PHILIP MORRIS
(PAKISTAN) LIMITED

(Formerly Lakson Tobacco Company Ltd.)

2010 Annual Report

PHILIP MORRIS (PAKISTAN) LIMITED

(Formerly Lakson Tobacco Company Ltd.)

Annual Report December 31, 2010

CONTENTS	PAGES

Corporate Information

BOARD OF DIRECTORS

SALMAN HAMEED
(Chairman & Chief Executive)
MATTEO LORENZO PELLEGRINI (Resigned on 28-2-11)
DOUGLAS WALTER WERTH (Resigned on 28-2-11)
NICOLAS FLOROS (Appointed on 28-2-11)
PAUL NORMAN JANELLE (Appointed on 28-2-11)
DAVID CHARLES ABBOTT
EUNICE HAMILTON
MOHAMMAD FAROOQ SHAKOOR
ASMER NAIM

COMPANY SECRETARY

MOHAMMAD FAROOQ SHAKOOR

AUDIT COMMITTEE

DAVID CHARLES ABBOTT (Chairman)
DOUGLAS WALTER WERTH (28-2-11)
PAUL NORMAN JANELLE (28-2-11)
EUNICE HAMILTON
ASMER NAIM

SHARE TRANSFER COMMITTEE

SALMAN HAMEED
DAVID CHARLES ABBOTT
MOHAMMAD FAROOQ SHAKOOR

AUDITORS

A.F. FERGUSON & CO.
Chartered Accountants

Website : www.philipmorrispakistan.com.pk
Email : pmpk.info@pmi.com

BANKERS

FAYSAL BANK LIMITED (Formerly 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
BARCLAYS BANK PLC, PAKISTAN

REGISTERED OFFICE

BAHRIA 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
   DISTT. DADU (SINDH)

4. QUADIRABAD
   DISTT. SAHIWAL

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

6. ISMAILA
   DISTT. SWABI

Notice of Meeting

NOTICE IS HEREBY GIVEN that 42nd Annual General Meeting of PHILIP MORRIS (PAKISTAN) LIMITED (Formerly Lakson Tobacco Company Limited) will be held on Thursday, April 21, 2011 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 year ended December 31, 2010 together with the Directors' and auditor's Reports thereon.

2. To declare final dividend in cash @ 25% i.e. Rs. 2.50 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 Accounts has given their consent to act as auditors of the company for the year ending December 31, 2011.

By Order of the Board

MOHAMMAD FAROOQ SHAKOOR
Director & Company Secretary

Karachi: March 24, 2011

NOTES:

1. The share transfer books of the Company will remain closed from April 12, 2011 to April 21, 2011 (both days inclusive). Transfers received in order at the office of the Company's share registrar, FAMCO Associates (Pvt.) Ltd, State Life Building No.1-A, 1st Floor, off I.I. Chundrigar Road, Karachi up to April 11, 2011 will be considered in time to be eligible for entitlement to attend the meeting and 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 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 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. 35 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 and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. A casual vacancy has occurred in the Board during the current year which was filled within 30 days.

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

6. The Board has developed a vision and mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive Directors, have been taken by the Board.

8. The meetings of the Board of Directors were presided over by the Chairman and the Board met atleast once in every quarter .Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. No orientation course was arranged for the directors during the year. However, one of the Directors has obtained certification under " The Board of Development Series" program offered by the Pakistan Institute of Corporate Governance (PICG), during the year.

10. The Chief Financial Officer (CFO) was appointed prior to the implementation of the Code of Corporate Governance. The CFO was also appointed as the Company Secretary by the Board effective from July 1, 2007. No additional remuneration, terms and conditions was considered at the time of appointment as Company Secretary. Further, appointment, remuneration, terms and conditions of employment of Head of Internal Audit have been determined by CEO.

Statement of Compliance with the Code of Corporate Governance

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

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 of 4 members, of whom 2 are non-executive directors.

16. The meetings of the audit committee were held at least once in every quarter prior to approval of interim and final results of the Company and as required by the Code. 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. The related party transactions were placed before the audit committee and approved by the Board of Directors.

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

Salman H

Salman Hameed
Chairman & Chief Executive

Karachi: March 21, 2011

Review Report to the Members on Statement of Compliance with the best Practices 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, 2010 prepared by the Board of Directors of Philip Morris (Pakistan) Limited (formerly Lakson Tobacco Company Limited) (the company) to comply with the Listing Regulation No. 35 of 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's personnel and review of various documents prepared by the company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We 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.

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the 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, 2010.

A.F. Ferguson & Co.

A.F. FERGUSON & CO.
CHARTERED ACCOUNTANTS

KARACHI: March 28, 2011

FOR THE YEAR ENDED DECEMBER 31, 2010

The Board of Directors of Philip Morris (Pakistan) Limited, formerly Lakson Tobacco Company Limited (the "Company") has the pleasure to present its Directors' Report along with the Audited Financial Statements of the Company for the year ended December 31, 2010.

PERFORMANCE REVIEW

The analysis of key operating results for the year ended December 31, 2010 in comparison with the previous year is as follows:

	Year ended December 31, 2010 (Rs million)	%	Year ended December 31, 2009 (Rs million)	%
Gross Turnover	**33,891**	**100.00**	30,476	100.00
Gross Profit	**4,346**	**12.82**	4,969	16.31
Operating Profit	**992**	**2.93**	1,627	5.34
Profit before tax	**877**	**2.59**	1,500	4.92
Profit after tax	**573**	**1.69**	958	3.14

In 2010, the gross turnover increased by 11.2% while gross profit and profit after tax decreased by 12.5% and 40.2% versus last year, respectively. These results were impacted by adverse economic factors weighing on income per capita, pressure on manufacturing costs and steep increases in tax and excise duty rates. The successive excise tax driven price increases are resulting in a decline of the overall tobacco industry and a shift in consumer consumption from the duty paid to the non duty paid sector.

The Company's earnings per share is Rs 9.30 in 2010 as compared to Rs 15.56 in 2009.

DIVIDEND

The Directors are pleased to propose a final dividend of 25% or Rs 2.5 per share subject to the approval by the members at the Annual General Meeting. As no interim dividend was announced during the year, this dividend will also constitute the full and final payment for the year 2010. The dividend payout ratio is approximately 26.8% of the net profit after tax.

APPROPRIATION OF PROFIT

The profit for the year, along with distributable profit at year end, has been appropriated as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
	(Rs milion)	
Operating Profit	**992,225**	1,627,386
Profit after taxation	**572,562**	958,384
Accumulated profit brought forward	**4,332**	2,269
Profit available for appropriation	**576,894**	960,653
Appropriations:		
Proposed cash dividend at 25%		
(For reference, in 2009 it was 40% per ordinary share of Rs 10 each)	153,951	246,321
Transfer to general reserve	420,000	710,000
Un-appropriated profit carried forward	2,943	4,332
Basic Earning Per Share (Rs)	**9.30**	15.56

MATERIAL CHANGES AND COMMITMENTS

During the period between the end of the financial year 2010 and the date of this report, no changes and commitments which materially affect the financial position of the Company have occurred.

CONTRIBUTION TO THE NATIONAL EXCHEQUER

The Company continues to contribute substantially to the annual government's revenues. In 2010, the Company contributed Rs 21.8 billion to the national Exchequer in the form of Federal Excise Duties, Custom Duties, Special Excise Duties, Sales Tax and Income Tax, which represents a 20.8% increase compared to 2009.

CORPORATE SOCIAL RESPONSIBILITY

Investing in the communities where we operate is part of the Company's culture. The Company continues to focus its Corporate Social Responsibility initiatives to address the most pressing needs in the communities where our employees live and work.

Specifically, in 2010, the Company actively participated in disaster relief activities, increased the reach of its clean drinking water program and continued to be involved in re-forestation efforts in the tobacco growing areas. Last but not least, the Company continues to actively support the Lakson Medical Trust, a non-profit organization which provides quality health and eye care and services to underprivileged people in rural communities either free or at low cost. During 2010, Philip Morris International Inc. on behalf of the Company contributed Rs 66.4 million towards the above initiatives.

CODE OF CORPORATE GOVERNANCE

The Company's Directors are committed to adhere to the best standards of corporate governance. As such, in 2010, all necessary steps were taken for the Company to comply with the requirements of the Code of Corporate Governance as required by the Securities & Exchange Commission of Pakistan (SECP).

As required under the above Code of Corporate Governance, the Directors are pleased to report that:

- The financial statements prepared by the management of the Company represent fairly its state of affairs, the results of its operations, cash flows and changes in its equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been applied consistently in preparation of the financial statements except for changes in accounting policies as mentioned below and accounting estimates are based on reasonable and prudent judgment.
- Approved accounting standards, as applicable in Pakistan, have been followed in preparation of all financial statements.
- The Company's system of internal controls is sound in design and has been effectively implemented and is 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.
- A summary of the key financial highlights for the year and of the assets and liabilities of the Company as of December 31, 2010 and for the last six financial periods are set out in page no. 53.
- Information about taxes and levies is given in the corresponding notes in the financial statements.

INVESTMENTS IN RETIREMENT FUNDS

The value of investments made by the employees' retirement funds operated by the Company as per their audited financial statements is as follows:

	Rs million	
Provident Fund	806.46	(Financial statements audited as of December 31, 2009)
Gratuity Fund	319.57	(Financial statements audited as of December 31, 2009)

HOLDING COMPANY

Philip Morris Investments B.V. (Formerly Park 1989 B.V.) is the holding company of the Company and is incorporated in Holland.

BOARD OF DIRECTORS MEETINGS

During 2010, the Board of Directors held meetings prior to the publication of each quarterly financial results. The attendance of Directors in those meetings is documented and provided here under:

Name of Directors	No. of meetings attended
Mr. Matteo Lorenzo Pellegrini	1
Mr. Douglas Walter Werth	3
Ms. Eunice Hamilton	1
Mr. Salman Hameed	5
Mr. Joseph Mitchell Gault	2
Mr. David Charles Abbott	3
Mr. Mohammed Farooq Shakoor	5
Mr. Asmer Naim	5

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

CHANGE IN AUDIT COMMITTEE COMPOSITION

Mr. Joseph Mitchell Gault resigned from the Board of Directors and Mr. David Charles Abbott was appointed as a successor, effective from June 1, 2010.

BOARD AUDIT COMMITTEE

The Audit Committee performs according to the terms of reference determined by the Board of Directors of the Company and 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. Four meetings were held during the year as per the requirement of the Code of Corporate Governance.

During the year, Mr. Joseph Mitchell Gault the Chairman and member of the Audit Committee resigned and Mr. David Charles Abbott was appointed as a successor, effective from June 1, 2010.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the Company as of December 31, 2010 is included further in the Annual Report as per the requirements of the Code of Corporate Governance.

AUDITORS

The current external auditors, A. F. Ferguson & Co, Chartered Accountants will retire at the conclusion of the ensuing Annual General Meeting and, being eligible; offer themselves for re-appointment as external auditors for the year ending December 31, 2011. Members are requested to appoint them as auditors and validate their remuneration.

CHANGES IN ACCOUNTING POLICIES

The Company has adopted or applied new accounting standards, amendments to approved standards and new interpretations during 2010. Details of those are provided in the Notes to the Financial Statements section 2.2.1.

COMPANY'S FOCUS

The Company is a fully integrated affiliate of Philip Morris International Inc. and as such benefits from global resources and expertise to help further improve its effectiveness and long term sustainability and profitability.

The Company's Directors and management continue to be focused on delivering such long term shareholder value through improvements in all aspects of the Company's operations. This includes, and is not limited to, innovative product offering, enhanced product quality, improved manufacturing practices and facilities, development of human resources and continued emphasis on effectively managing the cost base.

NON-TAX PAID INDUSTRY

The Company is increasingly affected by the non-tax paid tobacco industry in Pakistan. The detrimental implications of a growing non-tax paid industry extend not only to the Company but to the legitimate industry as a whole and materially reduce government's revenues. Lakson Tobacco Company Limited (now Philip Morris (Pakistan) Limited) supports the government's efforts to enforce regulation in this area and secure a necessary level playing field for the overall tobacco industry.

NAME CHANGE

Effective March 1, 2011, Lakson Tobacco Company Limited changed its name to Phillip Morris (Pakistan) Limited. Pursuant to the change in company name, the Company is also changing its website to www.philipmorrispakistan.com.pk. In addition, Premier Tobacco Company (Private) Limited, subsidiary of the Company, has changed its name to Lakson Premier Tobacco Company (Private) Limited. These changes have been approved by the Securities Exchange Commission of Pakistan (SECP) for both companies.

ACKNOWLEDGEMENTS

The Directors wish to take this opportunity to thank all the Company's employees for their efforts, dedication, commitment and support in 2010.

The Board of Directors would also like to extend its appreciation to all its business partners such as 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 and Chief Executive

Karachi, March 21, 2011

Auditors' Report to the Members

We have audited the annexed balance sheet of Lakson Tobacco Company Limited [now Philip Morris (Pakistan) Limited], here-in-after referred to as 'the Company', as at December 31, 2010 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-

(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 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, 2010 and of the profit, its changes in equity and cash flows for the year then ended; and

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

As directed by the Securities & Exchange Commission of Pakistan, we draw attention to notes 1.3 and 4 to the annexed financial statements which state that the auditors' of the Company's subsidiary, Premier Tobacco Company (Private) Limited [now Lakson Premier Tobacco Company (Private) Limited], have included an 'emphasis of the matter' paragraph in their review report dated February 4, 2011 on the subsidiary's condensed interim financial statements for the six months period ended December 31, 2010 highlighting that the subsidiary is not in operation for past many years. Our opinion is not qualified in this respect.

AFFerguson & Co.

A.F. FERGUSON & CO.
Chartered Accountants
Audit Engagement Partner : Saad Kaliya

Karachi: March 28, 2011

Balance Sheet as at December 31, 2010

	Note	2010	2009
		(Rupees in thousand)	
NON CURRENT ASSETS			
Property, plant and equipment	3	**3,847,679**	3,845,739
Investment in a subsidiary company	4	**1**	1
Long term loans	5	**421**	853
Long term deposits and prepayments	6	**51,678**	42,603
		3,899,779	3,889,196
CURRENT ASSETS			
Stores and spares	7	**359,922**	319,477
Stock in trade	8	**7,706,696**	5,880,236
Trade debts	9	**164,240**	65,847
Loans and advances	10	**10,405**	50,050
Prepayments		**161,579**	109,162
Profit accrued		**556**	1,408
Other receivables	11	**90,018**	80,697
Income tax - net		**398,964**	87,122
Cash and bank balances	12	**15,104**	109,559
		8,907,484	6,703,558
		12,807,263	10,592,754
SHARE CAPITAL AND RESERVES			
Authorised capital	13	**1,000,000**	1,000,000
Issued, subscribed and paid-up capital	13	**615,803**	615,803
Reserves		**5,972,124**	5,243,473
Unappropriated profit		**576,894**	960,653
		7,164,821	6,819,929
NON CURRENT LIABILITIES			
Deferred taxation	14	**472,000**	391,000
CURRENT LIABILITIES			
Short term borrowings	17	**2,471,772**	789,525
Trade and other payables	18	**1,187,234**	1,210,484
Accrued mark-up on short term borrowings		**61,564**	35,176
Sales tax and excise payable		**1,449,872**	1,346,640
		5,170,442	3,381,825
		12,807,263	10,592,754
CONTINGENCIES AND COMMITMENTS	19		

The annexed notes from 1 to 38 form an integral part of these financial statements.

Karachi : March 21, 2011

SALMAN HAMEED
Chairman & Chief Executive

MOHAMMAD FAROOQ SHAKOOR
Director

Profit and Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
		(Rupees in thousand)	
Gross turnover		**33,890,900**	30,475,781
Less: Sales tax		**4,925,476**	4,320,684
Excise duty		**15,662,922**	12,754,428
Turnover - net of sales tax and excise duty		**13,302,502**	13,400,669
Cost of sales	20	**8,956,591**	8,431,334
Gross profit		**4,345,911**	4,969,335
Distribution and marketing expenses	21	**2,540,291**	2,640,804
Administrative expenses	22	**813,395**	701,145
		3,353,686	3,341,949
Operating profit		**992,225**	1,627,386
Other expenses	23	**71,934**	141,028
		920,291	1,486,358
Other income	24	**93,663**	103,111
		1,013,954	1,589,469
Finance cost	25	**137,275**	89,336
Profit before taxation		**876,679**	1,500,133
Taxation	26	**304,117**	541,749
Profit after taxation		**572,562**	958,384
		Rupees	
Earnings per share	27	**9.30**	15.56

The annexed notes from 1 to 38 form an integral part of these financial statements.

Karachi : March 21, 2011

SALMAN HAMEED
Chairman & Chief Executive

MOHAMMAD FAROOQ SHAKOOR
Director

Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2010

	Issued, subscribed and paid-up capital	Reserves: Revenue — General reserve	Reserves: Capital — Other - note 2.19	Reserves: Sub Total	Unappropriated profit	Total
	(Rupees in thousand)					
Balance as at January 1, 2009	615,803	4,667,000	4,938	4,671,938	706,220	5,993,961
Transactions with owners						
Share-based payment (notes 2.19 and 16)	-	-	21,535	21,535	-	21,535
Final dividend for the year ended December 31, 2008 @ Rs 2.50 per share	-	-	-	-	(153,951)	(153,951)
	-	-	21,535	21,535	(153,951)	(132,416)
Total comprehensive income						
Transfer to general reserve for the year ended December 31, 2008	-	550,000	-	550,000	(550,000)	-
Profit after taxation for the year ended December 31, 2009	-	-	-	-	958,384	958,384
	-	550,000	-	550,000	408,384	958,384
Balance as at December 31, 2009	615,803	5,217,000	26,473	5,243,473	960,653	6,819,929
Transactions with owners						
Share-based payment (notes 2.19 and 16)	-	-	18,651	18,651	-	18,651
Final dividend for the year ended December 31, 2009 @ Rs 4.00	-	-	-	-	(246,321)	(246, 321)
	-	-	18,651	18,651	(246,321)	(227,670)
Total comprehensive income						
Transfer to general reserve for the year ended December 31, 2009	-	710,000	-	710,000	(710,000)	-
Profit after taxation for the year ended December 31, 2010	-	-	-	-	572,562	572,562
	-	710,000	-	710,000	(137,438)	572,562
Balance as at December 31, 2010	**615,803**	**5,927,000**	**45,124**	**5,972,124**	**576,894**	**7,164,821**

The annexed notes from 1 to 38 form an integral part of these financial statements.

Karachi : March 21, 2011

SALMAN HAMEED
Chairman & Chief Executive

MOHAMMAD FAROOQ SHAKOOR
Director

Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
		(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash (utilised in) / generated from operations	31	**(417,024)**	1,664,902
Finance cost paid		**(101,905)**	(58,403)
Income taxes paid		**(534,959)**	(479,995)
Long term loans		**432**	828
Long term deposits and prepayments		**(9,075)**	(4,969)
Net cash (outflow) / inflow from operating activities		**(1,062,531)**	1,122,363
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(604,299)**	(1,044,173)
Proceeds from disposal of items of property, plant and equipment		**82,257**	59,802
Income received from short term deposits		**53,399**	59,317
Net cash used in investing activities		**(468,643)**	(925,054)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		**(245,528)**	(153,325)
Net cash used in financing activities		**(245,528)**	(153,325)
Net (decrease) / increase in cash and cash equivalents during the year		**(1,776,702)**	43,984
Cash and cash equivalents at the beginning of the year		**(679,966)**	(723,950)
Cash and cash equivalents at the end of the year	32	**(2,456,668)**	(679,966)

The annexed notes from 1 to 38 form an integral part of these financial statements.

Karachi : March 21, 2011

SALMAN HAMEED
Chairman & Chief Executive

MOHAMMAD FAROOQ SHAKOOR
Director

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2010

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 the manufacturing and sale of cigarettes and tobacco. Its registered office is situated at 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 Investments B.V. (formerly Park 1989 B.V.) and Philip Morris Brands Sarl (formerly Philip Morris International Holding Sarl). On September 1, 2010 FTR Holding SA (which held shares of the Company upto that date) was merged into its Swiss parent Philip Morris Brands Sarl (formerly Philip Morris Inernational Holding Sarl). Further, on November 17, 2010 Philip Morris Participations B. V. (which held shares of the Company upto that date) was merged into Philip Morris Investments B.V. (formerly Park 1989 B.V.).

1.3 The consolidated financial statements of the group comprising the Company and its subsidiary, Premier Tobacco Company (Private) Limited [now Lakson Premier Tobacco Company (Private) Limited], have not been prepared in view of exemption granted by the Securities & Exchange Commission of Pakistan (the SECP) vide its letter No. EMD/233/619/2002-2701 from the requirement of Section 237 of the Companies Ordinance, 1984 (the Ordinance).

As required by the SECP, financial highlights of the subsidiary company are given in note 4. In addition, the 'emphasis of the matter' paragraph included in the auditors' report on the financial statements of the subsidiary company has also been mentioned in the auditors' report of the Company according to the requirements of the exemption granted by the SECP.

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 Ordinance and the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Ordinance and the requirements of and the directives issued under that Ordinance. However, the requirements of and the directives issued under that Ordinance have been followed where those requirements are not consistent with the requirements of the IFRSs, as notified under the Ordinance.

2.2 Initial application of standards, amendments to approved accounting standards and new interpretations.

2.2.1 Standards, amendments to approved accounting standards and new interpretations effective during the year ended December 31, 2010:

There are certain new approved accounting standards, amendments to approved accounting standards and interpretations that are mandatory for accounting periods beginning on or before January 1, 2010 but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore not disclosed in these financial statements.

2.2.2 Standards, amendments to approved accounting standards and interpretations that are not yet effective and have not been early adopted by the Company:

IAS 24 (Revised), 'Related party disclosures', issued in November 2009. This revised standard supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revision is not expected to have a material impact on the Company's financial statements.

There are certain amendments to the standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2011 but are considered not to be relevant or do not have any significant effect on the Company's operations and are therefore not detailed in these financial statements.

2.3 Critical accounting judgments and estimates

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

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 teams of the Company. Further, the Company reviews the external and internal indicators for possible impairment of assets 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 equipment (note 3) with a corresponding affect on the depreciation charge and impairment.

Stock in trade

Assumptions and estimates used in writing down items of stock in trade to their net realisable value (note 8). Net realisable value is determined on the basis of estimated selling price of the product in the ordinary course of business less estimated costs of completion and the estimated costs necessary to be incurred for its sale.

Income taxes

In making the estimates for income taxes payable by the Company, management considers current income tax law and the decisions of appellate authorities on certain cases issued in the 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.

Deferred taxes

Assumptions and estimates used in the recognition of deferred taxation (note 14).

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 15.1 below 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.

Provisions

Provisions are based on management's best estimate. 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.

2.4 Fixed assets and depreciation

2.4.1 Operating property, plant and equipment

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

Consistent with prior years, assets having cost exceeding the minimum threshold as determined by the management are capitalised. All other assets are charged to income in the year when acquired.

Depreciation is charged to income applying the 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 below. 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 annually reviewed, and adjusted, if appropriate. During the year, the Company has revised its estimate of the useful lives of certain items of 'plant and machinery'. The impact of this change in estimate is not considered to be material.

The carrying values of property, plant and equipment are reviewed at each reporting date for indications that an asset may be impaired and carrying values may not be recovered. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the asset or cash generating unit is written down to its recoverable amount. The recoverable amount of property, plant and equipment is the greater of fair value less cost to sell and value in use.

Consistent with prior years, residual values for vehicles are determined by the management as the amount it expects it would receive currently for an item of property, plant and equipment if it was already of the age and in the condition expected at the end of its useful life based on the prevailing market prices of similar assets already at the end of their useful lives.

Consistent with prior years, useful lives are determined by the management based on the expected usage of assets, physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of the assets and other similar factors.

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 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.

2.4.2 Capital work-in-progress

All expenditures 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.

2.5 Investments

2.5.1 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.

2.5.2 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 making 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 or loss upon initial recognition.

(b) Held to maturity

These are securities acquired by the Company with the intention and ability to hold them up to 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 at 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 profit and loss for the year. Changes in the fair value of instruments classified as 'available for sale' are recognised in 'other comprehensive income' until derecognised or impaired, when the accumulated fair value adjustments recognised in unrealised surplus on revaluation of investments are included in the profit / loss for the year.

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.

2.6 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 realisable value and is recognised in the profit and loss account.

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.

2.7 Stock in trade

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

Average cost of raw material includes 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 expenses and overheads incurred on redrying of tobacco leaf.

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

2.8 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.

2.9 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 the future for goods and services.

2.10 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.

2.11 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.

2.12 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.

2.13 Taxation

2.13.1 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.

2.13.2 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.

2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the 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.

2.15 Borrowing costs

The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as a part of that asset. All other borrowing costs are charged to income.

2.16 Revenue recognition

- Sales are recognised either upon shipment or delivery of goods when title and risk of loss pass on to the customer.

- Income on investments and return on deposits are accounted for on accrual basis.

2.17 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.

2.18 Compensated absences

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

2.19 Equity-settled share-based payment plans

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 ultimate parent (i.e. Philip Morris International Inc.) grants rights of its shares to certain employees / executives of the Company that vest over a period of three years from the grant date.

2.20 Foreign currency translation

Foreign currency transactions are translated into Pakistan Rupees (functional currency) using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pakistan 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 exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

2.21 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.

2.22 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.

	Note	2010	2009
		(Rupees in thousand)	
3. PROPERTY, PLANT AND EQUIPMENT			
Operating property, plant and equipment	3.1	**3,434,314**	3,166,076
Capital work-in-progress	3.2	**413,365**	679,663
		3,847,679	3,845,739

Notes to and Forming Part of the Financial Statements (continued)

3.1 Operating property, plant and equipment

	Freehold land	Leasehold land	Buildings on freehold land	Buildings on lease hold land	Leasehold improve-ments	Plant and machinery	Furniture and fixtures	Office equipment	Vehicles	Power and other installations	Computer equipment	Total
	(Rs. in thousand)											
At December 31, 2008												
Cost	80,998	2,441	481,321	60,190	94,104	3,731,314	77,230	63,945	548,428	331,333	197,773	5,669,077
Accumulated depreciation	-	(313)	(318,070)	(7,670)	(7,284)	(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	52,520	86,820	2,040,934	39,182	18,137	318,572	144,560	46,517	2,993,619
Year ended December 31, 2009												
Additions	27,452	-	43,598	-	13,658	285,421	14,670	10,710	212,863	10,151	74,716	693,239
Disposals												
Cost	-	-	-	-	-	(18,468)	(155)	(935)	(62,387)	-	(918)	(82,863)
Accumulated depreciation	-	-	-	-	-	18,468	155	398	47,185	-	918	67,124
	-	-	-	-	-	-	-	(537)	(15,202)	-	-	(15,739)
Written off												
Cost	-	-	-	-	-	-	(18,545)	(12,514)	(350)	-	(45,567)	(76,976)
Accumulated depreciation	-	-	-	-	-	-	18,545	12,514	280	-	45,567	76,906
	-	-	-	-	-	-	-	-	(70)	-	-	(70)
Impairment - note 3.1.3 & 23												
Cost	-	-	-	-	-	(132,085)	(1,342)	(1,682)	-	(19,644)	(1,980)	(156,733)
Accumulated depreciation	-	-	-	-	-	121,950	880	982	-	9,518	1,482	134,812
	-	-	-	-	-	(10,135)	(462)	(700)	-	(10,126)	(498)	(21,921)
Depreciation charge - note 3.1.1	-	(90)	(15,844)	(6,936)	(21,107)	(292,317)	(13,252)	(6,087)	(75,309)	(23,143)	(28,967)	(483,052)
Net book value as at December 31, 2009	108,450	2,038	191,005	45,584	79,371	2,023,903	40,138	21,523	440,854	121,442	91,768	3,166,076
Year ended December 31, 2010												
Additions	-	-	85,072	-	-	468,000	46,972	2,585	103,616	144,383	19,969	870,597
Transfers												
Cost	-	-	-	-	-	1076	354	(1,430)	-	-	-	-
Accumulated depreciation	-	-	-	-	-	(42)	(354)	396	-	-	-	-
	-	-	-	-	-	1,034	-	(1,034)	-	-	-	-
Disposals												
Cost	-	-	-	-	-	(806)	-	(60)	(116,210)	(32,000)	(183)	(149,259)
Accumulated depreciation	-	-	-	-	-	621	-	27	72,506	32,000	142	105,296
	-	-	-	-	-	(185)	-	(33)	(43,704)	-	(41)	(43,963)
Write-offs												
Cost	-	-	-	-	-	(16,090)	(161)	(5,411)	(1,384)	(2,877)	(474)	(26,397)
Accumulated depreciation	-	-	-	-	-	14,105	161	1,605	166	2,657	386	19,080
	-	-	-	-	-	(1,985)	-	(3,806)	(1,218)	(220)	(88)	(7,317)
Depreciation charge - note 3.1.1	-	(90)	(18,450)	(4,976)	(24,974)	(306,251)	(37,874)	(5,639)	(91,085)	(23,806)	(37,934)	(551,079)
Net book value as at December 31, 2010	108,450	1,948	257,627	40,608	54,397	2,184,516	49,236	13,596	408,463	241,799	73,674	3,434,314
At December 31, 2009												
Cost	108,450	2,441	524,919	60,190	107,762	3,998,267	73,200	61,206	698,554	341,484	226,004	6,202,477
Accumulated depreciation	-	(403)	(333,914)	(14,606)	(28,391)	(1,934,450)	(32,600)	(38,983)	(257,700)	(209,916)	(133,738)	(2,984,701)
Accumulated impairment	-	-	-	-	-	(39,914)	(462)	(700)	-	(10,126)	(498)	(51,700)
Net book value	108,450	2,038	191,005	45,584	79,371	2,023,903	40,138	21,523	440,854	121,442	91,768	3,166,076
At December 31, 2010												
Cost	108,450	2,441	609,991	60,190	107,762	4,450,447	120,365	56,890	684,576	450,990	245,316	6,897,418
Accumulated depreciation	-	(493)	(352,364)	(19,582)	(53,365)	(2,226,017)	(70,667)	(42,594)	(276,113)	(199,065)	(171,144)	(3,411,404)
Accumulated impairment	-	-	-	-	-	(39,914)	(462)	(700)	-	(10,126)	(498)	(51,700)
Net book value	108,450	1,948	257,627	40,608	54,397	2,184,516	49,236	13,596	408,463	241,799	73,674	3,434,314
Depreciation rate	-	4%	4% to 10%	5% to 10%	20%	6.67% to 10%	20%	20%	20%	10%	20% to 33.33%	

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

	Note	2010	2009
		(Rupees in thousand)	
Purchases, redrying and related expenses	20.1	**55,913**	47,345
Manufacturing expenses	20.2	**321,264**	302,832
Distribution and marketing expenses	21	**68,388**	60,720
Administrative expenses	22	**105,514**	72,155
		551,079	483,052

3.1.2 Details of property, plant and equipment disposed off during the year ended December 31, 2010 are given in note 35.

3.1.3 The impairment charge of 2009 represented written down value of certain items of property, plant and equipment which the Company neither intended to utilise nor it could dispose off as per its policy except as scrap material. Therefore, it had determined the 'recoverable amount' of those items to be nil.

	Note	2010	2009
		(Rupees in thousand)	
3.2 Capital work-in-progress			
Civil works		**79,187**	86,640
Plant and machinery	3.2.1	**149,124**	281,114
Power and other installations		**139,967**	158,939
Furniture and fittings		**1,468**	45,013
Computer equipment pending installation		**1,911**	16,345
Advance to suppliers and contractors		**41,708**	91,612
		413,365	679,663

3.2.1 This includes plant and machinery in transit aggregating Rs nil (2009: Rs 17.211 million).

4. INVESTMENT IN A SUBSIDIARY COMPANY

This represents the cost of 103 fully paid ordinary shares of Rs 10 each in Premier Tobacco Company (Private) Limited [now Lakson Premier Tobacco Company (Private) Limited]. Out of such 103 shares, three shares are in the name of the nominees. During the six months period ended December 31, 2010, the subsidiary company has incurred loss after taxation amounting to Rs nil resulting in an accumulated loss of Rs 1,030 as at that date. The net assets of the subsidiary company as at December 31, 2010 amounted to Rs nil, in accordance with the reviewed condensed interim financial statements for the six months period then ended. The subsidiary's auditors have included an 'emphasis of the matter' paragraph in their review report dated February 4, 2011 on the subsidiary company's condensed interim financial statements for the six months period ended December 31, 2010 as follows:

"We draw your attention to the fact that the Company is not in operation for past many years and being significantly owned subsidiary Company of M/s. Lakson Tobacco Company Ltd, has been kept alive to meet future requirements as asserted in note 1 of these financial statements. We however have not been provided with any information regarding future reqirements for the Company".

Further, the annual audited accounts of the subsidiary shall be available for members' inspection at the registered office of the Company and would also be provided free of cost to the members, on request.

Notes to and Forming Part of the Financial Statements (continued)

		Note	2010	2009
			(Rupees in thousand)	
5.	**LONG TERM LOANS - considered good**			
	Loans to employees	5.1	**950**	1,522
	Less: Current portion shown under current assets	10	**(529)**	(669)
			421	853

5.1 This represents 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. As the amortised cost of these loans is not considered material, the difference between the carrying amount and amortised cost is not recognised in these financial statements.

		Note	2010	2009
			(Rupees in thousand)	
6.	**LONG TERM DEPOSITS AND PREPAYMENTS**			
	Deposits		**50,096**	37,565
	Prepayments		**1,582**	5,038
			51,678	42,603
7.	**STORES AND SPARES**			
	Stores	7.2	**7,599**	7,937
	Spares	7.1 & 7.2	**352,323**	311,540
			359,922	319,477

7.1 This includes spares in transit amounting to Rs 5.370 million (2009: Rs 2.916 million).

7.2 During the year, the company has written off stores and spares aggregating Rs 4.785 million (2009: Rs 27.573 million).

		Note	2010	2009
			(Rupees in thousand)	
8.	**STOCK IN TRADE**			
	Raw and packing materials	8.1	**7,274,668**	5,549,885
	Work-in-process		**12,618**	16,994
	Finished goods	8.1	**419,410**	313,357
			7,706,696	5,880,236

8.1 These include raw and packing material and finished goods in transit aggregating Rs 203.251 million (2009: Rs 69.752 million) and Rs nil (2009: 11.661 million) respectively.

Notes to and Forming Part of the Financial Statements (continued)

8.2 During the year, the Company has written off inventory aggregating Rs 78.279 million (2009: Rs 197.375 million). This includes charge aggregating Rs 64.990 million representing difference which arose as a result of periodic inventory count exercise conducted during the year by the management. The charge has been included in the 'Purchase, redrying and related expenses' for the year (note 20.1).

	Note	2010	2009
		(Rupees in thousand)	
9. TRADE DEBTS			
Considered good - unsecured	9.1	**164,240**	65,847

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

		2010	2009
Philip Morris International Management S.A. (Tolling)		–	5,854
Philip Morris Philippines Manufacturing Inc.		–	563
Philip Morris (Malaysia) SND. BHD.		**4,172**	480
PMFTC, Inc.		**10,223**	–
		14,395	6,897

	Note	2010	2009
10. LOANS AND ADVANCES – considered good			
Secured			
Current portion of long term loans to employees	5	**529**	669
Unsecured			
Advances to:			
– Employees	10.1 & 10.2	**8,352**	10,635
– Suppliers and contractors		**1,524**	38,746
		9,876	49,381
		10,405	50,050

10.1 The maximum aggregate balance of advances due from executives at the end of any month during the year was Rs 2.970 million (2009: Rs 3.863 million).

10.2 Advances to employees are given to meet business expenses and are settled as and when the expenses are incurred.

	Note	2010	2009
		(Rupees in thousand)	
11. OTHER RECEIVABLES			
Federal Excise Duty refundable - imported tobacco		–	1,643
Receivable from 'associated undertakings'	11.1	**77,781**	–
Insurance claims receivable	11.2	–	68,940
Others	11.3	**12,237**	10,114
		90,018	80,697

	2010	2009
	(Rupees in thousand)	

11.1 This amount represents outstanding balances from the following associated undertakings:

	2010	2009
Philip Morris Services S.A	**75,917**	-
Philip Morris Products S.A	**1,722**	-
PT Hanjaya Mandala Samporena TBK	**142**	-
	77,781	-

11.2 During the year ended December 31, 2009 insurance claims aggregating Rs 68.940 million were lodged on account of stock of tobacco damaged due to extreme weather conditions. During the year ended December 31, 2010 claims aggregating Rs 36.846 million were received by the Company while remaining balance of Rs 32.094 million has been written off. The charge has been included in the Cost of sales for the year (note 20).

11.3 This includes amount receivable from a transporter aggregating Rs 6.716 million (2009: Rs 8.516 million) in respect of goods damaged in transit during the year ended 2006.

12. CASH AND BANK BALANCES

	Note	2010	2009
		(Rupees in thousand)	
With banks			
● in saving accounts	12.1	**2,330**	82,639
● in current accounts			
- Foreign currency		**461**	757
- Local currency		**10,433**	24,126
		10,894	24,883
		13,224	107,522
Cash in hand		**1,880**	2,037
		15,104	109,559

12.1 These carry mark-up rates are ranging from 5% to 9.5% (2009: 5% to 9.5%) per annum.

13. SHARE CAPITAL

13.1 Authorised capital

2010	2009		2010	2009
(Number of shares)			(Rupees in thousand)	
100,000,000	100,000,000	Ordinary shares of Rs 10 each	**1,000,000**	1,000,000

Notes to and Forming Part of the Financial Statements (continued)

13.2 Issued, subscribed and paid-up capital

2010	2009		2010	2009
(Number of shares)			(Rupees in thousand)	
5,541,429	5,541,429	Ordinary shares of Rs. 10 each fully paid in cash	**55,414**	55,414
47,722,912	47,722,912	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	**477,229**	477,229
8,316,000	8,316,000	Ordinary shares of Rs. 10 each issued for consideration than cash	**83,160**	83,160
61,580,341	61,580,341		**615,803**	615,803

13.3 As at December 31, 2010, the number of ordinary shares of Rs 10 each held by Philip Morris Investments B.V. (formerly Park 1989 B.V.) and Philip Morris Brands Sarl (formerly Philip Morris International Holding Sarl) subsidiaries of Philip Morris International Inc., were 47,819,356 and 12,316,061 respectively (2009: nil and nil respectively). On September 1, 2010 FTR Holding SA (which held 12,316,061 shares of the Company upto that date) was merged into its Swiss parent Philip Morris Sarl (formerly Philip Morris International Holding Sarl). Further, on November 17, 2010 Philip Morris Participations B.V. (which held 47, 819,356 shares of the Company upto that date) was merged into Philip Morris Investments B.V. (formerly Park 1989 B.V.).

	2010	2009
	(Rupees in thousand)	
14. DEFERRED TAXATION		
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	**483,625**	437,133
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	**(955)**	(14,814)
Amortisation of an intangible asset	**(10,670)**	(17,072)
Provision for impairment	**–**	(14,247)
	472,000	391,000

15. STAFF RETIREMENT BENEFITS

15.1 Defined benefit plan

As stated in note 2.17, 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, 2010.

The fair value of scheme's assets and the present value of obligation under the scheme at the balance sheet date in accordance with the latest actuarial report are as follows:

Notes to and Forming Part of the Financial Statements (continued)

	Note	2010	2009
		(Rupees in thousand)	
Present value of defined benefit obligation		**368,466**	334,769
Fair value of plan assets		**(368,466)**	(334,769)
Liability recognised in the balance sheet		**-**	-
Amounts charged to profit and loss account:			
Current service cost		**28,929**	20,515
Interest cost		**45,026**	37,333
Expected return on plan assets		**(50,215)**	(37,333)
Actuarial loss recognised		**7,505**	10,713
		31,245	31,228
The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	20.1	**3,711**	4,296
Manufacturing expenses	20.2	**8,902**	10,129
Distribution and marketing expenses	21	**10,903**	9,363
Administrative expenses	22	**7,729**	7,440
		31,245	31,228
Movement in the liability recognised in the balance sheet:			
Balance as at the beginning of the year		**-**	-
Net charge for the year		**31,245**	31,228
Contribution to the fund		**(31,245)**	(31,228)
Balance as at the end of the year		**-**	-

	2010	2009
	(Rupees in thousand)	
Movement in the present value of defined benefit obligation:		
Opening balance	**334,769**	248,888
Current service cost	**28,929**	20,515
Interest cost	**45,026**	37,333
Benefits paid	**(16,385)**	(19,202)
Actuarial (gain) / loss	**(23,873)**	47,235
Closing balance	**368,466**	334,769
Movement in the fair value of plan assets:		
Opening balance	**334,769**	248,888
Expected return	**50,215**	37,333
Contributions	**31,245**	31,228
Benefits paid	**(16,385)**	(19,202)
Actuarial (loss) / gain	**(31,378)**	36,522
Closing balance	**368,466**	334,769
Principal actuarial assumptions used are as follows:		
Expected rate of increase in salary level	**13.40%**	13.45%
Valuation discount rate	**13.90%**	13.45%
Rate of return on plan assets	**15.00%**	15.00%

Comparisons for five periods	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008	Six months period ended December 31, 2007	Year ended June 30, 2007
	(Rupees in thousand)				
Present value of defined benefit obligation	**368,466**	334,769	248,888	246,165	226,849
Fair value of plan assets	**(368,466)**	(334,769)	(248,888)	(246,165)	(226,849)
Surplus / (deficit)	**-**	-	-	-	-
Experience adjustment on plan liabilities	**23,873**	(47,235)	(12,766)	(7,489)	(17,549)
Experience adjustment on plan assets	**(31,378)**	36,522	(31,556)	(4,616)	16,900

	2010	2009
	(Rupees in thousand)	
Major categories / composition of plan assets are as follows:		
Debt instruments	**8,470**	8,103
Mutual funds units	**92,258**	86,658
Equity	**24,579**	24,847
Balances with banks	**243,159**	215,161
	368,466	334,769

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 gain on plan assets during the year ended December 31, 2010 was Rs 18.837 million (2009: Rs. 73.855 million).

Expected contribution to defined benefit plan for the year ending December 31, 2011 is Rs 26.670 million (2010: Rs 23.740 million).

	Note	2010	2009
		(Rupees in thousand)	
15.2 Defined contribution plan			
The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	20.1	**5,061**	4,279
Manufacturing expenses	20.2	**11,586**	10,374
Distribution and marketing expenses	21	**19,651**	16,818
Administrative expenses	22	**11,004**	8,360
		47,302	39,831

16. SHARE-BASED PAYMENT PLAN

Details of share-based payments under 'Time-vested Share Plan' (note 2.19) in relation to the Company are as follows:

Grant dates	February 20, 2008, February 4, 2009 & February 11, 2010
Share price at grant date (February 20, 2008)	Rs 3,187 / share (US $ 50.58 / share)
Share price at grant date (February 4, 2009)	Rs 2,988 / share (US $ 36.78 / share)
Share price at grant date (February 11, 2010)	Rs 4,041 / share (US $ 47.49 / share)
Number of shares outstanding at the end of the year	15,583

A reconciliation of movement in the number of shares can be summarised as follows:

		2010	2009
		(No. of shares)	
Outstanding as at the beginning of the year		**10,233**	4,030
Granted during the year		**6,980**	9,820
Vested / forfeited during the year		**(1,630)**	(3,617)
Outstanding as at the end of the year		**15,583**	10,233
	Note	2010	2009
		(Rupees in thousand)	
16.1 The charge for the year has been allocated as follows:			
Purchase, redrying and related expenses	20.1	**256**	73
Manufacturing expenses	20.2	**690**	183
Distribution and marketing expenses	21	**2,913**	12,465
Administrative expenses	22	**14,792**	8,814
		18,651	21,535

17. SHORT TERM BORROWINGS

	2010	2009
Running finance under mark-up arrangements	**1,671,772**	789,525
Short term loans	**800,000**	–
	2,471,772	789,525

The Company has arranged for running finance and other short term loan facilities to the extent of Rs 6,000 million (2009: Rs 3,230 million) from commercial banks. These facilities are available for various periods expiring between May 31, 2011 to July 23, 2013 (2009: February 28, 2010 to June 28, 2012). The facilities are secured by way of hypothecation of stock in trade and other moveable assets of the Company and are carrying mark-up rates ranging from 13.626% to 14.39% (2009: 12.87% to 16.2%) per annum.

The facilities for opening of letter of credits as at December 31, 2010 aggregated to Rs 900 million of which the amount remaining unutilised was Rs. 891.140 million.

Notes to and Forming Part of the Financial Statements (continued)

		Note	2010	2009
			(Rupees in thousand)	
18.	**TRADE AND OTHER PAYABLES**			
	Creditors		**303,242**	344,193
	Bills payable		**316,917**	229,600
	Royalty payable to a related party		**27,415**	18,884
	Accrued expenses		**372,679**	487,560
	Tobacco development cess	18.2	**43,392**	33,329
	Contractors' retention money		**13,153**	10,555
	Advance from customers		**8,228**	16,345
	Workers' profits participation fund		**47,200**	1,000
	Workers' welfare fund		**18,900**	32,500
	Unpaid and unclaimed dividends		**28,566**	27,773
	Others		**7,542**	8,745
			1,187,234	1,210,484

18.1 The amount due to group undertakings included in creditors, royalty payable and others aggregated to Rs 83.009 million (2009: Rs 37.903 millon).

		2010	2009
		(Rupees in thousand)	
18.2	The movement of tobacco development cess is as follows:		
	Balance as at the beginning of the year	**33,329**	51,259
	Provision for the year	**78,728**	51,947
		112,057	103,206
	Less: Payments made during the year	**(68,665)**	(69,877)
	Balance at the end of the year	**43,392**	33,329

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. CONTINGENCIES AND COMMITMENTS

19.1 Guarantees

Indemnities given to a bank for guarantees issued by it in the normal course of business aggregated Rs 19.332 million (2009: Rs 19.332 million).

		2010	2009
		(Rupees in thousand)	
19.2	Commitments		
	Capital expenditure contracted for but not incurred	**603,307**	247,488
	Letters of credit	**5,493**	25,951

19.3 Contingent liabilities

19.3.1 The Additional Collector of Customs, Sales Tax and Central Excise (Adjudication), Rawalpindi has issued two show cause notices to the Company dated October 5, 2002 and March 1, 2003 on account of short payment of Central Excise Duty and Sales Tax aggregating Rs 7.466 million and Rs 4.021 million respectively. The company has not agreed to the claims made in the aforementioned show cause notices. However, subsequently Order-in-Original No. 08/2003, dated March 28, 2003 and Order-in-Original No. 22/2003, dated June 14, 2003 respectively were issued, whereby the charges levelled in the aforementioned showcause notices were confirmed and demands were raised against the company alongwith additional duty under Central Excise Act, 1944 and additional tax under Sales Tax Act, 1990, which are to be determined by the competent authority. Further, a penalty at the rate of 3% of the short payment of Sales Tax has also been imposed under the Sales Tax Act, 1990. The company had filed appeals before the Federal Excise & Taxation Appellate Tribunal, Islamabad; which were rejected by it in its order dated July 14, 2007. The company proceeded to file Tax References bearing Nos. 95/2008 and 96/2008 before Lahore High Court, Rawalpindi Bench. The references are pending adjudication, however, the management is confident that the references will be decided in the Company's favour and accordingly no provision has been made in the financial statements.

19.3.2 Post dated cheques have been issued to custom authorities as a security against duties and taxes amounting to Rs 28.760 million in respect of goods imported for re-export. In the event the goods are not re-exported within the stipulated time period, cheques issued as a security shall be encashable.

	Note	2010	2009
		(Rupees in thousand)	
20. COST OF SALES			
Raw material consumed			
Opening stock		**5,549,885**	5,049,456
Purchases, redrying and related expenses	20.1	**9,342,219**	7,688,994
		14,892,104	12,738,450
Closing stock	8	**(7,274,668)**	(5,549,885)
		7,617,436	7,188,565
Government levies		**97,375**	99,897
Manufacturing expenses	20.2	**1,216,261**	1,178,101
		8,931,072	8,466,563
Work in process			
Opening stock		**16,994**	12,824
Closing stock	8	**(12,618)**	(16,994)
Sale of waste		**(80,031)**	(34,460)
		(92,649)	(51,454)
		(75,655)	(38,630)
		8,855,417	8,427,933
Cost of goods manufactured			
Finished goods			
Opening stock		**313,357**	264,827
Finished goods purchased		**207,227**	51,931
Closing stock	8	**(419,410)**	(313,357)
		101,174	3,401
		8,956,591	8,431,334

	Note	2010	2009
		(Rupees in thousand)	
20.1 Purchases, redrying and related expenses			
Raw and packing material		**8,538,660**	7,063,985
Salaries, wages and other benefits	15 & 16.1	**291,161**	231,062
Stores and spares consumed		**40,713**	37,467
Fuel and power		**126,674**	98,782
Rent, rates and taxes		**51,191**	30,325
Freight and stacking		**114,585**	100,140
Postage, telephone and stationery		**6,266**	7,691
Depreciation	3.1.1	**55,913**	47,345
Insurance		**13,521**	13,849
Repair and maintenance		**6,212**	3,098
Traveling and vehicle expenses		**28,402**	23,925
Professional charges		**2,505**	2,289
Fumigation and pesticide expenses		**45,177**	17,849
Security deposits		**10,603**	1,499
Other expenses		**10,636**	9,688
		803,559	625,009
		9,342,219	7,688,994

20.1.1 For better presentation, expenses relating to 'fumigation and pesticide' and 'security charges' which were previously shown as part of 'other expenses' have now been shown separately in this note. Accordingly, the corresponding amounts of Rs 17.849 million and Rs 1.499 million respectively pertaining to the said expenses previously appearing under 'other expenses' have been reclassified.

	Note	2010	2009
		(Rupees in thousand)	
20.2 Manufacturing expenses			
Salaries, wages and other benefits	15 & 16.1	**389,186**	397,461
Stores and spares consumed		**135,817**	159,594
Fuel and power		**209,574**	173,788
Rent, rates and taxes		**10,935**	7,353
Cartage		**90,118**	86,034
Postage, telephone and stationery		**1,932**	1,501
Depreciation	3.1.1	**321,264**	302,832
Traveling and vehicle expenses		**23,700**	22,566
Insurance		**23,266**	15,435
Other expenses		**10,469**	11,537
		1,216,261	1,178,101

Notes to and Forming Part of the Financial Statements (continued)

		Note	2010	2009
			(Rupees in thousand)	
21.	**DISTRIBUTION AND MARKETING EXPENSES**			
	Salaries, allowances and other benefits	15 & 16.1	**517,988**	557,716
	Selling expenses		**1,683,656**	1,781,517
	Freight		**72,684**	74,353
	Rent, rates and taxes		**29,524**	19,205
	Postage, telephone and stationery		**16,142**	14,113
	Depreciation	3.1.1	**68,388**	60,720
	Traveling and vehicle expenses		**75,158**	79,170
	Insurance		**5,668**	5,840
	Royalty		**23,843**	7,948
	Repair and maintenance		**4,204**	2,272
	Other expenses		**43,036**	37,950
			2,540,291	2,640,840
22.	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances and other benefits	15 & 16.1	**361,192**	321,031
	Rent, rates and taxes		**91,626**	94,645
	Postage, telephone and stationery		**26,794**	28,190
	Traveling and vehicle expenses		**65,911**	72,485
	Repairs and maintenance		**27,591**	15,688
	Legal and professional charges		**45,974**	24,621
	Utilities		**29,025**	27,216
	Fee and subscription		**4,326**	5,356
	Insurance		**8,104**	3,043
	Auditors' remuneration	22.1	**2,539**	3,357
	Donations		**1,964**	7,462
	Depreciation	3.1.1	**105,514**	72,155
	Other expenses		**42,835**	25,896
			813,395	701,145
22.1	Auditors' remuneration			
	Audit fee		**1,200**	1,095
	Review of half yearly financial statements		**375**	345
	Taxation services		**–**	750
	Special certification and related services		**805**	955
	Out of pocket expenses		**159**	212
			2,539	3,357

22.2 No director or his spouse has interest in the donees.

Notes to and Forming Part of the Financial Statements (continued)

	Note	2010	2009
		(Rupees in thousand)	
23. OTHER EXPENSES			
Workers' profits participation fund		**47,200**	81,000
Workers' welfare fund - current period		**18,900**	32,500
- prior period		**(2,285)**	2,608
		16,615	35,108
Impairment charge on items of property, plant and equipment	3.1	**-**	21,921
Property, plant and equipment written off	3.1	**7,317**	-
Miscellaneous expenses		**802**	2,999
		8,119	24,920
		71,934	141,028
24. OTHER INCOME			
Income from financial assets:			
● Profit on short term deposits		**52,547**	56,766
● Others		**2,822**	2,282
		55,369	59,048
Income from assets other than financial assets:			
● Profit on disposal of fixed assets		**38,294**	44,063
		93,663	103,111
25. FINANCE COST			
Mark-up on:			
● Short term borrowings		**128,259**	71,083
● Workers' profits participation fund		**34**	31
		128,293	71,114
Bank commission and other charges		**8,982**	18,222
		137,275	89,336
26. TAXATION			
Current - for the year		**233,650**	505,007
- for prior years		**(10,533)**	38,646
		223,117	543,653
Deferred		**81,000**	(1,904)
		304,117	541,749

		Note	2010	2009
			(Rupees in thousand)	
26.1	Relationship between tax expense and accounting profit			
	Accounting profit before tax		**876,679**	1,500,133
	Effective tax rate		**34.125%**	34.125%
	Tax on accounting profit		**299,167**	511,920
	Tax effect of:			
	● (income) / expenses that are not allowed in determining taxable income		**(7,429)**	3,874
	● income assessed under Final Tax Regime		**44,756**	2,574
	● change in effective tax rate		**–**	(9,823)
	● tax credit for investments u/s 65B of the Income Tax Ordinance, 2001		**(37,024)**	–
	● others		**15,180**	(5,442)
			314,650	503,103
	Adjustments in respect of current tax of prior years		**(10,533)**	38,646
	Tax expense for the year		**304,117**	541,749

27. EARNINGS PER SHARE

	Note	2010	2009
Profit for the year after taxation		**572,562**	958,384
		(No. of shares)	
Number of ordinary shares	13.2	**61,580,341**	61,580,341
		Rupees	
Earnings per share		**9.30**	15.56

There were no convertible dilutive potential ordinary shares outstanding on December 31, 2010 and 2009.

28. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	Chief Executive		Directors		Executives		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	-------Rupees in thousand -------		-------Rupees in thousand -------		-------Rupees in thousand -------		-------Rupees in thousand -------	
Remuneration	**30,000**	24,750	**44,016**	40,858	**181,974**	139,529	**255,990**	205,137
House rent	**-**	-	**4,417**	5,628	**81,887**	64,535	**86,304**	70,163
Bonus	**-**	-	**6,322**	12,055	**45,484**	33,956	**51,806**	46,011
Motor vehicle expenses	**-**	-	**-**	550	**822**	9,763	**822**	10,313
Retirement benefits	**-**	-	**2,756**	1,763	**38,472**	19,143	**41,228**	20,906
Utilities	**-**	-	**982**	231	**18,256**	3,829	**19,238**	4,060
Others	**90**	90	**2,327**	19,512	**30,911**	57,533	**33,328**	77,135
	30,090	24,840	**60,820**	80,597	**397,806**	328,288	**488,716**	433,725
Number of persons	**1**	1	**4**	4	**191**	151	**196**	156

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

Further, the 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 18.651 million (2009: Rs 21.535 million).

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

29. RELATED PARTIES DISCLOSURES

Related parties comprise of Philip Morris Investments B.V., Philip Morris Brands Sarl, Philip Morris Participations B.V., FTR Holding S.A., related group undertakings, subsidiary company Premier Tobacco Company (Private) Limited [Lakson Premier Tobacco Company (Private) Limited], staff retirement funds, other companies where Company's directors 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 28, are as follows:

	Nature of tansactions	**2010**	**2009**
		(Rupees in thousand)	
Associated undertakings	Sale of goods	**328,142**	321,526
	Services rendered	**1,720**	21,556
	Purchase of goods	**185,055**	76,955
	Services procured	**9,786**	-
	Royalty charges	**26,159**	7,948
Staff retirement plans	Contribution to gratuity fund	**31,245**	31,228
	Contribution to provident fund	**47,302**	39,831
Key management personnel	Proceeds on sale of vehicles	-	851
Other related parties	Donation	-	5,000

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, 2010 is included in notes 9.1 and 18.1.

30. CAPACITY AND PRODUCTION

Against an installed manufacturing capacity of 51,723 million (2009: 54,390 million) cigarettes, actual production was 27,186 million (2009: 29,672 million) cigarettes. Actual production was sufficient to meet the demand.

Notes to and Forming Part of the Financial Statements (continued)

	Note	2010	2009
		(Rupees in thousand)	
31. CASH GENERATED FROM OPERATIONS			
Profit before taxation		**876,679**	1,500,133
Adjustments for:			
Depreciation		**551,079**	483,052
Profit on disposal of fixed assets		**(38,294)**	(44,063)
Impairment charge on items of property, plant and equipment		**–**	21,921
Property, plant and equipment written off		**7,317**	–
Stock in trade written off		**78,279**	128,435
Stores and spares written off		**4,785**	27,573
Expenses arising from equity-settled share-based payment plan		**18,651**	21,535
Profit on short term deposits		**(52,547)**	(56,766)
Finance cost		**128,293**	71,114
Working capital changes	31.1	**(1,991,266)**	(488,032)
		(417,024)	1,664,902

31.1 Working capital changes

	2010	2009
Decrease / (increase) in current assets		
Stores and spares	**(45,230)**	(101,214)
Stock in trade	**(1,904,739)**	(681,564)
Trade debts	**(98,393)**	(29,666)
Loans and advances	**39,645**	80,154
Prepayments	**(52,417)**	4,672
Other receivables	**(9,321)**	(57,126)
	(2,070,455)	(784,744)
Increase / (decrease) in current liabilities		
Trade and other payables	**(24,043)**	(53,433)
Sales tax and excise payable	**103,232**	350,145
	(1,991,266)	(488,032)

32. CASH AND CASH EQUIVALENTS

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

	Note	2010	2009
		(Rupees in thousand)	
Cash and bank balances	12	**15,104**	109,559
Short term borrowings	17	**(2,471,772)**	(789,525)
		(2,456,668)	(679,966)

33. FINANCIAL RISK MANAGEMENT

33.1 The Company's activities expose it to certain financial risks. Such financial risks emanate from various factors that include, but not limited to, market risk, credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risks measured and managed by the Company are explained below:

(i) Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market prices of instruments due to change in credit rating of the issuer or the instrument, changes in market sentiments, speculative activities, supply and demand of instruments and liquidity in the market. The Company manages the market risk by monitoring exposure on financial instruments and by following internal risk management policies.

Market risk comprise of three types of risks: interest rate risk, currency risk and other price risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in market interest rates.

- Fair value risk - Presently, fair value risk to the Company arises from 'balances with banks' which are based on fixed interest rates. As at December 31, 2010, had there been increase / decrease of 50 basis points in the fixed interest rates, with all other variables held constant, profit after taxation for the year then ended would have been lower / higher by Rs 0.008 million (2009: Rs 0.268 million) mainly as a result of profit on bank deposit.

- Future cash flow risk - Presently, future cash flow risk to the Company arises from 'short term borrowings' which are based on floating interest rates (i.e. KIBOR based). As at December 31, 2010, had there been increase / decrease of 50 basis points in KIBOR, with all other variables held constant, profit after taxation for the year then ended would have been lower / higher by Rs 8.033 million (2009: Rs 2.566 million) mainly as a result of finance cost.

(b) Currency risk

Currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currencies. The Company primarily has foreign currency exposures in US Dollars, Euro and UK Pound in the form of bills payable (note 18) and trade debts (note 9) in respect of import of packing materials, stores and spares and plant and machinery and export sales.

As at December 31, 2010, had the Company's functional currency weakened / strengthened by 5% against US Dollar, EURO and UK Pound, with all other variables held constant, profit after taxation for the year then ended would have been lower / higher by Rs 4.257 million (2009: Rs 5.991 million) mainly as a result of foreign exchange losses / gains.

(c) Other price risk

Other price risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company does not have financial instruments dependent on market prices.

(ii) Credit risk and its concentration

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. The Company enters into financial contracts in accordance with the internal risk management policies which include incurring of sales on an advance payment basis and holding of balances with reputable banks of the country. Out of the total financial assets as set out in note 33.3 below, those that are subject to credit risk aggregates Rs 319.084 million (2009: Rs 292.918 million).

The analysis below summarises the credit quality of the Company's financial assets as at December 31, 2010:

The bank balances along with credit ratings are tabulated below:

Credit ratings	2010	2009
	(Rupees in '000)	
A-1+	**4,583**	17,408
A1+	**6,089**	84,484
P-1	**2,552**	5,630
	13,224	107,522

Credit limits are assigned to the Company's customer on a case to case basis and such limits are regularly monitored, accordingly, the credit risk is minimal.

Concentration of credit risk exists when changes in economic and industry factors similarly affect the group of counter parties whose aggregated credit exposure is significant in relation to the Company's total credit exposure. The Company's financial assets are broadly diversified and transactions are entered into with diverse credit worthy parties thereby mitigating any significant concentration risk as a result it believes that it is not exposed to major concentration of credit risk.

(iii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities. The Company's approach to manage liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its financial liabilities when due. Accordingly, the Company maintains sufficient cash and also makes availability of funding through credit facilities.

Notes to and Forming Part of the Financial Statements (continued)

The analysis below summarises the Company's financial liabilities (based on contractual undiscounted cash flows) into relevant maturity group on the remaining period as at the balance sheet date:

	2010	2009
	(Maturity within one year)	
	(Rupees in thousand)	
Short term borrowings	**2,471,772**	789,525
Trade and other payables	**1,069,514**	1,127,310
Accrued mark-up on short term borrowings	**61,564**	35,176
	3,602,850	1,952,011

33.2 Fair values of financial assets and liabilities

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying value and the fair value estimates.

As at December 31, 2010 the carrying values of all financial assets and liabilities approximate to their fair values except for staff loans which are valued at their original cost less repayments.

33.3 Financial instruments by category

	2010	2009
	(Rupees in thousand)	
FINANCIAL ASSETS		
Loans and receivables at amortised cost		
Long term loans	**421**	853
Long term deposits	**50,096**	37,565
Trade debts	**164,240**	65,847
Loans and advances	**529**	669
Profit accrued	**556**	1,408
Other receivables	**90,018**	79,054
Cash and bank balances	**15,104**	109,559
	320,964	294,955
FINANCIAL LIABILITIES		
Loans and receivables at amortised cost		
Short term borrowings	**2,471,772**	789,525
Trade and other payables	**1,069,514**	1,127,310
Accrued mark-up on short term borrowings	**61,564**	35,176
	3,602,850	1,952,011

Notes to and Forming Part of the Financial Statements (continued)

34. 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.

During 2010, the Company's strategy, which was unchanged from 2009, was to maintain gearing ratio at a minimum level. The gearing ratios as at December 31, 2010 and 2009 were 26% and 9% respectively. The increase in gearing ratio resulted primarily due to decrease in 'cash and cash equivalent' as at the balance sheet dates.

35. DETAILS OF PROPERTY, PLANT AND EQUIPMENT DISPOSED OFF

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

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Tools & equipment	806	622	184	410	Tender	Ameer Khan
Vehicles	4,650	1,798	2,852	4,143	Insurance claim	Century Insurance Co. Limited
	2,690	861	1,829	1,925	- do -	- do -
	2,690	897	1,793	1,400	Tender	Fauzia Khan
	2,690	897	1,793	1,570	- do -	Rizwan Siddiqui
	2,690	897	1,793	1,600	- do -	Zafarullah
	2,690	897	1,793	1,600	- do -	- do -
	1,319	229	1,090	1,253	Insurance claim	Century Insurance Co. Limited
	1,319	317	1,002	-	Company policy	Hassan Jaffery
	1,389	444	945	982	- do -	Salman Asghar
	1,087	275	812	620	- do -	Ubaid Bukhari
	1,080	346	734	620	- do -	Rana Amjad
	1,080	346	734	620	- do -	Abdul Mujeeb
	884	153	731	-	- do -	Iqbal Siddiqui
	770	51	719	-	- do -	Kamran Babar
	842	146	696	-	- do -	Yousuf Yaqoob
	842	146	696	-	- do -	Abdul Qadeer
Balance c/f	29,518	9,322	20,196	16,743		

Notes to and Forming Part of the Financial Statements (continued)

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Balance b/f	29,518	9,322	20,196	16,743		
Vehicles	842	146	696	-	Company policy	Ghulam Jailani
	842	146	696	-	- do -	Bakhtiar Jaan
	842	146	696	-	- do -	Abdul Waris
	755	70	685	-	- do -	Usman Hassan
	772	154	618	-	- do -	Swaleh Shaikh
	879	316	563	-	- do -	Rehan Kirmani
	915	390	525	745	- do -	Amir Khanzada
	879	388	491	-	- do -	Khursheed Khan
	1,039	701	338	800	Insurance claim	Century Insurance Co. Limited
	879	548	331	288	Company policy	Zahid Shiekh
	1,043	724	319	860	Tender	Faraz Farooqui
	1,549	1,239	310	650	- do -	M.Yameen Wadiwala
	1,039	766	273	700	- do -	Murtaza Ali
	485	220	265	159	Company policy	Mushkbar Zehra
	1,199	951	248	556	- do -	Intikhab Ahmed Khan
	1,039	799	240	727	- do -	Gul Zameen Khan
	365	127	238	-	Company policy	Raees
	588	351	237	-	- do -	Avais Asrar
	424	192	232	-	- do -	Zia Karim
	795	573	222	-	- do -	Iftikhar-uz-Zaman
	649	438	211	501	Tender	M.Yameen Wadiwala
	749	542	207	262	Company policy	Asif Khan Marwat
	649	452	197	611	Tender	Umar Khan
	649	452	197	600	- do -	M. Yameen Wadiwala
	367	171	196	320	Insurance claim	Century Insurance Co. Limited
	649	465	184	632	Tender	Mehboob Ahmed
	367	184	183	320	- do -	Laique Ahmed
	315	133	182	316	- do -	Gul Dad
	315	135	180	359	- do -	Noman Ahmed Siddiqui
	315	135	180	250	Company policy	Atiq-ur-Rehman
	560	382	178	460	Tender	Rana Muhammed
	835	659	176	274	Company policy	Farooq Kidwai
	864	691	173	302	- do -	Fazl-e-Malik
	560	390	170	475	Tender	Khan Zeb
	849	679	170	863	- do -	Noman Ahmed Siddiqui
	315	151	164	-	Company policy	Shahid Qureshi
	803	642	161	650	Tender	Imran Khan
	795	636	159	278	Company policy	Hammad Zahid
	795	636	159	261	- do -	Khan Muhammed
	795	636	159	721	Tender	Wasim Mirza
Balance c/f	58,883	26,878	32,005	30,683		

Notes to and Forming Part of the Financial Statements (continued)

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Balance b/f	58,883	26,878	32,005	30,683		
Vehicles	795	636	159	278	Company policy	Poonam Satwani
	320	161	159	-	- do -	Muhammed Nawaz
	560	407	153	469	Tender	M. Arif
	560	408	152	196	Company policy	Ayezah Syed
	739	591	148	242	- do -	Aurangzaib Khan
	739	591	148	496	Tender	Rana Muhammed Babar
	678	542	136	472	- do -	Ahsan Hayat
	678	542	136	443	- do -	Gul Zameen Khan
	678	542	136	505	- do -	Sanaullah
	678	542	136	444	- do -	Gul Zameen Khan
	650	520	130	500	Company policy	Deedar Ali Shiekh
	647	518	129	601	Tender	M Yameen Wadiwala
	647	518	129	579	- do -	Noman Ahmed Siddiqui
	647	518	129	434	- do -	Gul Zameen Khan
	599	479	120	455	Tender	M.Yameen Wadiwala
	367	248	119	300	Insurance claim	Century Insurance Co. Limited
	562	450	112	491	Tender	Sanaullah
	562	450	112	476	- do -	M Yameen Wadiwala
	562	450	112	488	- do -	Sanaullah
	562	450	112	486	- do -	- do -
	562	450	112	482	- do -	- do -
	560	448	112	-	Company policy	M. Kafeel
	560	448	112	-	- do -	Atif Amin
	560	448	112	-	- do -	Amna Riaz
	560	448	112	498	Tender	Babar Khalid
	560	448	112	437	- do -	Wasim Mirza
	560	448	112	435	- do -	Rana Muhammed Babar
	320	211	109	307	- do -	M. Arif
	367	260	107	90	Tender	Bashir Ahmed
	510	408	102	619	- do -	Noman Ahmed Siddiqui
	510	408	102	613	- do -	- do -
	510	408	102	502	- do -	Murtaza Khan Babar
	510	408	102	607	- do -	- do -
	510	408	102	522	- do -	Ahsan Hayat
	497	398	99	764	- do -	Juma
Balance c/f	78,769	42,488	36,281	44,914		

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Balance b/f	78,769	42,488	36,281	44,914		
Vehicles	320	223	97	320	Tender	M. Saeed
	465	372	93	482	- do -	Murtaza Khan Babar
	463	371	92	502	- do -	- do -
	367	283	84	90	- do -	Muhammed Naeem Afzal
	367	285	82	100	Distributor	Muhammed Anwar Rehmani
	367	286	81	81	Insurance claim	Century Insurance Co. Limited
	367	294	73	332	Tender	Zulfiqar Ahmed Khan
	367	294	73	338	- do -	- do -
	367	294	73	90	- do -	Tanveer Ahmed
	367	294	73	100	- do -	M. Shafiq Ahmed
	367	294	73	100	- do -	Abul Wafa
	367	294	73	90	- do -	Mian Muhammed Makki
	367	294	73	100	- do -	Muhammed Akber Rashid
	367	294	73	90	- do -	Muhammed Ayaz Khan
	367	294	73	100	- do -	Abdul Waheed Qureshi
	367	294	73	90	- do -	Azizuddin
	367	294	73	90	- do -	Nisar Ahmed
	367	294	73	100	- do -	Atif Fareed
	367	294	73	90	- do -	Muhammed Salim
	367	294	73	100	- do -	Kamal Khan
	367	294	73	100	- do -	Muhammed Akram Chohan
	367	294	73	100	- do -	Muhammed Akbar Iqbal
	367	294	73	100	- do -	Muhammed Ubaidullah
	367	294	73	328	Tender	Sanaullah
	367	294	73	100	Distributor	Israr-ul-Haq
	367	294	73	100	- do -	Muhammad Yousuf
	367	294	73	90	- do -	Iftekhar Ahmed
	367	294	73	100	- do -	Afzal Javaid Kamran
	367	294	73	100	- do -	Muhammed Anwar
	367	294	73	90	- do -	Shafique Ahmed
	367	294	73	90	- do -	Muhammad Sohail Azhar
	367	294	73	90	- do -	Muhammad Masroor Sadiq
	367	294	73	90	- do -	Azizuddin
	367	294	73	100	- do -	Nisar Ahmed
	367	294	73	100	- do -	Waqar Ali
	367	294	73	100	- do -	Muhammad Nadeem
	367	294	73	90	- do -	Muhammad Kashif Shamim
	367	294	73	90	- do -	Rizwan Munir
	367	294	73	100	- do -	Iftekhar Ahmed
	367	294	73	100	- do -	Bashir Ahmed Somro
Balance c/f	93,596	54,304	39,292	50,457		

Notes to and Forming Part of the Financial Statements (continued)

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Balance b/f	93,596	54,304	39,292	50,457		
Vehicles	367	294	73	100	Distributor	Niaz Muhammad
	367	294	73	100	- do -	Sikandar Majeed
	367	294	73	345	Tender	Rana Muhammad Babar
	367	294	73	365	- do -	- do -
	367	294	73	311	- do -	Muhammad Noor Shah
	367	294	73	320	- do -	Mustafa Ali Khan
	367	294	73	310	- do -	Mustafa Ali Khan
	367	294	73	335	- do -	Rana Muhammad Babar
	367	294	73	340	- do -	- do -
	367	294	73	356	- do -	- do -
	367	294	73	328	- do -	- do -
	367	294	73	290	- do -	Rana Muhammad Babar
	367	294	73	325	- do -	Mustafa Ali Khan
	367	294	73	351	- do -	Rana Muhammad Babar
	795	729	66	278	Company policy	Zahid Afaque
	320	254	66	-	- do -	Nadeem Ahmed
	320	256	64	-	- do -	Ghulam Hussain
	320	256	64	-	- do -	Jehandad Khan
	312	250	62	90	Distributor	Muhammad Naeem ur Rehman
	312	250	62	100	- do -	Syed Zahoor Ali
	312	250	62	90	- do -	- do -
	312	250	62	100	- do -	- do -
	312	250	62	100	- do -	Zahid-ul-Hassan
	312	250	62	100	- do -	Syed Zahoor Ali
	305	244	61	-	Company policy	Qadir Sharif
	276	221	55	90	Distributor	Moeen-ud-Din
	263	210	53	300	Tender	Rana Muhammad Babar
	263	210	53	332	- do -	Zulfiqar Ahmed Khan
	103,468	62,300	41,168	56,213		

36. SUBSEQUENT EVENT

Dividend and appropriation

Subsequent to December 31, 2010, the Board of Directors has proposed a final dividend of Rs 2.50 per share (2009: Rs 4 per share) amounting to a total dividend of Rs 153.951 million (2009: Rs 246.321 million) in its meeting held on March 21, 2011 for approval of the members at the Annual General Meeting to be held on April 21, 2011. The Board has also approved appropriation to general reserve of Rs 420 million (2009: Rs 710 million). The dividend and appropriation will be accounted for in the financial statements for the year ending December 31, 2011.

36.2 Change of name

The Company in its Extraordinary General Meeting held on January 25, 2011 has approved the change of its name from 'Lakson Tobacco Company Limited' to Philip Morris (Pakistan) Limited' with effect from March 1, 2011.

37. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on March 21, 2011 by the Board of Directors of the Company.

38. GENERAL

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

Karachi : March 21, 2011

SALMAN HAMEED
Chairman & Chief Executive

MOHAMMAD FAROOQ SHAKOOR
Director

Patterm of Holding of the Shares Held by The Shareholders

AS AT DECEMBER 31, 2010

INCORPORATION NUMBER -0002832

NUMBER OF SHAREHOLDERS	SHARE HOLDING			TOTAL SHARES HELD
	From	–	To	
856	1	–	100	22,762
410	101	–	500	106,142
146	501	–	1000	102,172
235	1001	–	5000	475,388
36	5001	–	10000	255,420
7	10001	–	15000	85,445
1	15001	–	20000	16,387
1	20001	–	25000	21,206
2	25001	–	30000	58,391
1	40001	–	45000	44,526
1	50001	–	55000	52,802
1	200001	–	205000	204,283
1	12315001	–	12320000	12,316,061
2	35500001	–	35505000	47,819,356
1,700			TOTAL	61,580,341

CATEGORIES OF SHAREHOLDERS	SHARES HELD	PERCENTAGE
Directors, Chief Executive Officer, their spouses and minor children	7	
Associated Companies, Undertakings and related parties	60,135,417	97.65
Banks, Development Financial institutions, Non Banking Financial Institutions	216,654	0.35
Insurance Companies	21,206	0.03
Modarabas and Mutual Funds	3,939	0.00
Shareholders holding 10% and above	60,135,417	97.65
General Public		
Local	1,082,907	1.75
Others		
(a) Joint Stock Companies	54,802	0.08
(b) Govt. Organisations	57,872	0.09
(c) Charitable Institutions	2,648	0.00
(d) Investment Companies	4,896	0.00

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

Salman

SALMAN HAMEED
Chairman & Chief Executive

DETAILS OF PATTERN OF SHAREHOLDING AS PER REQUIREMENTS OF THE CODE OF CORPORATE GOVERNANCE

CATEGORIES OF SHAREHOLDERS	NO. OF SHARES HELD
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	
Philip Morris Investments B.V.	47,819,356
Philip Morris Brands Sarl.	12,316,061
	60,135,417
DIRECTORS,CEO, THEIR SPOUSE AND MINOR CHILDREN	
Mr. Salman Hameed	1
Mr. Matteo Lorenzo Pellegrini	1
Mr. Douglas Walter Werth	1
Mr. David Charles Abbott	1
Ms.Eunice Hamilton	1
Mr. Mohammad Farooq Shakoor	1
Mr. Asmer Naim	1
	7
BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON-BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS	
1. Habib Bank Limited	132
2. MCB Bank Limited	3,228
3. IDBP (ICP UNIT)	11
4. Summit Bank Limited	9,000
4. Pakistan Reinsurance Company Limited	21,206
5. CDC - Trustee AKD Index Tracker Fund	3,881
	37,191
SHAREHOLDERS HOLDING 10% OR MORE	
1. Philip Morris Investments B.V.	47,819,356
2. Philip Morris Brands Sarl.	12,316,061
	60,135,417

Financial Highlights for Last Six Years

	Year ended December 31				Year ended June 30	
	2010	**2009**	**2008**	**2007 (Six months period ended)**	**2007**	**2006**
	(Rupees in thousand)					
Share Capital	**615,803**	615,803	615,803	615,803	615,803	615,803
Reserves & Surplus	**6,549,018**	6,204,126	5,378,158	4,899,018	4,951,190	4,340,478
Share Holders' Equity	**7,164,821**	6,819,929	5,993,961	5,514,821	5,566,993	4,956,281
Liabilites against assets subject to finance lease	**–**	–	–	–	–	–
Deferred Liabilities	**472,000**	391,000	392,904	312,000	286,820	188,628
TOTAL CAPITAL EMPLOYED	**7,636,821**	7,210,929	6,386,865	5,826,821	5,853,813	5,144,909
Fixed assets - NET	**3,847,679**	3,845,739	3,322,278	2,804,956	2,805,140	2,469,399
Long term investment	**1**	1	1	1	1	1
Long term loans deposits & prepayments	**52,099**	43,456	39,315	27,386	13,996	10,214
Working capital	**3,737,042**	3,321,733	3,025,271	2,994,478	3,034,676	2,665,295
TOTAL ASSETS	**7,636,821**	7,210,929	6,386,865	5,826,821	5,853,813	5,144,909
Turnover	**33,890,900**	30,475,781	24,937,931	10,271,943	22,425,268	20,619,711
Profit before tax	**876,679**	1,500,133	1,745,319	672,441	2,631,296	2,380,124
Profit after tax & adjustment	**572,562**	958,384	1,105,400	471,261	1,737,633	1,554,885
Dividend declared (Cash)	**153,951**	246,321	554,223	230,926	357,167	769,754
Bonus shares	**-**	–	–	–	–	102,634
	(Rupees)					
Break-up value of shares (inclusive of Fixed Assets Revaluation)	**116.35**	110.75	97.34	89.55	90.40	80.48
Break-up value of shares (excluding Fixed Assets Revaluation)	**116.35**	110.75	97.34	89.55	90.40	80.48
Dividend (Rupees Per Share)	**2.50**	4.0	9.00	3.75	5.80	12.50
Bonus shares	**–**	–	–	–	–	1 : 5
Net Earnings per Share	**9.30**	15.56	17.95	7.65	28.22	25.25

Independent Auditors' Report to the Members on Review of Condensed Interim Financial Information

Introduction:

We have reviewed the accompanying condensed interim balance sheet of **Premier Tobacco Company (Pvt) Limited ("the Company")** as of December 31, 2010 and the related condensed interim profit and loss account, condensed interim cash flows statement and condensed interim statement of changes in equity together with notes forming part thereof (hereinafter referred to as "interim financial information") for the half year then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with the approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review :

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion :

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as at and for the half year ended on December 31, 2010, is not prepared in all material respects, in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting.

We draw your attention to the fact that the Company is not in operation for past many years and being a significantly owned subsidiary company of **M/s. Lakson Tobacco Company Ltd,** has been kept alive to meet future requirements as asserted in note 1 of these financial information. We however have not been provided with any information regarding future requirements for the Company.

HYDER BHIMJI & CO.
CHARTERED ACCOUNTANTS

Karachi: February 04, 2011

HYDER ALI BHIMJI

Condensed Interim Balance Sheet as at December 31, 2010 (Un-audited)

	Note	**December 31, 2010** Rupees	June 30, 2010 Rupees
ASSETS:			
Current Assets:			
Cash at Bank (in Current account)		**–**	–
EQUITY & LIABILITIES:			
SHARE CAPITAL:			
Authorized Capital:			
1,000,000 Ordinary Shares of Rs. 10 each		**10,000,000**	10,000,000
Issued, Subscribed & Paid-up Capital:			
103 Oridinary Shares of Rs.10 each fully-paid		**1,030**	1,030
Accumulated loss		**(1,030)**	(1,030)
		–	–

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

Karachi : February 04, 2011

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

DAVID CHARLES ABBOTT
Director

Condensed Interim Profit & Loss Account (Un-audited)

FOR THE HALF YEAR ENDED DECEMBER 31, 2010

	Note	**December 31, 2010** Rupees	December 31, 2009 Rupees
Expenditure:			
Bank Charges		–	1,030
Loss for the year		–	1,030

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

Karachi : February 04, 2011

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

DAVID CHARLES ABBOTT
Director

Condensed Interim Cash Flow Statement (Un-audited)

FOR THE HALF YEAR ENDED DECEMBER 31, 2010

	December 31, 2010 Rupees	December 31, 2009 Rupees
Cash Flow from Operating Activities	–	(1,030)
Cash Flow from Investing Activities	–	–
Cash Flow from Financing Activities	–	–
Net Increase/ (Decrease) in Cash and Bank Balance	–	–
	–	(1,030)
Cash and Bank Balances at the begining of the year	–	1,030
Cash and Bank Balances at the end of the year	–	–

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

Karachi : February 04, 2011

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

DAVID CHARLES ABBOTT
Director

Condensed Interim Statement of Changes in Equity (Un-audited)

FOR THE HALF YEAR ENDED DECEMBER 31, 2010

	Issued Subscribed & Paid-up Capital	General Reserve	Accumulated Profit/(Loss)	Total
		(Rupees)		
Balance as at July 01, 2009	1,030	–	(1,030)	–
Profit/(Loss) for the year	–	–	–	–
Balance as at June 30, 2010	1,030	–	(1,030)	–
Profit / (Loss) for the year	–	–	–	–
Balance as at December 31, 2010	**1,030**	**–**	**(1,030)**	**–**

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

Karachi : February 04, 2011

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

DAVID CHARLES ABBOTT
Director

Notes to the Condensed Interim Financial Statements (Un-audited)

FOR THE HALF YEAR ENDED DECEMBER 31, 2010

1. **STATUS AND NATURE OF BUSINESS:**
The Company was incorporated as a Private Limited Company and registered under the Companies Ordinance, 1984. Its shares are significantly owned by Lakson Tobacco Company Ltd. Lakson Tobacco Company Ltd. has sufficient facilities to meet the tobacco production requirements so Premier Tobacco Company (Pvt) Ltd is not in operation. The Company has been kept alive for meeting the future requirements and accordingly no going concern issue has arisen.

2. These interim financial statements are un-audited and are being submitted to the shareholders as required by Section 245 of the Companies Ordinance, 1984. These financial statements have been prepared in accordance with approved International Accounting Standards as applicable in Pakistan.

3. The accounting policies adopted for preparation of these financial statements are the same as those applied in preparation of the annual financial statements for the year ende June 30, 2010.

	December 31, 2010 Rupees	December 31, 2009 Rupees
4. **TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS/RELATD PARTY:**		
Expenses borne by Holding Company		
Filing fees for Annual Returns to SECP		
Form 29 Form A with Registration of Joint Stock Companies	**4,000**	2,000
Auditors Remunertion	**30,000**	30,000

6. **DATE OF AUTHORIZATION FOR ISSUE:**
These financial statement were authorized for issue on Februay 04, 2011 by the Board of Directors of the Company.

7. **COMMENTS:**
The Company had applied to the Regional Tax Officer enforcement division II, Karachi, to change the financial year end from June 30 to December 31. The application is currently under review, therefore the financial year remains the same as June 30.

Karachi : February 04, 2011

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

DAVID CHARLES ABBOTT
Director

PHILIP MORRIS (PAKISTAN) LIMITED
(Formerly Lakson Tobacco Company Ltd.)

Form of Proxy

I/We ____________________

of ____________________

a member of **PHILIP MORRIS (PAKISTAN) LIMITED**

hereby appoint ____________________

of ____________________

or failing him ____________________

of ____________________

who is/are also member/s of Philip Morris (Pakistan) 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 April 21, 2011 and at any adjournment thereof.

Signed this ____________ day of ____________ 2011.

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 ____________________

____

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.