983
Loan II	16.2 & 16.3	1,000,000	-
		<u>2,797,363</u>	<u>2,769,983</u>
Less: Current maturity		253,383	-
		<u>2,543,980</u>	<u>2,769,983</u>

16.1 Represents long-term loan from National Bank of Pakistan to finance the expansion project. The loan carry markup rate of six months' KIBOR + 1.15% (2009: six months' KIBOR + 1.15%) per annum, payable semi-annually. The loan is repayable in seven years in fourteen equal semi-annual installments commencing from June 2011. During the year the Company converted a portion of the loan into the financing under State Bank of Pakistan's export refinance scheme as referred in note 16.2.

16.2 Represents loan from National Bank of Pakistan under the State Bank of Pakistan's export refinancing scheme and carry markup of 8.95% per annum, payable quarterly. The loan is repayable in five years in eight equal semi-annual installments commencing from May 2011. State Bank of Pakistan through its SMEFD circular letter no. 05 of 2010, has advised that in case projected export are not met by the borrower, the borrower shall be subject to a fine ranging from, paisa 28 per day per Rs. 1,000 or part thereof to paisa 37 per day per Rs. 1,000 or part thereof, on adjusted value of outstanding refinance under the scheme.

16.3 These are secured against equitable mortgage of land and hypothecation of present and future plant and equipment ranking pari-passu along with existing creditors.



**17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

Represent various finance lease agreements with financial institutions in respect of building, plant and machinery and vehicles. At the end of lease period the ownership of the assets will be transferred to the Company on payment of the residual value. The liability is partly secured by deposits of Rs. 3.396 million (2009: Rs. 11.530 million). In the event of late payment of lease rentals, the Company is liable to pay a sum of Rs. 250 per day during the period of non-payment in addition to the lease rentals. Repairs and insurance costs are borne by the Company. The rates of mark-up used as the discounting factor range between 7.5% to 15.5% (2009: 7.5% to 15.5%) per annum. Rentals are payable in equal monthly installments.

The amount of future minimum lease payments, together with the present value of the minimum lease payments, and the periods during which they fall due are as follows:

	Note	2010 (Rupees in '000)	2009
Not later than one year		71,942	108,908
Later than one year and not later than five years		16,550	75,530
		<u>88,492</u>	<u>184,438</u>
Less: Financial charges allocable to future periods		9,355	21,781
Present value of minimum lease payments		79,137	162,657
Less: Current maturity		65,369	93,183
		<u>13,768</u>	<u>69,474</u>

**18. DEFERRED TAX LIABILITY**

Deferred tax comprises temporary differences relating to

- Accelerated tax depreciation		685,101	685,619
- Assets subject to finance lease		25,832	42,124
- Provisions		(5,204)	(3,010)
-Tax loss		(623,438)	(619,474)
		<u>82,291</u>	<u>105,259</u>

**19. TRADE AND OTHER PAYABLES**

Creditors	19.1	121,864	199,303
Accrued liabilities	19.2 & 19.3	235,330	253,798
Infrastructure cess payable	21.2	38,191	31,599
Advance from customers		33,350	28,235
Payable to the Provident Fund		1,325	858
Security deposits		2,965	2,787
Workers' Profit Participation Fund	19.4	-	3,950
Workers' Welfare Fund		3,381	4,853
Unclaimed and unpaid dividends		2,884	2,974
Tax deducted at source		543	615
Others		154	154
		<u>439,987</u>	<u>529,126</u>

**19.1 Include payable to the following related parties**

- Thal Limited	11,835	1,956
- Makro-Habib Pakistan Limited	218	190
	<u>12,053</u>	<u>2,146</u>

**19.2** Include Rs. 3,000/- (2009: Rs. 3.80 million) due to a related party – Habib Insurance Company Limited.

**19.3** Include accrual for leave encashment of Rs. 17.865 million (2009: Rs. 12.533 million) and bonus of Rs. 13.778 million (2009: Rs. 7.296 million).



## Shabbir Tiles and Ceramics Limited

	Note	2010 (Rupees in '000)	2009
<b>19.4 Workers' Profit Participation Fund</b>			
Balance at the beginning of the year		3,950	7,775
Allocation for the year		-	3,950
		<u>3,950</u>	<u>11,725</u>
Interest on funds utilized in the Company's business	27	126	19
		<u>4,076</u>	<u>11,744</u>
Less: Payments made during the year		4,076	7,794
Balance at the end of the year		<u>-</u>	<u>3,950</u>
<b>20. SHORT-TERM BORROWINGS – secured</b>			
Term finances	20.1,20.3	183,175	106,945
Running finances	20.2,20.3 & 31	643,816	519,821
		<u>826,991</u>	<u>626,766</u>

**20.1** Represents FE-25 and Trust Receipt (TR) facilities from various banks amounting to Rs. 272 million (2009: Rs. 180 million) and Rs. 78 million (2009: Rs. 70 million) respectively. Markup on FE-25 is 5.5% (2009: 5.5%) per annum while on TR facility is 3 months' KIBOR+1% (2009: 3 months' KIBOR+1%) per annum.

**20.2** Represents running finances facilities from various banks amounting to Rs. 1,025 million (2009: Rs. 645 million). Markup on these finances ranges from one month KIBOR to six months' KIBOR + 1% to 1.5% (2009: one month KIBOR to six months' KIBOR + 1% to 1.5%) per annum.

**20.3** These facilities are secured by demand promissory notes, hypothecation of stocks and book debts of the Company ranking pari-passu with other creditors. These facilities are repayable by March 2011.

### 21. CONTINGENCIES AND COMMITMENTS

#### Contingencies

**21.1** The sales tax imposed by the Central Excise and Sales Tax Department amounting to Rs 2.105 million in February 1989 was contested by the Company before the Honorable High Court of Sindh and it was decided in favour of the Company on August 10, 2006.

However, the Collector of Central Excise and Sales Tax has challenged the said decision in the Honorable Supreme Court of Pakistan. The Company and its legal advisor are confident that the outcome of the case will be in the Company's favour, Hence, no provision has been made for the above demand in these financial statements.

**21.2** The Divisional Bench of the Honourable High Court of Sindh through its order dated September 17, 2008 has declared the levy of the Infrastructure cess / fee by the Excise and Taxation Department, Government of Sindh upto December 27, 2006 as ultra vires of the constitution. The levy subsequent to December 27, 2006 has been declared as valid and constitutional.

The Company has filed an appeal before the Honourable Supreme Court of Pakistan against the above order of the Honourable High Court of Sindh. The Honorable Supreme Court of Pakistan has accepted the petition and granted stay order against the payment of levy subject to the submission of bank guarantees.

The Company has decided not to reverse the liability pertaining to the periods prior to December 27, 2006 as the Excise Department, Government of Sindh has also filed an appeal before the Honorable Supreme Court of Pakistan against the above order of the Honourable High Court of Sindh. Therefore, the Company continues to provide for Infrastructure cess / fee liability in the financial statements until the matter is finally decided by the Honourable Supreme Court of Pakistan.

An amount of Rs. 2.11 million (2009: Rs. 3.70 million) is an un-utilised portion of a bank guarantee issued in favour of Excise and Taxation Department, Government of Sindh against the levy of infrastructure cess / fee on the imported goods. The utilised portion of guarantee amounting to **Rs. 38.19 million** (2009: Rs. 31.60 million) is shown under infrastructure cess payable in note 19 to the financial statements.



## Shabbir Tiles and Ceramics Limited

- 21.3** The Additional Commissioner of Income Tax (Audit Division) has amended the assessment under Section 122 of the Income Tax Ordinance, 2001 for the tax year 2003 whereby, further tax of Rs. 26.8 million has been determined to be payable by the Company by disallowing trade discounts of Rs. 73.92 million. Being aggrieved, the Company filed an appeal before the Commissioner of Income Tax (Appeals) which was decided in favour of the Company. However, the Income Tax Department then filed an appeal before the Income Tax Appellate Tribunal who after hearing the arguments from both sides remanded back the case to the Department for re-assessment which is still pending. The Company, based on the advise of its tax consultant, is confident that the case will be decided in its favour and therefore, no provision for any liability there against has been made in these financial statements.
- 21.4** The Additional Commissioner of Income Tax (Audit Division) has amended the assessment under Section 122 of the Income Tax Ordinance, 2001 for the tax year 2008 whereby, Rs. 1.3 million has been determined to be payable by the Company by disallowing exchange loss of Rs. 3.66 million related to local sales. Being aggrieved, the Company has filed an appeal before the Commissioner of Income Tax (Appeals) which has been decided in favour of the Company during the year. However, the Income Tax Department then filed an appeal before the Income Tax Appellate Tribunal who after hearing the arguments from both sides remanded back the case to the Department for re-assessment which is still pending. The Company, based on the advise of its tax consultant, is confident that the case will be decided in its favour and therefore, no provision for any liability there against has been made in these financial statements.

	2010	2009
	(Rupees in '000)	
<b>Commitments</b>		
Capital commitments	14,321	-
Outstanding letters of credit	<u>166,213</u>	<u>180,358</u>
Outstanding letters of guarantee	<u>306,828</u>	<u>301,828</u>
<b>22. TURNOVER - net</b>		
<b>Local</b>		
Manufacturing	4,569,704	3,151,473
Trading	<u>48,526</u>	<u>125,892</u>
	<u>4,618,230</u>	<u>3,277,365</u>
Less: Sales tax / special excise duty		
Manufacturing	<u>661,322</u>	<u>456,597</u>
Trading	<u>6,651</u>	<u>17,449</u>
	<u>667,973</u>	<u>474,046</u>
Less: Trade discount		
Manufacturing	<u>17,406</u>	<u>9,455</u>
Trading	<u>1,171</u>	<u>1,100</u>
	<u>18,577</u>	<u>10,555</u>
	<u>3,931,680</u>	<u>2,792,764</u>
<b>Exports</b>	<u>129,743</u>	<u>60,493</u>
	<u>4,061,423</u>	<u>2,853,257</u>



## Shabbir Tiles and Ceramics Limited

	Note	2010	2009
(Rupees in '000)			
<b>23. COST OF SALES</b>			
<b>Cost of sales – manufacturing</b>			
<b>Raw and packing materials consumed</b>			
Opening stock	11	335,944	130,836
Purchases		1,345,807	1,256,784
Less: Closing stock	11	<u>225,835</u>	<u>335,944</u>
		<b>1,455,916</b>	<b>1,051,676</b>
<b>Manufacturing expenses</b>			
Salaries, wages and benefits		315,046	211,330
Fuel and power		632,176	453,363
Stores and spares consumed		191,619	134,514
Depreciation	6.2	298,152	186,057
Repairs and maintenance		66,880	68,195
Tiles packing and other related charges		45,664	26,978
Insurance		21,853	10,441
Vehicle running expenses		12,364	11,985
Travelling and conveyance		7,611	17,125
Raw material mixing charges		12,159	11,567
Printing and stationery		8,229	5,962
Communications		4,466	2,916
Rent, rates and taxes		2,377	1,703
Research costs		182	858
Cartage and handling charges		1,652	1,201
Legal and professional charges		572	467
Entertainment		1,030	1,020
Others		3,555	4,912
		<b>1,625,587</b>	<b>1,150,594</b>
<b>Work-in-process</b>			
Opening stock	11	39,788	18,898
Less: Closing stock	11	<u>31,014</u>	<u>39,788</u>
<b>Cost of goods manufactured</b>		<b>3,090,277</b>	<b>2,181,380</b>
<b>Finished goods</b>			
Opening stock		230,619	20,753
Less: Closing stock		<u>361,718</u>	<u>230,619</u>
<b>Cost of sales – manufacturing</b>		<b>2,959,178</b>	<b>1,971,514</b>
<b>Cost of sales – trading</b>			
Opening stock		37,122	79,399
Purchases		24,409	54,654
Less: Closing stock		<u>18,665</u>	<u>37,122</u>
		<b>42,866</b>	<b>96,931</b>
		<b>3,002,044</b>	<b>2,068,445</b>



## Shabbir Tiles and Ceramics Limited

	Note	2010 (Rupees in '000)	2009
<b>24. DISTRIBUTION COSTS</b>			
Salaries and benefits		41,252	28,874
Freight		388,714	240,087
Sales promotion		35,070	30,972
Advertisement and publicity		1,506	7,200
Travelling and conveyance		16,373	15,482
Rent, rates and taxes		37,830	29,897
Communications		5,632	4,929
Insurance		1,549	1,962
Depreciation	6.2	5,728	5,319
Vehicle running expenses		8,282	6,856
Repairs and maintenance		6,603	2,440
Utilities		2,970	2,571
Printing and stationery		1,334	1,557
Entertainment		1,971	1,557
Others		4,883	4,227
		<u>559,697</u>	<u>383,930</u>
<b>25. ADMINISTRATIVE EXPENSES</b>			
Salaries and benefits		32,419	28,281
Travelling and conveyance		2,395	2,625
Printing and stationery		3,485	8,235
Legal and professional charges		6,692	4,296
Depreciation			
- on operating fixed assets	6.2	4,116	3,385
- on investment property	7	101	101
Vehicle running expenses		2,347	2,274
Communications		2,185	1,696
Utilities		29	193
Auditors' remuneration	25.1	1,002	1,447
Subscriptions		230	668
Insurance		623	1,053
Others		2,094	2,540
		<u>57,718</u>	<u>56,794</u>
<b>25.1 Auditors' remuneration</b>			
Statutory audit fee		500	400
Half yearly review fee		135	125
Tax services		261	805
Other certifications		60	50
Out of pocket expenses		46	67
		<u>1,002</u>	<u>1,447</u>





## Shabbir Tiles and Ceramics Limited

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>26. OTHER OPERATING INCOME</b>			
<b>Income from financial assets</b>			
Profit on bank deposits		698	1,206
<b>Income from non-financial assets</b>			
Rental income from investment property		462	427
Gain on disposal of property, plant and equipment	6.3	2,147	854
Exchange gain / (loss)		536	(125)
Others		77	5
		<u>3,222</u>	<u>1,161</u>
		<u>3,920</u>	<u>2,367</u>
<b>27. FINANCE COSTS</b>			
Finance cost on			
- Long-term finance		375,403	198,840
- Finance lease		15,337	30,036
- Short term borrowings		100,672	34,526
		<u>491,412</u>	<u>263,402</u>
Interest on Workers' Profit Participation Fund	19.4	126	19
Bank charges and commission		3,824	3,415
		<u>495,362</u>	<u>266,836</u>
<b>28. OTHER CHARGES</b>			
Workers' Profit Participation Fund		-	3,950
Workers' Welfare Fund		-	1,501
Donations	28.1	1,905	620
		<u>1,905</u>	<u>6,071</u>
<b>28.1</b>	Includes donation of Rs. 1.2 million (2009: Nil) to Muhammad Ali Habib Welfare Trust, Karachi, of which Mr. Rafiq M. Habib and Mr. Ali S. Habib are trustees, who are also directors of the Company.		
		<b>2010</b>	<b>2009</b>
		<b>(Rupees in '000)</b>	
<b>29. TAXATION</b>			
Current		21,194	4,700
Prior		-	298
Deferred		(22,967)	20,803
		<u>(1,773)</u>	<u>25,801</u>
<b>29.1</b>	In view of tax loss, provision for current taxation has been made on the basis of minimum tax on turnover under section 113 of Income Tax Ordinance and Final Tax Regime. Accordingly, tax expense reconciliation with the accounting profit is not presented.		
<b>30. BASIC AND DILUTED (LOSS) / EARNINGS PER SHARE</b>			
There is no dilutive effect on the basic earnings per share of the Company, which is based on:			
		<b>2010</b>	<b>2009</b>
(Loss) / profit after taxation (Rupees in '000)		<u>(49,610)</u>	<u>47,747</u>
Weighted average number of ordinary shares outstanding during the year (in '000)		<u>72,127</u>	<u>67,078</u>
Basic and diluted (loss) / earnings per share (Rupees)		<u>(0.69)</u>	<u>0.71</u>



## Shabbir Tiles and Ceramics Limited

	Note	2010 (Rupees in '000)	2009
<b>31. CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	14	75,232	147,860
Short-term running finances	20	<u>(643,816)</u>	<u>(519,821)</u>
		<u>(568,584)</u>	<u>(371,961)</u>

### 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Company's financial instruments are market risks, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below:

#### 32.1 Market risk

Market risk is the risk that the fair value of future cash flows of financial instrument will fluctuate due to changes in market variables such as interest rate and foreign exchange rates.

##### (i) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term and short term borrowings and liabilities against asset subject to finance lease with floating interest rates. The following figures demonstrate the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Company's (loss) / profit before tax:

	Increase / decrease in basis points	Effect on (loss) / profit before tax (Rupees in '000)
<b>2010</b>		
KIBOR	+100	<u>(36,847)</u>
KIBOR	-100	<u>36,847</u>
<b>2009</b>		
KIBOR	+100	<u>(31,934)</u>
KIBOR	-100	<u>31,934</u>

##### (ii) Foreign currency risk

Foreign currency risk is the risk that the value of financial assets or a financial liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions in foreign currency. As at June 30, 2010, the Company is not materially exposed to such risk in respect of financial assets or financial liabilities.

#### 32.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry.

The Company is mainly exposed to credit risk on trade debts and bank balances. The Company seeks to minimize the credit risk exposure through having exposures only to customers considered credit worthy.



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### Quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by the reference to external credit ratings or the historical information about counter party default rates.

	2010	2009
	(Rupees in '000)	
<b>Trade debts</b>		
Customers with no defaults in the past one year	<u>897,711</u>	<u>565,391</u>
<b>Bank balances</b>		
<b>Ratings</b>		
A1+	<u>72,180</u>	<u>146,124</u>

### 32.3 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with the financial instruments. To guard against the risk, the Company has diversified funding sources and the assets are managed with liquidity in mind. The maturity profile is monitored to ensure that adequate liquidity is maintained.

2010	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
----- (Rupees In '000) -----						
Long-term finance	-	-	253,383	1,901,824	642,156	2,797,363
Liabilities against assets subject to finance lease	-	15,726	49,643	13,768	-	79,137
Trade and other payables	393,509	-	-	-	-	393,509
Accrued mark-up	-	156,412	-	-	-	156,412
Short-term borrowings	-	-	826,991	-	-	826,991
<b>Total</b>	<u>393,509</u>	<u>172,138</u>	<u>1,130,017</u>	<u>1,915,592</u>	<u>642,156</u>	<u>4,253,412</u>
2009	On demand	Less than 3 Months	3 to 12 months	1 to 5 years	> 5 years	Total
----- (Rupees In '000) -----						
Long-term financing – secured	-	-	-	1,582,847	1,187,136	2,769,983
Liabilities against assets subject to finance lease	-	26,368	66,815	69,474	-	162,657
Trade and other payables	484,123	-	-	-	-	484,123
Accrued mark-up	-	227,069	-	-	-	227,069
Short-term borrowings	-	-	626,766	-	-	626,766
<b>Total</b>	<u>484,123</u>	<u>253,437</u>	<u>693,581</u>	<u>1,652,321</u>	<u>1,187,136</u>	<u>4,270,598</u>



**33. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

**34. CAPITAL RISK MANAGEMENT**

The Company's objective when managing capital is to safeguard the Company's ability to remain as a going concern and continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company is currently financing majority of its operations through long-term and short-term financing in addition to its equity. The Company has a gearing ratio of 74.89% (2009: 72.86%) as of the balance sheet date, which in view of the management is adequate considering the size of the operations.

**35. TRANSACTIONS WITH RELATED PARTIES**

Related parties of the Company comprise companies with common directorship, retirement funds, directors and key management personnel. Detail of transactions with related parties during the year, other than remuneration of Chief Executive and Executives as disclosed in note 36, are as follows:

	2010 (Rupees in '000)	2009
Sales	1,960	1,053
Purchases of goods, material and services	37,385	24,705
Insurance premium	24,973	22,835
Insurance claims' received	662	194
Rent paid	11,741	9,668
Contribution to the Provident fund	7,505	5,675

**35.1** The outstanding balances due to / from related parties are included in the respective note to the financial statements.

**36. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES**

**36.1** The aggregate amounts charged in the financial statements for the year are as follows:

	2010			2009		
	Chief Executive	Executives	Total	Chief Executive	Executives	Total
	----- (Rupees in '000) -----					
Managerial remuneration	4,836	19,443	24,279	3,707	12,669	16,376
Housing and utilities	2,180	13,665	15,845	1,668	5,674	7,342
Leave fare assistance, leave encashment and bonus	-	5,188	5,188	-	3,547	3,547
Reimbursement of medical expenses	484	1,944	2,428	370	1,232	1,602
Retirement benefits	451	1,814	2,265	327	1,102	1,429
	<u>7,951</u>	<u>42,054</u>	<u>50,005</u>	<u>6,072</u>	<u>24,224</u>	<u>30,296</u>
Number of persons	1	36	37	1	22	23



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## Shabbir Tiles and Ceramics Limited

**36.2** In addition, the Chief Executive and certain Executives are provided with free use of the Company maintained cars.

**36.3** Fee amounting to Rs. 0.13 million (2009: Rs. 0.12 million) was paid to seven (2009: seven) Directors for attending Board Meetings during the year.

### **37. PRODUCTION CAPACITY**

During the year, the tile production capacity attained was 10.29 million sq. meters (2009: 7.72 million sq. meters) against annual manufacturing capacity of 12.76 million sq. meters (2009: 12.76 million sq. meters).

### **38. GENERAL**

**38.1** Figures have been rounded off to the nearest thousands.

**38.2** Certain prior year figures have been rearranged. However, there were no material reclassifications.

### **39. DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on September 23, 2010 by the Board of Directors of the Company.

**ALIREZA M. ALLADIN**  
Chief Executive

**ABDUL HAI M. BHAIMIA**  
Director



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