ANNUAL REPORT

DECEMBER 31,

2008

LAKSON TOBACCO
COMPANY LIMITED

Annual Report December 31, 2008

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Corporate Information

BOARD OF DIRECTORS

SALMAN HAMEED
(Chairman & Chief Executive)
MATTEO LORENZO PELLEGRINI
DOUGLAS WALTER WERTH
JOSEPH MITCHELL GAULT
EUNICE HAMILTON
MOHAMMAD FAROOQ SHAKOOR
ASMER NAIM

ADVISOR

IQBAL ALI LAKHANI

COMPANY SECRETARY

MOHAMMAD FAROOQ SHAKOOR

AUDIT COMMITEE

JOSEPH MITCHELL GAULT (Chairman)
DOUGLAS WALTER WERTH
EUNICE HAMILTON
ASMER NAIM

SHARE TRANSFER COMMITTEE

SALMAN HAMEED
JOSEPH MITCHELL GAULT
MOHAMMAD FAROOQ SHAKOOR

AUDITORS

A.F. FERGUSON & CO
CHARTERED ACCOUNTANTS

BANKERS

THE ROYAL BANK OF SCOTLAND
DEUTSCHE BANK A.G.
CITIBANK N.A.
HABIB BANK LIMITED
THE HONGKONG & SHANGHAI BANKING CORP. LTD
MCB BANK LIMITED
STANDARD CHARTERED BANK
UNITED BANK LIMITED

REGISTERED OFFICE

BHARIA COMPLEX III,
4TH FLOOR, M.T. KHAN ROAD,
KARACHI.

FACTORIES

1. PLOT NO. 20, SECTOR NO. 17
   KORANGI INDUSTRIAL AREA KARACHI
   (Closed)

2. PLOT NO. 14-17, EXPORT
   PROCESSING ZONE, KARACHI.

3. E/15, S.I.T.E., KOTRI
   [redacted] DISTT. DADU (SINDH)

4. QUADIRABAD
   DISTT. SAHIWAL

5. VILLAGE: MANDRA
   TEH : GUJJAR KHAN
   DISST. RAWALPINDI

6. ISMAILA
   DISTT. SWABI

Website:www.laksontobacco.com
E-mail:info@laksontobacco.com.pk

1.OUR RELATIONSHIP WITH EMPLOYEES

We have been lucky to have employees with a strong personal commitment towards the company. It is precisely this high level of commitment that has resulted in the achievement of our set goals. Such levels of co-operation can only be achieved in a climate of trust and mutual respect, which are a hallmark of our work environment. Our dealings with our fellow employees, be they directors, managers, supervisors or subordinates, are conducted as a partnership, where each individual's behavior is judged only by his or her greater commitment to Company's success. Our relationship with our fellow Company employees should be as a member of a winning team. No individual can let his or her own priorities supersede those of the Company. The Company's commitment to care for people is manifested in the workplace through a variety of programs designed to promote and reward individual and team achievement. Everyone is encouraged to advance as far as he or she can to make a meaningful contribution to the success of the Company.

2. OUR RELATIONSHIP WITH THE COMPANY

We strive to adhere to the Company's guidelines and objectives and to give our best efforts to improve its performance. We value the trust and confidence placed in us and pledge to act with integrity and honesty in all situations and justify that trust and confidence put in us. We pledge to avoid conflicts of interest and other situations that are potentially harmful in the progress of the Company. The results of operations and the financial position of our Company must be documented for the requirements of law and generally accepted accounting principles. It is the Company policy, as well as a prerequisite of the law, to maintain books and accounts of reasonable detail accurately and fairly to reflect a clear picture of the business transactions and disposition of the assets of the Company. The Company's assets, facilities or services should only be used for lawful, proper and authorized purposes. Obviously, theft of money, property or services is strictly prohibited and is unlawful. The Company's equipment, systems, facilities and supplies must be used only for conducting the Company's business only or for purposes authorized by management. Company's technological resources, including Company's computers, e-mail and internet access, are to be used in accordance with the set principles. As per the Company code of conduct all policies including those apply to the use of technoligical resource as well are continuously enforced including those related to discrimination, harassment and intellectual property. Furthermore technological resource just like all other Company assets, are to be used only for official and appropriate purposes.

3. OUR RELATIONSHIP WITH BUSINESS ENTITIES

Each one of us is responsible for the projection of the Company's image is perceived by suppliers, customers and clients. It is thus essential that we maintain our reputation based on honesty and fair dealing with these groups. We aim to provide quality services to the clients with utmost consistency. This includes our purchasing / operations, which ensure continuing, reliable sources of supply to our buyers. Honest dealing with customers, suppliers and clients is essential to form lasting relationships. Thus we view our suppliers, customers and clients as partners and give them all opportunity to make reasonable profit. We respect the patents, trademarks and copyrights of other companies. It is the Company's policy not to violate intellectual property rights. It is also the Company's policy to respect trade secrets and proprietary information of others. This is particularly relevant when a former employee of another Company possesing proprietary information of competence to that employer joins us. If any question should arise in this area, the Company's legal department or patent department should be consulted.

4. OUR RELATIONSHIP WITH CONSUMERS

Customer interaction is integral to the growth and development of our business. Since our business is consumer products, our success wholly depends upon consumer satisfaction, trust and goodwill. We can best achieve our objectives and serve the needs of consumers by following a consistent, fair and sensitive program of consumer

5. OUR RELATIONSHIP WITH GOVERNMENT AND THE LAW

The Company supports free enterprise and a competitive market system. It is the Company's policy to comply fully with all applicable laws irrespective of the extent to which they are enforced. The Company co-operates fully with all governmental and regulatory bodies and is committed to high standards of corporate governance. Penalties for non-compliance can be severe and can involve criminal offences.

6. OUR RELATIONSHIP WITH SOCIETY

The Company strives to be a contributing member of the global community. We treat ourselves as citizens of each locality from where we operate and, possess a strong sense of civic responsibility to support the well-being, education and welfare of the community. It is our goal to take part in social projects for the welfare of the community. Such projects include establishing hospitals, participate charitable drives and assuming responsibility for aiding the poor, injured and homeless at the time of national calamities. The Company is committed to respecting human rights. The Company ensures that the business partner with whom it works promote the following standards:

i Equal opportunity for employees at all levels with respect to issues such as colour, race, gender, age, ethnicity and religious beliefs;

ii Respecting employees' freedom of association and working with governments and communities in which we do business to improve the educational, cultural, economic and social well-being in those communities.

7. OUR RELATIONSHIP WITH THE ENVIRONMENT

Protecting the world in which we live is a vital concern and a continuing commitment. Since our products are agriculture based, we recognize and constantly reaffirm the value of a healthy and clean environment. We are committed to manufacturing, packaging and selling quality products that meet good manufacturing practices. We will continue to improve our products and packaging and invest in innovations that protect the environment. We are committed to reducing waste and minimizing the impact of our products and packaging on the environment. We are dedicated to source reduction, recycling and other responsible methods of waste management. We are committed to operating our facilities safely and in a manner that is feasible to employee and community conditions. We look ahead to improvements in our facilities and processes to further protect the environment.

8. OUR RELATIONSHIP WITH SHAREHOLDERS

We strive to serve in the best interests of our shareholders; to provide consistent growth and a fair rate of return on their investment, to maintain our position and reputation as a leading consumer products Company, to protect shareholder investments and to provide full and timely information. We conduct our business in accordance with the principles of fairness, decency and integrity set forth here and help build shareholder value.

9. RESPONSIBILITY FOR COMPLIANCE

In accepting employment with the Company, each of us becomes accountable for compliance with these standards of conduct and with all laws and regulations. Managers are responsible for communicating these standards to employees in order to ensure that they understand and abide by them, and to create an atmosphere where employees can discuss ethical and legal issues openly.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 40th Annual General Meeting of LAKSON TOBACCO COMPANY LIMITED will be held on Tuesday, March 3, 2009, at 11.00 a.m., at Avari Renaissance Towers Hotel, Fatima Jinnah Road, Karachi to transact the following business:

ORDINARY BUSINESS

1- To receive, consider and adopt the audited financial statements for the period ended December 31, 2008 together with the Directors' and Auditor's Reports thereon.

2- To declare final dividend in cash @ 25% i.e. Rs 2.5 per share of Rs. 10/- each as recommended by the Board of Directors.

3. To appoint auditor and fix their remuneration.

   The retiring auditor M/s. A. F. Ferguson & Co. Chartered Accountants has given their consent to act as auditor of the company for the year ending December 31, 2009.

By Order of the Board

MOHAMMAD FAROOQ SHAKOOR
Director & Company Secretary

Karachi: February 06, 2009

NOTES:

1. The share transfer books of the Company will remain closed from February 21, 2009 to March 3, 2009 (both days inclusive). Transfers received in order at the Office of the Company's share registrar, FAMCO Associates (Pvt.) Ltd, 4th Floor, State Life Building No.2-A, Wallace Road, Off. I.I. Chundrigar Road, Karachi up to February 20, 2009 will be considered in time to be eligible for payment of the dividend to the transferees.

2. A member who has deposited his/her shares into central Depository Company of Pakistan Limited, must bring his/her participant's ID number and account/sub-account number along with original Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting.

3. A member entitled to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend, speak and vote instead of him/her. In case of corporate entity, the Board of Directors' Resolution/ Power of Attorney with specimen signatures shall be submitted with the proxy form to the Company.

4. Forms of proxy to be valid must be received at the Share Registrar's office not later than 48 hours before the time of the meeting.

5. Members are requested to notify the Share Registrar of the Company promptly of any change in their addresses.

6. Members who have not yet submitted photocopy of their Computerized National Identity Cards to the Company's Registrar are requested to send the same at the earliest.

7. A form of proxy is enclosed herewith.

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 sub clause (xlv) of the listing regulations of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, where by a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Board comprises of 7 Directors including the Chief Executive Officer (CEO). The Company encourages representation of independent non-executive Directors and Directors representing minority interests on its Board of Directors. At present the Board includes 3 non-executive Directors.

2. The Directors have confirmed that none of them is serving as a Director in more than ten listed companies, including this Company.

3. All the resident Directors of the Company are registered as taxpayers except one of the Directors and none of them has defaulted in payment of any loan to a banking company, DFI or NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. Two casual vacancies have occurred on April 1, 2008 and May 1, 2008 in the Board during the current period, which were filled up by the Directors effective from the same day.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by most of the Directors and some of the employees. The signing of the statement by the remaining Directors and employees for this year is still in progress.

6. The Board has developed a vision 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. Three meetings of the Board were presided over by the Chairman and one meeting presided by the Director of the Company elected by the Board for presiding the said meeting. The Board met at least once in every quarter except the first quarter of 2008 in which the Company obtained extension for holding Annual General Meeting for presentation of the financial statements for the period ended December 31, 2007. 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 Board arranged one orientation course for its Directors during the period to apprise them of duties and responsibilities.

10. The Chief Financial Officer (CFO) was appointed prior to the implementation of the Code of Corporate Governance. The Company Secretary was appointed by the Board effective from July 1, 2007. No additional remuneration, terms and conditions was considered at the time of appointment of Company Secretary. However, the appointment of head of internal audit and terms and conditions of her

Statement of Compliance with the Code of Corporate Governance

employment has been approved by the Board during the year.

11. The Directors' Report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises 4 members, of whom 2 are non-executive Directors.

16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code except the first quarter of 2008 in which the Company obtained extension for holding Annual General Meeting for presentation of the financial statements for the period ended December 31, 2007. The terms of reference of the Committee have been formed and advised to the committee for compliance.

17. The Board has set-up an effective internal audit function and personnel involved 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.

18. 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 the Institute of Chartered Accountants of Pakistan.

19. 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.

20. We confirm that all other material principles contained in the Code have been complied with.

Salman Hameed
Chairman & Chief Executive

Karachi: January 29, 2009

Review Report to the Members on Statement of Compliance with the best Pratices of the Code of Coporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended December 31, 2008 prepared by the Board of Directors of Lakson Tobacco Company Limited (the company) to comply with the Listing Regulation No. 37 of the Karachi and Lahore Stock Exchanges where the company is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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 status of the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended December 31, 2008.

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A.F. FERGUSON & CO.
Chartered Accountants

Karachi, February 06, 2009

FOR THE YEAR ENDED DECEMBER 31, 2008

The Board of Directors of Lakson Tobacco Company Limited (the Company) takes pleasure in presenting the Annual Report and the Audited Financial Statements of the Company together with the Auditors' Report for the year ended December 31, 2008.

PROFITABILITY PERFORMANCE

As the members are aware that your Company had changed its financial reporting year in 2007 from June to December, therefore the comparisons below is distorted.

The analysis of key operating results for the current year (full year 2008) in comparison with the results of the previous year (half year 2007) is shown below:

Financial Indicators

	Year ended December 31, 2008 (Rs mio.)		Six Months period Ended December 31, 2007 (Rs mio.)	
		%		%
Gross Turnover	24,938	100.00	10,272	100.00
Gross Profit	4,316	17.31	1,825	17.77
Operating Profit	1,791	7.18	681	6.63
Profit before tax	1,745	7.00	672	6.54
Profit after tax	1,105	4.43	471	4.59

EARNINGS PER SHARE

Earnings per share is Rs 17.95 (for 2008) as compared to Rs 7.65 (for half year 2007).

COST OF SALES

The cost of sales to net turnover ratio decreased by 0.97% as compared to the last period which reveals measures taken by the management to improve the efficiency in the business.

INVESTMENTS

Your company has been investing on a continuous basis and during the period under review capital expenditure stood at Rs 952.483 million. These investments have enabled your company to improve and increase the production and facilitate in materializing future opportunities. Out of the total investment on capital expenditure approximately 51.25% of the investment i.e. 488.156 million incurred on plant and machinery in order to continue Balancing, Modernizing and Automating the manufacturing facilities to improve product quality and efficiency level.

DIVIDEND

The Board approved and paid 65% interim cash dividend during the year to the members of the Company and at close of the current financial year the Board has recommended 25% final cash dividend to be paid to the members subject to the approval of the members in forthcoming Annual General Meeting. The dividend payout ratio is 50% approximately of the net profit after tax for the year.

APPROPRIATION OF PROFIT

Profit for the year has been appropriated as follows:

	Year ended December 31, 2008	Six Months period Ended December 31, 2007
	(Rupees in mio)	
Profit before taxation	1,745.3	672.4
Taxation	639.9	201.2
Profit after taxation	1,105.4	471.2
Un-appropriated profit brought forward	1.1	0.8
Profit available for appropriation	1,106.5	472.0
Appropriations:		
Interim cash dividend @ 65% (2007: Nil)	400.2	-
Proposed cash dividend @ 25% (2007 @ 37.5%) per ordinary share of Rs 10 each	153.9	230.9
Transfer to general reserve	550.0	240.0
Un-appropriated profit carried forward	2.4	1.1

MATTER OF EMPHASIS

The auditors of the Company has given matter of emphasis in their report on the following matters:

Items of property, plant and equipment having a net book value of Rs 719.515 million as at December 31, 2007 were partially damaged as a result of riots on December 27 and 28, 2007 (December incident) for which an assessment of impairment was pending upto the date of the authorisation of the financial statements for the six months period ended December 31, 2007 (December 2007 financial statements). During the year the management has completed its assessment and has concluded that no impairment charge was required against those assets as of December 31, 2007 as majority of these assets have been brought into operation during the year.

The Company had recognised an insurance claim receivable aggregating Rs 274.538 million in respect of items of property, plant and equipment fully destroyed in December 2007 financial statements, however, an assessment of that insurance claim was pending. The company had also filed a claim for repair of partially damaged assets, however, receivable in respect of claim for repairs of partially damaged assets was not booked pending an assessment of that claim. During the year the insurance claim amounting to Rs 320.000 million has been received from the insurance company against items of property, plant and equipment fully destroyed and for repair costs relating to partially damaged fixed assets. Out of the total receipt, an aggregate amount of Rs 45.462 million has been set off against repairs costs incurred for repairs on items of property, plant and equipment partially damaged.

MATERIAL CHANGES AND COMMITMENTS

During the period between the end of the financial year and the date of the report no material changes and commitments occurred which affects the financial position of the Company.

CONTRIBUTION TO NATIONAL EXCHEQUER

Your company contributes substantially to the national economy in terms of taxes and duties and the contribution is increasing as the company grows. This year the Company contributed Rs 14.7 billion to the national exchequer in the form of Federal Excise Duty, Sales Tax, Custom Duties, Income Tax etc.

COMMUNITY INVOLVEMENT

The company's commitment to community welfare in the form of contributions to various sectors like health, education, social sectors etc. continued during the year.

CORPORATE GOVERNANCE

The Directors are pleased to state that all the necessary steps have been taken to comply with the requirements of the Code of Corporate Governance as required by Securities & Exchange Commission of Pakistan (SECP).

Following are the Statements on Corporate and Financial Reporting Frame Work:

- The financial statements prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in its equity except for matters as reported in the auditors' report.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been applied consistently in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- Approved accounting standards, as applicable in Pakistan, are followed in preparation of all financial statements.
- The Company's system of internal controls is sound in design and has been effectively implemented and continuously reviewed.
- There are no doubts upon the Company's ability to continue as a going concern.

- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The summary Key operating and financial data of last six years is annexed to this directors' report.
- Information about taxes and levies is given in the notes to the financial statements.
- The values of investments of staff retirement benefits (i.e. the Provident Fund and the Gratuity Fund) according to their respective audited accounts are as follows:

	(Rupees in mio)	
Provident Fund	764.2	(Financial Statements audited as at December 31, 2007)
Gratuity Fund	234.9	(Financial Statements audited as at June 30, 2008)

HOLDING COMPANY

Philip Morris Participations B.V. (PMP) is a holding Company of Lakson Tobacco Company Limited and it is incorporated in Holland.

BOARD OF DIRECTORS

During the period under review the term of the Board of Directors expired on September 27, 2008. A new Board of Directors comprising seven directors was elected on September 15, 2008 and their term started effective September 27, 2008. Since election no casual vacancy occurred. Following directors were elected for the term of three years:

1.	Mr. Matteo Lorenzo Pellegrini	Non- Executive Director
2.	Mr. Salman Hameed	Executive Director
3.	Mr. Douglas Walter Werth	Non- Executive Director
4.	Ms. Eunice Hamilton	Non- Executive Director
5.	Mr. Joseph Mitchell Gault	Executive Director
6.	Mr. Mohammad Farooq Shakoor	Executive Director
7.	Mr. Asmer Naim	Executive Director

I would like to thank M/s. Kevin Douglas Click, Bertrand Bonvin, Alan Ewan Hunking and Timothy John Southey the retiring Directors for their commitment and support to the Company during the period. I also welcome to all the new directors and hope that their valuable contribution will enable the company to achieve the goals and accomplish the mission.

During the period under review i.e. January 2008 to December 2008, the Board of Directors held four meetings. The attendance of Directors in the meetings is given here under:

Name of Directors	No. of meetings attended
Mr. Matteo Lorenzo Pellegrini	1
Mr. Douglas Walter Werth	1
Mr. Kevin Douglas Click	1
Mr. Kurt Hunkeler	-
Mr. Bertrand Bonvin	1
Ms. Eunice Hamilton	2
Mr. Salman Hameed	3
Mr. Joseph Mitchell Gault	4
Mr. Timothy John Southey	2
Mr. Alan Ewan Hunking	-
Mr. Mohammad Farooq Shakoor	4
Mr. Asmer Naim	4

Leaves of absence were granted to the Directors who could not attend the Board meetings.

COMMITTEES

The Board of Directors formed several Committees such as the Audit Committee and Steering Committee for smooth and timely performance of the business activities.

AUDIT COMMITTEE

Subsequent to election of Board of Directors the Audit Committee was reconstituted and following members were appointed as members of Audit Committee:

1.	Mr. Joseph Mitchell Gault	Chairman
2.	Mr. Douglas Walter Werth	Member
3.	Ms. Eunice Hamilton	Member
4.	Mr. Asmer Naim	Member

The Audit Committee performs according to the terms of reference determined by the Board of Directors of the Company which conforms to the requirements of the Code of Corporate Governance issued by the Securities & Exchange Commission of Pakistan.

The Audit Committee is comprised of four members, of which two are non-executive directors. The Audit Committee held 4 meetings during the period as per requirement of the Code of Corporate Governance.

COMPANY'S RECOGNITION

The Directors are pleased to state that your Company has been awarded for the tenth time among the top 25 Companies on the Karachi Stock Exchange for the financial year ended June 30, 2007.

PATTERN OF SHAREHOLDING

A statement of the pattern of shareholding as of December 31, 2008 is attached in the prescribed form as required under Code of Corporate Governance.

AUDITORS

The present Auditors M/s. A. F. Ferguson & Co, Chartered Accountants, will retire at the conclusion of the forthcoming Annual General Meeting. In this regard, they have given their consent to act as auditors of the Company for the year ending on December 31, 2009.

FUTURE OUTLOOK

Your Company is a fully integrated affiliate of Philip Morris International and is utilizing global resources to accelerate superior performance in all areas. Management is focused to bring an overall improvement in all aspects of our operations. This is being achieved through innovative marketing, upgrading of plant and machinery to improve product quality, development of human capital and continued emphasis on cost control.

CONCLUSION

The Directors wish to acknowledge and appreciate the untiring efforts, dedication and commitment demonstrated by all employees and their strong performance, significant contributions and their excellent response to the challenges faced during the year. Our growth has been possible because of their enduring commitment which has ensured a sound base for the company.

On behalf of the Board of Directors, we are pleased to record our appreciation for our employees, distributors, suppliers, shareholders and other institutions for their trust in the management of the company.

On behalf of the Board of Directors

Salman H.

SALMAN HAMEED
Chairman & Chief Executive

Karachi: February 06, 2009

Auditors' Report to the Members

We have audited the annexed balance sheet of Lakson Tobacco Company Limited as at December 31, 2008 and the related profit and loss account, statement of changes in equity and cash flow statement 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-

1. (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;

   (ii) the expenditure incurred during the year ended 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 changes in equity and cash flow statement 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 December 31, 2008 and of the profit, changes in equity and its cash flows for the year then ended; and

   (d) in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that ordinance.

2. Without qualifying our opinion, we draw attention to:

(a) the note 3.1.3 to the annexed financial statements which states that the management has completed its assessment relating to impairment of certain items of property, plant and equipment which were partially damaged and has concluded that no impairment charge was required against those assets as majority of those assets have been brought into operations.

(b) the note 11.2 to the annexed financial statements which states that during the year company has received an insurance claim aggregating Rs 274.538 million in respect of items of property, plant and equipment fully destroyed during the six months period ended December 31, 2007 which was included in 'other receivable' as of that date.

We had expressed a qualified opinion on the company's financial statements for the six months period ended December 31, 2007 because of the matters referred to in paragraph 2 above.

A.F.Ferguson & Co.

A.F. FERGUSON & CO.
Chartered Accountants

Karachi, February 06, 2009

Balance Sheet as at December 31, 2008

	Note	2008	2007
		(Rupees in thousand)	
NON CURRENT ASSETS			
Property, plant and equipment	3	**3,322,278**	2,804,956
Investment in a subsidiary company	4	**1**	1
Long term loans	5	**1,681**	1,208
Long term deposits and prepayments	6	**37,634**	26,178
		3,361,594	2,832,343
CURRENT ASSETS			
Stores and spares	7	**245,836**	215,816
Stock in trade	8	**5,327,107**	3,615,883
Trade debts	9	**36,181**	163,644
Loans and advances	10	**130,204**	77,900
Prepayments		**113,834**	66,219
Profit accrued		**3,959**	1,186
Other receivables	11	**23,571**	401,712
Income tax - net		**150,780**	86,370
Cash and bank balances	12	**46,718**	285,428
		6,078,190	4,914,158
		9,439,784	7,746,501
SHARE CAPITAL AND RESERVES			
Authorised capital		**1,000,000**	1,000,000
Issued, subscribed and paid-up capital	13	**615,803**	615,803
Reserves		**4,671,938**	4,427,000
Unappropriated profit		**706,220**	472,018
		5,993,961	5,514,821
NON CURRENT LIABILITIES			
Deferred taxation	14	**392,904**	312,000
CURRENT LIABILITIES			
Running finance under mark-up arrangements	17	**770,668**	4,560
Trade and other payables	18	**1,212,032**	936,426
Mark up on running finance facilities		**22,465**	2,314
Sales tax and excise payable		**996,495**	906,166
Provisions	19	**51,259**	70,214
		3,052,919	1,919,680
		9,439,784	7,746,501
CONTINGENCIES AND COMMITMENTS	20		

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

Karachi: January 29, 2009

SALMAN HAMEED
Chairman & Chief Executive

MOHAMMAD FAROOQ SHAKOOR
Director

Profit and Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
Gross turnover		**24,937,931**	10,271,943
Less: Sales tax		**3,474,885**	1,344,855
Less: Excise duty		**10,165,825**	4,072,816
Turnover - net of sales tax and excise duty		**11,297,221**	4,854,272
Cost of sales	21	**6,980,754**	3,028,924
Gross profit		**4,316,467**	1,825,348
Distribution and marketing expenses	22	**1,915,540**	883,267
Administrative expenses	23	**530,091**	202,258
		2,445,631	1,085,525
		1,870,836	739,823
Other operating expenses	24	**156,236**	94,510
		1,714,600	645,313
Other operating income	25	**76,358**	35,589
Operating profit		**1,790,958**	680,902
Finance cost	26	**45,639**	8,461
Profit before taxation		**1,745,319**	672,441
Taxation	27	**639,919**	201,180
Profit after taxation		**1,105,400**	471,261
		Rupees	
Earnings per share	28	17.95	7.65

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

Karachi: January 29, 2009

SALMAN HAMEED
Chairman & Chief Executive

MOHAMMAD FAROOQ SHAKOOR
Director

Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2008

	Issued, subscribed and paid-up capital	General reserve	Revenue reserves Other - note 2.18	Sub total	Unappropriated profit	Total
			Rupees in thousand			
Balance as at July 1, 2007	615,803	3,570,000	-	3,570,000	1,381,190	5,566,993
Profit after taxation for the six months period ended December 31, 2007	-	-	-	-	471,261	471,261
Transfer to general reserve for the year ended June 30, 2007	-	857,000	-	857,000	(857,000)	-
Final dividend for the year ended June 30, 2007 @ Rs 8.5 per share	-	-	-	-	(523,433)	(523,433)
Balance as at December 31, 2007	615,803	4,427,000	-	4,427,000	472,018	5,514,821
Profit after taxation for the year ended December 31, 2008	-	-	-	-	1,105,400	1,105,400
Share-based payment (notes 2.18 and 16)	-	-	4,938	4,938	-	4,938
Transfer to general reserve for the six months period ended December 31, 2007	-	240,000	-	240,000	(240,000)	-
Final dividend for the six months period ended December 31, 2007 @ Rs 3.75 per share	-	-	-	-	(230,926)	(230,926)
Interim dividend for the year ended December 31, 2008 @ Rs 6.50 per share	-	-	-	-	(400,272)	(400,272)
Balance as at December 31, 2008	615,803	4,667,000	4,938	4,671,938	706,220	5,993,961

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

Karachi: January 29, 2009

SALMAN HAMEED
Chairman & Chief Executive

MOHAMMAD FAROOQ SHAKOOR
Director

Cash Flow Statment

FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	32	**1,141,518**	738,178
Finance cost paid		**(9,880)**	(6,147)
Income taxes paid		**(623,425)**	(247,061)
Long term loans		**(473)**	(84)
Long term deposits and prepayments		**(11,456)**	(13,306)
Net cash inflow from operating activities		**496,284**	471,580
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(952,483)**	(485,854)
Proceeds from disposal of items of property, plant and equipment		**16,312**	20,349
Income received from short term deposits		**63,331**	20,222
Net cash used in investing activities		**(872,840)**	(445,283)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		**(628,262)**	(521,187)
Net cash used in financing activities		**(628,262)**	(521,187)
Net decrease in cash and cash equivalents		**(1,004,818)**	(494,890)
Cash and cash equivalents at the beginning of the year / period		**280,868**	775,758
Cash and cash equivalents at the end of the year / period	33	**(723,950)**	280,868

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

Salman

Karachi: January 29, 2009

SALMAN HAMEED
Chairman & Chief Executive

MOHAMMAD FAROOQ SHAKOOR
Director

FOR THE YEAR ENDED DECEMBER 31, 2008

1. THE COMPANY AND ITS OPERATIONS

1.1 The company was incorporated in Pakistan on February 10, 1969 as a public limited company under the Companies Act, 1913 (now Companies Ordinance, 1984) and its shares are quoted on the Karachi and Lahore Stock Exchanges. The principal activity of the company is manufacturing and sale of cigarettes and tobacco. The address of its registered office is 4th Floor, Bahria Complex III, M. T. Khan Road, Karachi, Pakistan.

1.2 The company is a subsidiary of Philip Morris International Inc., (the parent) through Philip Morris Participants B.V. and FTR Holding S.A.

1.3 The consolidated financial statements of the group comprising the company and its subsidiary, Premier Tobacco Company (Private) Limited, have not been attached with these financial statements in view of exemption granted by the Securities & Exchange Commission of Pakistan vide its letter No. EMD/233/619/2002-1196 dated November 13, 2008, from the requirement of Section 237 of the Ordinance. The exemption is however subject to certain conditions including that the audited financial statements of the subsidiary company will be open for inspection of shareholders during the Annual General Meeting of the company.

1.4 The company changed its financial year end from June 30 to December 31 with effect from December 31, 2007 and prepared its previous financial statements for the six months period then ended. Therefore, the comparative figures in these financial statements are as at and for the six months period ended December 31, 2007. The change in financial year end was made to coincide with the financial year end of the parent.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

These financial statements have been prepared under the historical cost convention unless otherwise specifically stated.

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.1.1 Interpretations effective in 2008:

During the year ended December 31, 2008, IFRIC Interpretation 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' became effective. The interpretation provides guidance on assessing the limit in IAS 19 - 'Employee Benefits' on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the company's financial statements as the company's funded gratuity scheme does not have any surplus requiring recognition of an asset.

There are other interpretations that were mandatory for accounting periods beginning on or before January 1, 2008 but were considered not to be relevant or did not have any significant effect to the company's operations.

2.1.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after January 1, 2009 or later periods:

IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009), was issued in September 2007. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The adoption of the above standard will only impact the presentation of the financial statements.

IAS 23 (Amendment) 'Borrowing costs' (effective from January 1, 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. Further, the definition of borrowing cost has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. The amendments will not have any impact on the company's financial statements as presently there are no qualifying assets.

IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009).

- The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

- The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

- IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The management is in the process of assessing the impact of its adoption on the company's financial statements.

IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). As per the new requirements, where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. Adoption of the amendment is not expected to have significant effect on the company's financial statements.

IAS 38 (Amendment), 'Intangible assets'(effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. Adoption of the amendment is not expected to have significant effect on the company's financial statements.

IFRS 2 (Amendment), 'Share-based payment' (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The management is in the process of assessing the impact of its adoption on the company's financial statements.

IFRS 7, 'Financial instruments: Disclosures' (effective from January 1, 2009 in case of the company) introduces new disclosures relating to financial instruments. However, it will not have any impact on the classification and valuation of the company's financial instruments.

IFRIC Interpretation 13 - 'Customer Loyalty Programmes' (effective from July 1, 2008). The interpretation clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. The management is in the process of assessing the impact of its adoption on the company's financial statements.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 but are considered not to be relevant or have any significant effect to the company's operations and are therefore not detailed in these financial statements.

2.2 Critical accounting judgements 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. Estimate 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. In the process of applying the company's accounting policies, the management has made the following estimates and judgements which are significant to the financial statements:

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 15.1 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets.

Equity settled share-based payment plans

Estimates with respect to the number of employees who are expected to receive the parent's shares upon satisfaction of the vesting conditions.

Property, plant and equipment

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits are based on the recommendation of technical team of the company. Further, the company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipments (note 3) with a corresponding affect on the depreciation charge and impairment.

Income taxes

In making the estimates for income taxes payable by the company, the management considers current income tax law and the decisions of appellate authorities on certain cases issued in past. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such final outcome is determined.

Provisions

Estimates with respect to provisions are based on the recommendation of legal team of the company. Any change in the estimates in future years might affect the carrying amounts of the provisions with a corresponding affect on the profit and loss account of the company.

2.3 Fixed assets and depreciation

2.3.1 Operating property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except for freehold land which is stated at historical cost.

Depreciation is charged to income over straight-line method so as to write off the historical cost of the assets over their estimated useful lives at the rates stated in note 3.1. Depreciation on additions is charged from the month in which the asset is put to use and on disposals upto the month the asset is in use. Assets' residual values and useful lives are reviewed, and adjusted, if appropriate annually. The carrying values of property, plant and equipment are reviewed at each reporting date for indication that an asset may be impaired and carrying values may not be recovered. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of fair value less cost to sell and value in use.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements, if any, are capitalised when it is probable that respective future economic benefits will flow to the company.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the relevant assets. These are included in the profit and loss account.

2.3.2 Capital work-in-progress

All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when these assets are available for use.

2.4 Investments

2.4.1 Investment in a subsidiary company

Investment in a subsidiary company is recognised when the company has established control over the investee company. Investment in subsidiary company is stated at cost less impairment, if any.

2.4.2 Other investments

The company classifies its financial instruments in the following categories:

(a) Investments 'at fair value through profit or loss':

- Financial instruments 'held-for-trading'

  These include financial instruments acquired principally for the purpose of generating profit from short-term fluctuations in prices or dealers' margins or are securities included in a portfolio in which a pattern of short-term profit taking exists.

- Financial instruments designated 'at fair value through profit or loss upon initial recognition'

  These include investments that are designated as investments at fair value through profit and loss upon initial recognition.

(b) Held to maturity

These are securities acquired by the company with the intention and ability to hold them upto maturity.

(c) Loans and receivables originated by the enterprise

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the company as fair value through profit or loss or available for sale.

(d) Available for sale

These financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at 'fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at 'fair value through profit or loss' are expensed immediately.

Subsequent to initial recognition, instruments classified as 'financial assets at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' are recognised in the income statement. Changes in the fair value of instruments classified as 'available for sale' are recognised in equity until derecognised or impaired when the accumulated fair value adjustments recognised in equity are included in the income statement.

Financial assets classified as 'loans and receivables' and 'held to maturity' are carried at amortised cost using the effective yield method, less impairment losses, if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective yield method.

The company follows trade date accounting for purchase and sale of investments.

2.5 Stores and spares

These are valued at lower of moving average cost and net realisable value, except for items in transit which are stated at invoice values plus other charges incurred thereon. Provision is made for slow moving items where necessary to bring them down to approximate net realiseable value and is recognised in the income statement.

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

2.6 Stock in trade

These are stated at the lower of average cost and net realisable value.

Average cost of raw material include procurement expenses except raw materials in bonded warehouse and in transit which are stated at invoice values plus other charges incurred thereon.

Average cost of redried tobacco includes procurement and overheads incurred on redrying of tobacco leaf.

Average cost in relation to finished goods and work-in-process includes proportionate production overheads.

2.7 Trade debts and other receivables

Trade debts and other receivables are recognised and carried at original invoice amount less an estimated allowance made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified.

2.8 Trade and other payables

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

2.9 Provisions

Provisions are recognised when the company has a present, legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2.10 Contingent assets

Contingent assets are disclosed when there is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company. Contingent assets are not recognised until their realisation become virtually certain.

2.11 Contingent liabilities

Contingent liability is disclosed when:

- There is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company; or

- there is present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

2.12 Taxation

2.12.1 Current

Provision for current taxation is the amount computed on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any.

2.12.2 Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purpose and amounts used for taxation purposes.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets may be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is utilised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

2.13 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents consist of cash and bank balances, running finance under mark up arrangements, cheques in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

2.14 Borrowing costs

Borrowing costs are recognised as an expense in the period in which these are incurred.

2.15 Revenue recognition

- Sales are recognised on dispatch of goods to customers.
- Royalty income is accounted for as and when earned.
- Income on investments and return on deposits are accounted for on accrual basis.

2.16 Staff retirement benefits

The company operates:

a) an approved contributory provident fund for all permanent employees for which contributions are charged to income for the year; and

b) an approved funded gratuity scheme covering all permanent employees. Contribution is made to this scheme on the basis of actuarial recommendations. The actuarial valuation is carried out using the Project Unit Credit Method.

Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes. Actuarial gains and losses are recognised as income or expense in the same accounting period.

2.17 Compensated absences

The company provides for its estimated liability towards leaves accumulated by employees on an accrual basis using current salary levels.

2.18 Equity-settled share-based payment plans

Consistent with prior period, the company recognises as expense the services acquired over the vesting period and the corresponding increase in equity (contribution from parent) on fair value of the parent's shares at the grant date under 'Time-vested Share Plan'. Under the plan the parent grants rights of its shares to certain employees / executives of the company that vest over a period of three years from the grant date.

2.19 Foreign currency translation

Foreign currency transactions are translated into Pak Rupees (functional currency) using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at the year end / period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

2.20 Financial assets and liabilities

Financial assets and liabilities carried on the balance sheet include receivables, cash and bank balances and trade creditors. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are offset when the company has a legally enforceable right to offset and it intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

2.21 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognised in the company's financial statements in the period in which these are approved.

Notes to the Financial Statements (continued)

	Note	2008	2007
		(Rupees in thousand)	
3. PROPERTY, PLANT AND EQUIPMENT			
Operating property, plant and equipment	3.1	2,993,619	2,482,138
Capital work-in-progress	3.2	328,659	322,818
		3,322,278	2,804,956

3.1 Operating property, plant and equipment

	Freehold land	Leasehold land	Buildings on freehold land	Buildings on freehold land	Plant and machinery	Furniture and fixtures	Office equipment	Vehicles	Power and other installations	Computer equipment	Total
	Rupees in thousand										
At June 30, 2007											
Cost	80,998	2,441	420,774	53,620	3,086,785	56,324	36,997	382,153	283,557	153,430	4,557,079
Accumulated depreciation	-	(171)	(275,699)	(1,595)	(1,356,053)	(51,332)	(26,929)	(178,752)	(148,737)	(145,211)	(2,184,479)
Net book value	80,998	2,270	145,075	52,025	1,730,732	4,992	10,068	203,401	134,820	8,219	2,372,600
Six months period ended December 31, 2007											
Additions	-	-	45,417	2,682	350,197	1,717	5,449	36,673	35,617	8,955	486,707
Transfers											
Cost	-	-	-	-	-	(16,610)	17,135	-	(525)	-	-
Accumulated depreciation	-	-	-	-	-	15,469	(15,487)	-	18	-	-
	-	-	-	-	-	(1,141)	1,648	-	(507)	-	-
Disposals											
Cost	-	-	-	-	(831)	-	(13)	(13,626)	-	-	(14,470)
Accumulated depreciation	-	-	-	-	831	-	13	9,734	-	-	10,578
	-	-	-	-	-	-	-	(3,892)	-	-	(3,892)
Assets destroyed due to the December incident											
Cost	-	-	-	-	(244,147)	(4,115)	(4,683)	(8,453)	(3,103)	(6,394)	(270,895)
Accumulated depreciation	-	-	-	-	79,073	3,535	3,821	4,150	2,664	6,122	99,365
	-	-	-	-	(165,074)	(580)	(862)	(4,303)	(439)	(272)	(171,530)
Depreciation charge	-	(49)	(15,995)	(2,568)	(137,113)	(1,172)	(2,576)	(25,253)	(14,767)	(2,254)	(201,747)
Net book value as at December 31, 2007	80,998	2,221	174,497	52,139	1,778,742	3,816	13,727	206,626	154,724	14,648	2,482,138
Year ended December 31, 2008											
Additions	-	-	18,692	94,430	556,170	39,851	12,515	169,769	13,325	41,890	946,642
Transfers											
Cost	-	-	(3,562)	3,562	135	73	(2,670)	-	2,462	-	-
Accumulated depreciation	-	-	338	(338)	(41)	(13)	449	-	(395)	-	-
	-	-	(3,224)	3,224	94	60	(2,221)	-	2,067	-	-
Disposals											
Cost	-	-	-	-	(16,995)	(10)	(785)	(18,088)	-	(108)	(35,986)
Accumulated depreciation	-	-	-	-	16,995	10	785	11,019	-	106	28,915
	-	-	-	-	-	-	-	(7,069)	-	(2)	(7,071)
Impairment - note 3.1.4											
Cost	-	-	-	-	(115,845)	-	-	-	-	-	(115,845)
Accumulated depreciation	-	-	-	-	86,066	-	-	-	-	-	86,066
	-	-	-	-	(29,779)	-	-	-	-	-	(29,779)
Depreciation charge	-	(93)	(26,714)	(10,453)	(264,293)	(4,545)	(5,884)	(50,754)	(25,556)	(10,019)	(398,311)
Net book value as at December 31, 2008	80,998	2,128	163,251	139,340	2,040,934	39,182	18,137	318,572	144,560	46,517	2,993,619
At December 31, 2007											
Cost	80,998	2,441	466,191	56,302	3,192,004	37,316	54,885	396,747	315,546	155,991	4,758,421
Accumulated depreciation	-	(220)	(291,694)	(4,163)	(1,413,262)	(33,500)	(41,158)	(190,121)	(160,822)	(141,343)	(2,276,283)
Net book value	80,998	2,221	174,497	52,139	1,778,742	3,816	13,727	206,626	154,724	14,648	2,482,138
At December 31, 2008											
Cost	80,998	2,441	481,321	154,294	3,731,314	77,230	63,945	548,428	331,333	197,773	5,669,077
Accumulated depreciation	-	(313)	(318,070)	(14,954)	(1,660,601)	(38,048)	(45,808)	(229,856)	(186,773)	(151,256)	(2,645,679)
Accumulated impairment	-	-	-	-	(29,779)	-	-	-	-	-	(29,779)
Net book value	80,998	2,128	163,251	139,340	2,040,934	39,182	18,137	318,572	144,560	46,517	2,993,619
Depreciation rate	-	4%	5% to 10%	4% to 10%	10%	20%	20%	20%	10%	33.33%	

3.1.1 The depreciation charge for the year / period has been allocated as follows:

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
Purchases, redrying and related expenses	21.1	**56,860**	35,847
Manufacturing expenses	21.2	**277,088**	142,407
Distribution and marketing expenses	22	**38,970**	17,092
Administrative expenses	23	**25,393**	6,401
		398,311	201,747

3.1.2 Details of property, plant and equipment disposed off are given in note 38.

3.1.3 Items of property plant and equipment having a net book value of Rs 719.515 million as at December 31, 2007 were partially damaged as a result of riots on December 27 and 28, 2007 (December incident) for which an assessment of impairment was pending upto the date of the authorisation of the financial statements for the six months period ended December 31, 2007 (December 2007 financial statements). During the year the management has completed its assessment and has concluded that no impairment charge was required against those assets as of December 31, 2007 as majority of these assets have been brought into operation during the year.

3.1.4 The impairment charge for the current year represents written down value of certain items of plant and machinery which the company does not intend to utilise and therefore has determined the 'value in use' of those items of plant and machinery to be Nil.

	Note	2008	2007
		(Rupees in thousand)	
3.2 Capital work-in-progress			
Civil works		**35,828**	22,159
Plant and machinery	3.2.1	**189,893**	258,001
Power and other installations		**3,581**	421
Furniture and fittings		**2,006**	6,836
Computer equipment pending installation		**31,402**	487
Advance to suppliers and contractors		**65,949**	34,914
		328,659	322,818

3.2.1 This includes plant and machinery in transit aggregating Rs 0.652 million (2007: Rs 2.841 million).

4. INVESTMENT IN A SUBSIDIARY COMPANY

This represents the cost of 103 (2007: 103) fully paid ordinary shares of Rs 10 each in Premier Tobacco Company (Private) Limited. Out of such 103 shares three shares are in the name of the nominees. The break up value of shares calculated by reference to net assets worked out to be Rs 10 per share (2007: Rs 10 per share) based on the audited financial statements for the year ended December 31, 2008.

	Note	2008	2007
		(Rupees in thousand)	
5. LONG TERM LOANS - considered good			
Loans to employees	5.1	**2,453**	1,679
Less: Current portion shown under current assets	10	**(772)**	(471)
		1,681	1,208

5.1 These represent mark-up free loans given to employees for purchase of vehicles in accordance with the company policy and are secured by pledge of original registration documents of the vehicles and demand promissory notes. These loans are recoverable in equal monthly installments over a period of five years. The fair value adjustment in accordance with the requirements of IAS 39 arising in respect of staff loans is not considered material and hence not recognised.

	Note	2008	2007
		(Rupees in thousand)	
6. LONG TERM DEPOSITS AND PREPAYMENTS			
Deposits		**31,355**	25,933
Prepayments		**6,279**	245
		37,634	26,178
7. STORES AND SPARES			
Stores	7.2	**8,075**	6,352
Spares	7.1 and 7.2	**237,761**	209,464
		245,836	215,816

7.1 This includes spares in transit amounting to Rs 9.462 million (2007: Rs 3.799 million).

7.2 During the year, the company has written off stores and spares aggregating Rs Nil (2007: Rs 13.666 million).

	Note	2008	2007
		(Rupees in thousand)	
8. STOCK IN TRADE			
Raw and packing materials	8.1 and 8.3	**5,049,456**	3,408,272
Work-in-process		**12,824**	12,058
Finished goods		**264,827**	195,553
		5,327,107	3,615,883

8.1 This includes raw and packing material in transit aggregating Rs 213.925 million (2007: Rs 122.840 million).

8.2 During the year, the company has written off inventory aggregating Rs 28.328 million (2007: Rs 22.589 million).

8.3 Raw and packing material includes 'Tobacco Development Cess' aggregating Rs 108.889 million (2007: Rs 98.153 million).

9. TRADE DEBTS

	Note	2008	2007
		(Rupees in thousand)	
Considered good			
• Secured		**1,551**	127,713
• Unsecured		**34,630**	35,931
		36,181	163,644

9.1 The amount comprises outstanding balance from the following group undertakings:

	Note	2008	2007
		(Rupees in thousand)	
Philip Morris International - Phillipines		**814**	-
Philip Morris International - Malaysia		**737**	-
		1,551	-

10. LOANS AND ADVANCES – considered good

	Note	2008	2007
Secured			
Loans to employees			
• Current portion of long term loans	5	**772**	471
Unsecured			
Advances to:			
• Employees	10.2	**9,653**	8,836
• Suppliers and contractors		**119,779**	68,593
		129,432	77,429
		130,204	77,900

10.1 The maximum aggregate balance of advances due from executives at the end of any month during the year was Rs 4.671 million (2007: Rs 4.009 million).

10.2 The advances to executives and employees are given to meet business expenses and are settled as and when the expenses are incurred.

11. OTHER RECEIVABLES

	Note	2008	2007
		(Rupees in thousand)	
Current account balance with statutory authorities		-	3,024
Federal Excise Duty refundable - imported tobacco		**1,979**	2,051
Receivable against insurance claim due to the December incident			
• Raw and packing material		-	65,260
• Finished goods		-	19,077
• Finished goods in transit		-	17,567
• Plant and machinery	11.2	-	163,130
• Office equipment	11.2	-	239
• Vehicles	11.2	-	6,800
• Capital work in progress	11.2	-	108,869
		-	380,942
Others	11.1	**21,592**	15,695
		23,571	401,712

11.1 This includes amount receivable from a transporter aggregating Rs 10.316 million (2007: Rs 12.090 million) in respect of goods damaged in transit during transportation.

11.2 The company had recognised an insurance claim receivable aggregating Rs 274.538 million in respect of items of property, plant and equipment fully destroyed in December 2007 financial statements, however, an assessment of that insurance claim was pending. The company had also filed a claim for repair of partially damaged assets, however, receivable in respect of claim for repairs of partially damaged assets was not booked pending an assessment of that claim. During the year the insurance claim amounting to Rs 320.000 million has been received from the insurance company against items of property, plant and equipment fully destroyed and for repair costs relating to partially damaged fixed assets. Out of the total receipt, an aggregate amount of Rs 45.462 million has been set off against repairs costs incurred for repairs on items of property, plant and equipment partially damaged.

12. CASH AND BANK BALANCES

	Note	2008	2007
		(Rupees in thousand)	
With banks			
• in saving accounts	12.1	**1,148**	262,881
• in current accounts			
- Foreign currency		**1,450**	1,720
- Local currency		**40,740**	18,294
		42,190	20,014
		43,338	282,895
Cash in hand		**3,380**	2,533
		46,718	285,428

12.1 These carry mark-up rates ranging from 5% to 11% (2007: 1.25% to 7.50% per annum).

13. SHARE CAPITAL

13.1 Authorised capital

2008	2007		2008	2007
(Number of shares)			(Rupees in thousand)	
100,000,000	100,000,000	Ordinary shares of Rs 10 each	**1,000,000**	1,000,000

13.2 Issued, subscribed and paid-up capital

2008	2007		2008	2007
(Number of shares)			Rupees in thousand)	
5,541,429	5,541,429	Cash	**55,414**	55,414
47,722,912	47,722,912	Bonus shares	**477,229**	477,229
8,316,000	8,316,000	Consideration other than cash	**83,160**	83,160
61,580,341	61,580,341		**615,803**	615,803

13.3 As at December 31, 2008, the number of ordinary shares of Rs 10 each held by Philip Morris Participations B.V. and FTR Holdings S.A., subsidiaries of Philip Morris International Inc., were 47,819,349 and 12,316,060 respectively (2007: 47,819,346 and 12,316,060 respectively).

	Note	2008	2007
		(Rupees in thousand)	
14. DEFERRED TAXATION			
Deferred tax liability on taxable temporary differences:			
Tax depreciation allowance		**409,797**	316,965
Deferred tax asset on deductible temporary differences:			
Accrual for employees compensated absences		**(9,464)**	(4,965)
Provision for impairment		**(7,429)**	-
		392,904	312,000

15. STAFF RETIREMENT BENEFITS

15.1 Defined benefit plan

As stated in note 2.16, the company operates an approved funded gratuity scheme for all its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at December 31, 2008.

The fair value of scheme's assets and the present value of obligation under the scheme at the balance sheet date are as follows:

	Note	2008	2007
		(Rupees in thousand)	
Present value of defined benefit obligation		**248,888**	246,165
Fair value of plan assets		**(248,888)**	(246,165)
Liability recognised in the balance sheet		**-**	-

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
Amounts charged to profit and loss account:			
Current service cost		**18,007**	7,961
Interest cost		**24,617**	11,342
Expected return on plan assets		**(24,617)**	(9,074)
Actuarial loss recognised		**44,322**	12,105
		62,329	22,334
The charge for the year / period has been allocated as follows:			
Purchases, redrying and related expenses	21.1	**6,214**	2,602
Manufacturing expenses	21.2	**23,838**	9,043
Distribution and marketing expenses	22	**15,989**	5,251
Administrative expenses	23	**16,288**	5,438
		62,329	22,334

	2008	2007
	(Rupees in thousand)	
Movement in the liability recognised in the balance sheet:		
Balance as at the beginning of the year / period	**-**	-
Net charge for the year / period	**62,329**	22,334
Contribution to the fund	**(62,329)**	(22,334)
Balance as at the end of the year / period	**-**	-

	2008	2007
	(Rupees in thousand)	
Movement in the present value of defined benefit obligation:		
Opening balance	**246,165**	226,849
Current service cost	**18,007**	7,961
Interest cost	**24,617**	11,342
Benefits paid	**(52,667)**	(7,476)
Actuarial loss	**12,766**	7,489
Closing balance	**248,888**	246,165
Movement in the fair value of plan assets:		
Opening balance	**246,165**	226,849
Expected return	**24,617**	9,074
Contributions	**62,329**	22,334
Benefits paid	**(52,667)**	(7,476)
Actuarial loss	**(31,556)**	(4,616)
Closing balance	**248,888**	246,165

Principal actuarial assumptions used are as follows:

	2008	2007
Expected rate of increase in salary level	**15%**	10%
Valuation discount rate	**15%**	10%
Rate of return on plan assets	**15%**	10%

Comparisons for five periods	Year ended December 31, 2008	Six months period ended December 31, 2007	Year ended June 30, 2007	Year ended June 30, 2006	Year ended June 30, 2005
	Rupees in thousand				
Present value of defined benefit obligation	248,888	246,165	226,849	195,605	159,930
Fair value of plan assets	(248,888)	(246,165)	(226,849)	(195,605)	(159,930)
Surplus / (deficit)	-	-	-	-	-
Experience adjustment on plan liabilities	(12,766)	(7,489)	(17,549)	(16,670)	(19,793)
Experience adjustment on plan assets	(31,556)	(4,616)	16,900	(7,201)	(1,993)

	2008	2007
	(Rupees in thousand)	
Major categories / composition of plan assets are as follows:		
Debt instruments	**119,301**	33,953
Mutual funds units	**72,339**	69,204
Equity	**17,033**	22,606
Balances with banks	**40,215**	120,402
	248,888	246,165

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

Actual loss on plan assets during the year ended December 31, 2008 was Rs 6.939 million (actual gain of Rs 4.458 million during six months period ended December 31, 2007).

Expected contribution to defined benefit plan for the year ending December 31, 2009 is Rs 21.036 million (for the year ended December 31, 2008: Rs 18.007 million).

15.2 Defined contribution plan

The charge for the year / period has been allocated as follows:

	Note	2008	2007
		(Rupees in thousand)	
Purchases, redrying and related expenses	21.1	**3,248**	1,424
Manufacturing expenses	21.2	**9,195**	5,067
Distribution and marketing expenses	22	**12,476**	3,912
Administrative expenses	23	**7,014**	3,074
		31,933	13,477

16. SHARE-BASED PAYMENT PLAN

Details of the share-based payment under 'Time-vested Share Plan' in relation to the company are as follows:

Grant date	February 20, 2008
Share price at grant date	Rs 3,187 / share (US $ 50.58 / share)
Number of employees	5
Number of shares granted	4,030

A reconciliation of movements in the numbers of shares can be summarised as follows:

	2008	2007
	(No. of shares)	
Granted during the year / period	**6,085**	-
Forfeited / vested during the year / period	**(2,055)**	-
Outstanding as at year / period end	**4,030**	-

16.1 The charge for the year / period has been allocated as follows:

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
Distribution and marketing expenses	22	**838**	-
Administrative expenses	23	**4,100**	-
		4,938	-

	2008	2007
	(Rupees in thousand)	

17. RUNNING FINANCE UNDER MARK UP ARRANGEMENTS

	2008	2007
Secured		
From banks	**770,668**	4,560

The company has arranged for running finance and other short term loan facilities to the extent of Rs 1,800 million (2007: Rs 2,075 million) from commercial banks. The facilities aggregating Rs 1,800 million (2007: Rs 2,000 million) are available for various periods expiring between March 31 to October 26, 2009. The facilities are secured by way of hypothecation of stock in trade of the company and are carrying mark-up rates ranging from 15.76% to 17% (2007: 10.05% to 10.75%) per annum.

18. TRADE AND OTHER PAYABLES

	Note	2008	2007
		(Rupees in thousand)	
Creditors		**438,411**	290,366
Bills payable		**340,648**	162,971
Royalty payable to a related party		**10,936**	4,370
Accrued expenses		**298,295**	294,898
Provident fund trust		**7,036**	5,292
Contractors' retention money		**6,157**	3,045
Advance from customers		**34,711**	70,354
Tobacco cess		**2,440**	2,268
Workers' profits participation fund	18.2	**611**	6,120
Workers' welfare fund		**34,906**	58,449
Unpaid and unclaimed dividends		**27,147**	24,211
Security deposits		**-**	3,473
Others		**10,734**	10,609
		1,212,032	936,426

18.1 The amount due to related parties comprises:

	2008	2007
Group undertakings	**29,452**	7,211
Key management personnel	**45,358**	21,703
Staff retirement plans	**7,036**	5,292
	81,846	34,206

	Note	2008	2007
		(Rupees in thousand)	
18.2 Workers' profits participation fund			
Balance at the beginning of the year / period		**6,120**	11,000
Mark-up on funds utilised in the company's business	26	**442**	388
		6,562	11,388
Allocation for the year / period	24	**93,611**	36,120
Paid to the fund:			
• for prior period / year		**(6,562)**	(11,388)
• for current year / period in advance		**(93,000)**	(30,000)
		(99,562)	(41,388)
		611	6,120

19. PROVISIONS

	Note	2008	2007
Tobacco Development Cess	19.1 and 19.3	**51,259**	67,398
Sales tax	19.2 and 19.3	**-**	2,816
		51,259	70,214

19.1 With effect from July 1, 1999, Tobacco Development Cess had been levied on the purchases of tobacco leaf. The company has filed a constitutional petition in the Honorable Supreme Court of Pakistan against the levy which is currently pending for adjudication. Meanwhile, the company is paying the said levy under protest. Pending outcome of the matter, the company has made the above provision in its books of account.

19.2 The Collectorate of Sales Tax had issued a demand-cum-show cause notice on May 28, 1999 on account of short payment of sales tax amounting to Rs 2.279 million on disposals of fixed assets during the years from 1994 to 1998 which was accounted for in the books of account by the company. The company had filed an appeal before Appellate Tribunal (AT) which remanded the case back to Additional Collector (Adjudication). The Additional Collector reduced the principal amount to Rs 1.771 million. The company as a matter of prudence had maintained a provision of Rs 2.279 million alongwith Rs 0.537 million, being the amount for additional tax / penalty. During the year the company received a notice for recovery from Assistant Collector (Recovery) for the payment of principal amount of sales tax amounting to Rs 1.771 million alongwith Rs 13.944 million and Rs 0.890 million being the amount of additional tax / default surcharge and penalty respectively against which the company paid the principal amount of Rs 1.771 million.

The Government of Pakistan (GoP) announced an amnesty scheme through S.R.O. 511 (I) / 2008 dated June 5, 2008 through which the GoP exempted the amount of default surcharge and penalties payable by a person against whom an amount of sales tax or federal excise duty was outstanding subject to the condition that the principal amount of such tax was paid by June 30, 2008. As the company had already paid the principal amount in May 2008 therefore the company availed the benefit of amnesty under the aforementioned S.R.O. Consequently, the provision of Rs 1.045 million was reversed.

19.3 The movement of provision is as follows:

	Tobacco Development Cess (Note 19.1)	Sales tax (Note 19.2)
	(Rupees in thousand)	
Balance as at January 1, 2008	**67,398**	2,816
Provision for the year	**67,936**	-
	135,334	2,816
Less: Payments made during the year	**(84,075)**	(1,771)
Less: Reversal of excess provision during the year	**-**	(1,045)
Balance as at December 31, 2008	**51,259**	-

20. CONTINGENCIES AND COMMITMENTS

20.1 Guarantees

Indemnities given to a bank for guarantees issued by it in the normal course of business aggregated Rs 9.982 million (2007: Rs 9.982 million).

20.2 Commitments

	2008	2007
	(Rupees in thousand)	
Capital expenditure contracted for but not incurred	**220,392**	43,492
Letters of credit	**208,077**	155,526

20.3 Contingent liabilities

The Additional Collector of Customs, Sales Tax and Central Excise (Adjudication) Rawalpindi has issued a show cause notice on October 5, 2002 on account of short payment of Central Excise duty and Sales Tax amounting to Rs 4.910 million and Rs 2.883 million respectively. Another show cause notice was issued on March 1, 2003 by the Additional Collector of Customs, Sales Tax and Central Excise (Adjudication) Rawalpindi on account of short payment of Central Excise duty and Sales Tax amounting to Rs 2.556 million and Rs 1.138 million respectively. The company has filed appeals in the Lahore High Court Rawalpindi Bench against the aforementioned show cause notices. The case is pending for adjudication and management is confident that the case will be decided in its favour and accordingly no provision has been made in this regard.

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
21. COST OF SALES			
Raw material consumed			
Opening stock		**3,408,272**	2,326,600
Purchases, redrying and related expenses	21.1	**7,564,826**	3,709,051
		10,973,098	6,035,651
Closing stock	8	**(5,049,456)**	(3,408,272)
Cost of raw material damaged during the December incident	11 and 24	**-**	(98,987)
		5,923,642	2,528,392
Government levies		**95,260**	75,060
Manufacturing expenses	21.2	**1,060,105**	479,625
		7,079,007	3,083,077
Work in process			
Opening stock		**12,058**	21,231
Closing stock	8	**(12,824)**	(12,058)
Sale of waste		**(35,821)**	(26,572)
Cost of work-in-process damaged during the December incident	24	**-**	(4,435)
		(48,645)	(43,065)
		(36,587)	(21,834)
Balance carried forward		**7,042,420**	3,061,243

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
Balance brought forward		**7,042,420**	3,061,243
Cost of goods manufactured			
Finished goods			
Opening stock		**195,553**	185,122
Finished goods purchased		**7,608**	-
Closing stock	8	**(264,827)**	(195,553)
Cost of finished goods damaged during the December incident	11 and 24	**-**	(21,888)
		(61,666)	(32,319)
		6,980,754	3,028,924

21.1 Purchases, redrying and related expenses

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
Raw and packing material		**7,061,677**	3,454,084
Salaries, wages and other benefits	15	**179,558**	86,659
Stores and spares consumed		**26,194**	9,886
Fuel and power		**115,293**	58,408
Rent, rates and taxes		**11,088**	5,291
Freight and stacking		**53,037**	36,252
Postage, telephone and stationery		**5,054**	3,416
Depreciation	3.1.1	**56,860**	35,847
Insurance		**7,887**	2,349
Repair and maintenance		**2,548**	471
Travelling and vehicle expenses		**22,601**	8,279
Professional charges		**5,323**	2,584
Other expenses		**17,706**	5,525
		503,149	254,967
		7,564,826	3,709,051

21.2 Manufacturing expenses

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
Salaries, wages and other benefits	15	**399,986**	178,367
Stores and spares consumed		**94,033**	50,426
Fuel and power		**164,798**	57,557
Rent, rates and taxes		**3,088**	4,291
Cartage		**74,417**	22,300
Postage, telephone and stationery		**1,724**	1,835
Depreciation	3.1.1	**277,088**	142,407
Travelling and vehicle expenses		**20,334**	11,946
Insurance		**9,667**	3,679
Other expenses		**14,970**	6,817
		1,060,105	479,625

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	

22. DISTRIBUTION AND MARKETING EXPENSES

	Note	2008	2007
Salaries, allowances and other benefits	15 and 16.1	**354,981**	143,174
Selling expenses	22.1	**1,260,239**	623,209
Freight on sales		**100,466**	41,624
Rent, rates and taxes		**17,042**	8,873
Postage, telephone and stationery		**23,872**	8,452
Depreciation	3.1.1	**38,970**	17,092
Travelling and vehicle expenses		**83,951**	23,571
Insurance		**4,147**	1,601
Royalty		**6,566**	2,662
Repair and maintenance		**1,793**	433
Other expenses		**23,513**	12,576
		1,915,540	883,267

22.1 This includes expenses relating to 'sponsorship and event marketing', 'retail and trade allowance', 'point of sales materials' and 'travelling and vehicle expenses - selling' amounting to Rs 224.166 million, Rs 294.137 million, Rs 384.111 million and Rs 135.078 million respectively.

23. ADMINISTRATIVE EXPENSES

	Note	2008	2007
Salaries, allowances and other benefits	15 and 16.1	**238,360**	99,974
Rent, rates and taxes		**92,548**	42,821
Postage, telephone and stationery		**49,073**	6,801
Travelling and vehicle expenses		**60,760**	23,146
Repairs and maintenance		**8,411**	1,212
Legal and professional charges		**17,715**	3,824
Utilities		**14,855**	3,018
Fee and subscription		**3,436**	4,981
Insurance		**637**	736
Auditors' remuneration	23.1	**1,672**	750
Donations	23.2	**2,583**	2,500
Depreciation	3.1.1	**25,393**	6,401
Other expenses		**14,648**	6,094
		530,091	202,258

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
23.1 Auditors' remuneration			
Audit fee		**950**	750
Review of half yearly financial statements		**300**	-
Special certification and related services		**250**	-
Out of pocket expenses		**172**	-
		1,672	750

23.2 Donation includes payment aggregating Rs 2.5 million (2007: Rs 2.5 million) to Lakson Medical Trust situated in Pohan Colony, Malakand Road, Mardan in which a Director, Mr. Farooq Shakoor, was interested as a trustee. Besides this, none of the directors and their spouses have any interest in the donees to whom donations were made.

24. OTHER OPERATING EXPENSES

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
Workers' profits participation fund	18.2	**93,611**	36,120
Workers' welfare fund - current period		**34,906**	13,449
- prior period		**(2,060)**	-
		32,846	13,449
Impairment charge on items of property, plant and equipment	3.1	**29,779**	-
Loss due to the December incident - net			
• Raw and packing material		-	33,727
• Work-in-process		-	4,435
• Finished goods		-	2,811
• Finished goods in transit		-	2,172
• Cash in hand		-	435
• Plant and machinery		-	1,944
• Furniture and fixtures		-	580
• Office equipment		-	623
• Vehicles		-	(2,497)
• Power and other installations		-	439
• Computer equipment		-	272
		-	44,941
		156,236	94,510

Notes to the Financial Statements (continued)

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
25. OTHER OPERATING INCOME			
Income from financial assets:			
• Profit on short term deposits		**66,104**	17,233
• Others		**1,013**	1,899
		67,117	19,132
Income from assets other than financial assets:			
• Profit on disposal of fixed assets		**9,241**	16,457
		76,358	35,589
26. FINANCE COST			
Mark-up on:			
• Running finance under markup arrangements		**29,589**	3,795
• Workers' profit participation fund	18.2	**442**	388
• Security deposits		**-**	28
		30,031	4,211
Bank commission and other charges		**15,608**	4,250
		45,639	8,461
27. TAXATION			
Current - for the year / period		**537,059**	176,000
Current - for prior periods		**21,956**	-
		559,015	176,000
Deferred		**80,904**	25,180
		639,919	201,180
27.1 Relationship between tax expense and accounting profit			
Accounting profit before tax		**1,745,319**	672,441
Tax rate		**35%**	35%
Tax on accounting profit		**610,862**	235,354
Tax effect of:			
• expenses that are inadmissible in determining taxable profit		**-**	24,434
• income assessed under Final Tax Regime		**5,881**	(33,871)
• others		**1,220**	(24,737)
		617,963	201,180
• adjustments in respect of current tax of prior periods		**21,956**	-
Tax expense for the year / period		**639,919**	201,180

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
28. EARNINGS PER SHARE			
Profit for the year / period after taxation		**1,105,400**	471,261
		No. of shares	**No. of shares**
Number of ordinary shares		**61,580,341**	61,580,341
		Rupees	
Earnings per share		**17.95**	7.65

There were no convertible dilutive potential ordinary shares outstanding on December 31, 2008 and 2007.

29. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount, charged in the financial statements for the year / period is as follows:

	Chief Executive		Directors		Executives		Total	
	Year ended Dececmber 31, 2008	Six months period ended Dececmber 31, 2007	Year ended Dececmber 31, 2008	Six months period ended Dececmber 31, 2007	Year ended Dececmber 31, 2008	Six months period ended Dececmber 31, 2007	Year ended Dececmber 31, 2008	Six months Dececmber 31, 2007
	Rupees in thousand		Rupees in thousand		Rupees in thousand		Rupees in thousand	
Remuneration	23,000	11,500	39,310	15,792	80,498	24,990	142,808	52,282
House rent	-	1,625	6,294	2,660	36,196	11,228	42,490	15,513
Bonus	-	-	7,861	1,551	13,592	7,567	21,453	9,118
Motor vehicle expenses	-	-	463	166	8,873	2,499	9,336	2,665
Retirement benefits -		-	7,306	2,895	31,134	7,636	38,440	10,531
Utilities	-	-	482	338	-	-	482	338
Others	-	-	6,515	1,286	17,507	2,846	24,022	4,132
	23,000	13,125	68,231	24,688	187,800	56,766	279,031	94,579
Number of persons	1	1	5	5	94	61	100	67

In addition, the chief executive, directors and certain executives are provided with free use of company maintained cars and accommodation facilities.

Further, the impact of benefits available to certain directors and executives recognised by the company in the expenses during the year on account of share-based payment plan aggregates Rs 4.938 million (2007: Nil).

Certain executives are on secondment from the parent and no remuneration is charged in respect of those executives by the parent.

30. RELATED PARTIES DISCLOSURES

The related parties comprise of subsidiary company, Premier Tobacco Company (Private) Limited, Philip Morris Participants B.V., FTR Holding S.A., related group undertakings, staff retirement funds, companies where directors also hold directorship, directors and key management personnel. Transactions with related parties, other than remuneration and benefits to key management personnel under the terms of their employment as disclosed in note 29, are as follows:

Relationship	Nature of transactions	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
28. EARNINGS PER SHARE			
Group undertakings	Sale of goods	**3,322**	5,638
	Purchase of goods	**107,813**	10,831
	Royalty charges	**6,566**	2,662
Staff retirement plans	Contribution to gratuity fund	**62,329**	22,334
	Contribution to provident fund	**31,933**	13,477
Other related parties	Donation	**2,500**	2,500

The company enters into transactions with related parties on the basis of mutually agreed terms.

The related party status of outstanding balances as at December 31, 2008 is included in notes 9 and 18.

31. CAPACITY AND PRODUCTION

	Year ended December 31, 2008	Six months period ended December 31, 2007
	(Number of cigarettes in millions)	
Installed capacity	**52,997**	21,071
Actual production	**29,669**	12,963
Number of shifts per day	Two and a half shifts	Two and a half shifts

Actual production was sufficient to meet the demand.

	Note	Year ended December 31, 2008	Six months period ended December 31, 2007
		(Rupees in thousand)	
32. CASH GENERATED FROM OPERATIONS			
Profit before taxation		**1,745,319**	672,441
Adjustments for:			
Depreciation		**398,311**	201,747
Profit on disposal of fixed assets		**(9,241)**	(16,457)
Impairment charge on items of property, plant and equipment		**29,779**	-
Expenses arising from equity-settled share-based payment plan		**4,938**	-
Profit on short term deposits		**(66,104)**	(17,233)
Loss due to the December incident		**-**	44,506
Finance cost		**30,031**	8,461
Working capital changes	32.1	**(991,515)**	(155,287)
		1,141,518	738,178
32.1 Working capital changes			
Decrease / (increase) in current assets			
Stores and spares		**(30,020)**	(9,828)
Stock in trade		**(1,711,224)**	(1,227,979)
Trade debts		**127,463**	(78,545)
Loans and advances		**(52,304)**	13,322
Prepayments		**(47,615)**	(29,428)
Other receivables		**378,141**	6,007
		(1,335,559)	(1,326,451)
Increase / (decrease) in current liabilities			
Trade and other liabilities		**272,670**	324,911
Sales tax and excise payable		**90,329**	841,516
Provisions		**(18,955)**	4,737
		(991,515)	(155,287)

33. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following items as included in the balance sheet:

	Note	2008	2007
		(Rupees in thousand)	
Cash and bank balances	12	**46,718**	285,428
Running finance under mark-up arrangements	17	**(770,668)**	(4,560)
		(723,950)	280,868

34. FINANCIAL ASSETS AND LIABILITIES

34.1 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to change in the interest rates. The company manages this risk through risk management strategies. Interest rate risk of the company's financial assets and financial liabilities can be evaluated from the following schedule:

	Mark up bearing			Non mark-up bearing			Total - 2008	Total - 2007
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total		
	-------- Rupees in thousand --------			--------- Rupees in thousand ---------			------ Rupees in thousand -----	
Financial Assets								
Loans	-	-	-	772	1,681	2,453	2,453	1,679
Deposits	-	-	-	-	31,355	31,355	31,355	25,933
Trade debts	-	-	-	36,181	-	36,181	36,181	163,644
Profit accrued	-	-	-	3,959	-	3,959	3,959	1,186
Other receivables	-	-	-	21,592	-	21,592	21,592	396,637
Cash and bank balances	1,148	-	1,148	45,570	-	45,570	46,718	285,428
2008	1,148	-	1,148	108,074	33,036	141,110	142,258	874,507
2007	262,881	-	262,881	584,485	27,141	611,626	874,507	
Financial Liabilities								
Running finance under markup arrangements	770,668	-	770,668	-	-	-	770,668	4,560
Trade and other payables	-	-	-	1,134,768	-	1,134,768	1,134,768	796,211
Mark up on running finance facilities under markup arrangements	-	-	-	22,465	-	22,465	22,465	2,314
2008	770,668	-	770,668	1,157,233	-	1,157,233	1,927,901	803,085
2007	8,033	-	8,033	795,052	-	795,052	803,085	
Off Balance Sheet Items								
Letters of credit	-	-	-	208,077	-	208,077	208,077	155,526
2008	-	-	-	208,077	-	208,077	208,077	155,526
2007	-	-	-	155,526	-	155,526	155,526	

Mark-up rates per annum applicable on financial assets and financial liabilities are disclosed in the respective notes.

34.2 Fair value of financial assets and liabilities

The carrying value of financial assets and liabilities approximate their fair values.

34.3 Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. Out of the total financial assets of Rs 142.258 million (2007: Rs 874.507 million), the financial assets which are subject to credit risk are Rs 138.878 million (2007: Rs 871.974 million). The company believes that it is not exposed to major concentration of credit risk as the credit is given to parties with sound financial standing.

34.4 Liquidity risk

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

34.5 Currency risk and foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into in foreign currencies. The company is exposed to foreign currency risk in respect of financial assets of Rs 3.001 million (2007: Rs 129.433 million) and financial liabilities of Rs 340.648 million (2007: Rs 162.971 million). The company's foreign exchange risk exposure is restricted to bank balances, receivable from export customers and payable to foreign vendors.

35. CAPITAL RISK MANAGEMENT

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowing (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The company has a net debt position of Rs 723.950 million (see note 33) as of December 31, 2008, whereas, as of December 31, 2007 the company had surplus cash reserves to meets its requirements and there was no material net debt position (see note 33).

36. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on January 29, 2009 by the Board of Directors of the company.

37. SUBSEQUENT EVENT

Dividend and appropriation

Subsequent to the year ended December 31, 2008, the Board of Directors has proposed a final dividend of Rs 2.50 per share (six months period ended December 31, 2007: Rs 3.75 per share) amounting to a total dividend of Rs 153.9 million (six months period ended December 31, 2007: Rs 230.926 million) in its meeting held on January 29, 2009 for approval of the members at the Annual General Meeting. The Board has also approved appropriation to general reserve of Rs 550 million (six months period ended December 31, 2007: Rs 240 million). The dividend and appropriation will be accounted for in the financial statements for the year ending December 31, 2009.

38. DETAILS OF PROPERTY, PLANT AND EQUIPMENT DISPOSED OFF

The following operating fixed assets having a net book value of more than Rs 50,000, either individually or in aggregate, were disposed off:

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	Rupees in thousand					
Vehicles	430	322	108	229	Company policy	Mr. Muhammad Javed
	325	244	81	154	- do -	Mr. Altaf Nasir
	512	384	128	242	- do -	Mr. Zahid Hussain
	745	580	165	313	- do -	Mr. Sabir Imtiaz
	342	269	73	154	- do -	Mr. Munawar Salemwala
	387	306	81	152	- do -	Mr. Rizwan Ahmed
	879	301	578	775	- do -	Mr. Muhammad Farooq
	684	545	139	308	- do -	Mr. Tabish Z.Haque
	655	521	134	264	- do -	Mr. Muhammad Kamil
	655	521	134	264	- do -	Mr. Abdul Jabbar Moosa
	367	34	333	330	Insurance claim	Century Insurance Company Limited
	367	59	308	337	- do -	Century Insurance Company Limited
	879	141	738	800	- do -	Mr. Mazhar Ali
	594	446	148	300	Tender	Mr. Hamdon Amjad Ali
	297	223	74	270	- do -	Syed Manzar Hussain Rizvi, Esq.
	255	193	62	245	- do -	Mr. Muhammad Akbar
	275	207	68	251	- do -	Mr. Muhammad Akbar
	270	126	144	353	- do -	Mr. Azmat Suhail
	1,522	183	1,339	1,360	- do -	Siza Services (Private) Limited
	409	262	147	225	- do -	Siza Services (Private) Limited
	835	398	437	605	- do -	Ms. Farhana Rashid
	343	159	184	275	- do -	Mr. Aqeel Ahmed
	587	457	130	359	- do -	Mr. Sagheer Muhammad
	560	128	432	439	- do -	Mr. Muhammad Shamim Siddiqui
	739	493	246	450	- do -	Mr. Mir Hassan Gul
	835	433	402	500	- do -	Mr. Irshad Khan
	14,748	7,935	6,813	9,954		

39. GENERAL

39.1 For better presentation excise duty has been shown separately on the profit and loss account as a deduction from gross turnover. Accordingly, corresponding amounts of turnover and cost of sales have been reclassified for the purpose of comparison.

39.2 Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

Karachi: January 29, 2009

SALMAN HAMEED
Chairman & Chief Executive

MOHAMMAD FAROOQ SHAKOOR
Director

Pattern of Holding of the Share Held by The Shareholders

AS AT DECEMBER 31, 2008

INCORPORATION NUMBER. 2832

NUMBER OF SHAREHOLDERS	SHARE HOLDING From		SHARE HOLDING To	TOTAL SHARE HELD
818	1		100	22891
427	101	-	500	110629
165	501	-	1000	117004
250	1001	-	5000	505127
41	5001	-	10000	293714
7	10001	-	15000	85112
1	15001	-	20000	16387
1	20001	-	25000	21206
1	25001	-	30000	28915
1	40001	-	45000	44526
1	50001	-	55000	53221
1	145001	-	150000	146200
1	12315001	-	12320000	12316060
1	47815001	-	47820000	47819349
1,716			TOTAL	61,580,341

CATEGORIES OF SHAREHOLDERS	SHARES HELD	PERCENTAGE
Directors, Chief Executive Officer, their spouces and minor children	7	
Associated Companies, Undertaking and related parties	60,135,409	97.65
Banks, Development Financial institutions, Non Banking Financial Institutions	159,571	0.26
Insurance Companies	21,206	0.03
Modarabas and Mutual Funds	6,338	0.01
Shareholders holding 10% and above	60,135,409	97.65
General Public		
Local	1,105,860	1.84
Others		
(a) Joint Stock Companies	27,912	0.04
(b) Govt. Organisations	57,872	000.09
(c) Charitable Institutions	2,448	0.00
(d) Investment Companies	4,896	0.01

Note: Some of the shareholders are reflected in more than one category

Salman

SALMAN HAMEED
Chairman & Chief Executive

CATEGORIES OF SHAREHOLDER	NO OF SHARES HELD
ASSOCIATED COMPANIES,UNDERTAKINGS AND RELATED PARTIES	
Philip Morris Participation B.V	47,819,349
FTR Holding S.A	12,316,060
	60,135,409
DIRECTORS,CEO, THEIR SPOUSE AND MINOR CHILDREN	
Mr. Salman Hameed	1
Mr. Matteo Lornzo Pelengrini	1
Mr. Douglas Walter Werth	1
Mr. Joseph Mitchell Gault	1
Ms. Eunice Hamilton	1
Mr. Mohammad Farooq Shakoor	1
Mr. Asmer Naim	1
	7
BANKS, DEVELOPMENT FINANCIAL INSTITUTION, NON-BANKING FINANCIAL INSTITUTION,INSURANCE COMPANIES,MODARABAS AND MUTUAL FUNDS	
1. Habib Bank Limied	132
2. MCB Bank Limited	3,228
3. IDBP (ICP UNIT)	11
4. Pakistan Reinsurance Company Limited	21,206
5. Bank Alfalah Limited	100
6. CDC-Trustee AKD Index Tracker Fund	6,280
7. Arif Habib Bank Limited	9,900
	40,857
SHAREHOLDERS HOLDING 10% OR MORE	
1. Philip Morris Participations B.V	47,819,349
2. FTR Holding S.A	12,316,060
	60,135,409

Financial Highlights for Last Six Years

	December 31		Year ended June 30			
	2008	**2007 (Six months period ended)**	**2007**	**2006**	**2005**	**2004**
		(Rs. in thousand except last five items)				
Share Capital	**615,803**	615,803	615,803	615,803	513,169	513,169
Reserves & Surplus	**5,378,158**	4,899,018	4,951,190	4,340,478	3,640,595	2,594,121
Share Holders' Equity	**5,993,961**	5,514,821	5,566,993	4,956,281	4,153,764	3,107,290
Deferred Taxatilon	**392,904**	312,000	286,820	188,628	174,078	157,500
TOTAL CAPITAL EMPLOYED	**6,386,865**	5,826,821	5,853,813	5,144,909	4,327,842	3,264,790
Fixed assets - NET	**3,322,278**	2,804,956	2,805,140	2,469,399	2,139,086	1,537,438
Long-term investment	**1**	1	1	1	1	1
Long-term loans, deposits & prepayments	**39,315**	27,386	13,996	10,214	15,477	10,830
Working capital	**3,025,271**	2,994,478	3,034,676	2,665,295	2,173,278	1,716,521
TOTAL ASSETS	**6,386,865**	5,826,821	5,853,813	5,144,909	4,327,842	3,264,790
Turnover	**24,937,931**	10,271,943	22,427,412	20,619,711	20,584,045	17,307,599
Profit before tax	**1,745,319**	672,441	2,631,296	2,380,124	2,571,950	1,929,107
Profit after tax & adjustment	**1,105,400**	471,261	1,737,633	1,554,885	1,685,037	1,277,744
Dividends declared (Cash)	**554,223**	230,926	880,600	769,754	846,730	641,462
Bonus shares	**-**	-	-	102,634	-	-
Break-up value of shares (inclusive of Fixed Assets Revaluation)	**97.34**	89.55	90.40	80.48	80.94	60.55
Break-up value of shares (excluding of Fixed Assets Revaluation)	**97.34**	89.55	90.40	80.48	80.78	60.28
Dividend (Rupees Per Share)	**9.00**	3.75	14.30	12.50	16.50	12.50
Bonus shares	**-**	-	-	1 : 5	-	-
Net Earning per Share	**17.95**	7.65	28.22	25.25	27.36	24.90

Auditors' Report to the Members

We have audited the annexed Balance Sheet of **M/s. PREMIER TOBACCO COMPANY (PRIVATE) LIMITED as at December 31, 2008** and the related, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the period 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 purpose of our audit.

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

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

a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion:

   i) the balance sheet and profit and loss account 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 the accounting policies consistently applied;

ii) the expenditure incurred during the year was for the purpose of the company's business; and

iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet and 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 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).

Hyder Bhimji & Co.

Karachi: 20 January, 2009

HYDER BHIMJI & CO.
CHARTERED ACCOUNTANTS

Balance Sheet as at December 31, 2008

	Note	December 31, 2008 Rupees	December 31, 2007 Rupees
CAPITAL & LIABILITIES:			
Authorized Capital:			
1,000,000 Ordinary Shares of Rs.10 each		10,000,000	10,000,000
ISSUED, SUBSCRIBED AND PAID UP CAPITAL			
103 Ordinary Shares of Rs 10 each fully paid-up	4	1,030	1,030
PROPERTY& ASSETS:			
Current Assets:			
Cash at Bank (in Current account)		1,030	1,030

Note: (i) The Company has not carried out any business during the year from January 01, 2008 to December 31, 2008. Hence, no Profit and Loss account has been prepared.

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

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

JOSEPH MITCHELL GAULT
Director

Karachi: 20, January 2009

Cash Flow Statement

For the year ended December 31, 2008

	Note	December 31, 2008 Rupees	December 31, 2007 Rupees
Cash Flow from Operating Activities		-	-
Cash Flow from Investing Activities		-	-
Cash Flow from Financing Activities		-	-
Net Increase/ (Decrease) in Cash and Bank Balance		-	-
		-	-
Cash and Bank Balances at the beginning of the year		1,030	1,030
Cash and Bank Balances at the end of the year		1,030	1,030

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

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

JOSEPH MITCHELL GAULT
Director

Karachi: 20, January 2009

Statement of changes in Equity

For the year ended December 31, 2008

	Issued, Subscribed & Paid-up Capital	General Reserve	Accumulated (Profit/(Loss)	Total
	Rupees			
Balance as at January 01, 2007	1,030	-	-	1030
Profit/ (Loss) for the year	-	-	-	-
Balance as at December 31, 2007	1,030	-	-	1030
Profit/ (Loss) for the year	-	-	-	-
Balance as at December 31, 2008	1,030	-	-	1030

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

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

JOSEPH MITCHELL GAULT
Director

Notes to the Financial Statements

For the Six month ended December 31, 2008

1. THE COMPANY AND ITS OPERATIONS

The company was incorporated and registered under the Companies Ordinance, 1984. It is a wholly owned subsidiary of Lakson Tobacco Company Limited. The company is not carrying out any business operations.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the International Accounting Standards as notified under the provision of the Companies Ordinance, 1984.

3. ACCOUNTING CONVENTION

The Financial statements of the Company have been prepared under the historical cost convention.

	31.12.2008 Rupees	31.12.2007 Rupees
4. Issued, subscribed and paid up capital		
103 Ordinary shares of Rs. 10 each fully paid up - issued for cash	1,030	1,030

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

JOSEPH MITCHELL GAULT
Director

Lakson Tobacco Company Limited

Form of Proxy

I/We ____

of ____

a member of **LAKSON TOBACCO COMPANY LIMITED**

hereby appoint ____

of ____

or failing him ____

of ____

who is/are also member/s of Lakson Tobacco Company Limited to act as my/our proxy and to vote for me/us and on my/our behalf at the Annual General Meeting of the shareholders of the Company to be held on March 03, 2009 and at any adjournment thereof.

Signed this ____________ day of ____________ 2009.

Folio No.	CDC Participant ID No.	CDC Account/ Sub Account No.	No. of shares held

Signature over Revenue Stamp

Witness 1

Signature ____________________

Name ____________________

CNIC No. ____________________

Address ____________________

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Witness 2

Signature ____________________

Name ____________________

CNIC No. ____________________

Address ____________________

____

Notes :
1. The proxy must be a member of the Company.
2. The signature must tally with the specimen signature/s registered with the Company.
3. If a proxy is granted by a member who has deposited his/her shares in Central Depository Company of Pakistan Limited, the proxy must be accompanied with participant's ID number and CDC account/sub-account number alongwith attested photocopies of Computerized National Identity Card or the Passport of the beneficial owner. Representatives of corporate members should bring the usual documents required for such purpose.
4. The instrument of Proxy properly completed should be deposited at the Share Registrar's Office of the Company not less than 48 hours before the time of the meeting.