



**PHILIP MORRIS
(PAKISTAN) LIMITED**

(Formerly Lakson Tobacco Company Ltd.)

2011 Annual Report



PHILIP MORRIS (PAKISTAN) LIMITED

(Formerly Lakson Tobacco Company Ltd.)

Annual Report December 31, 2011

CONTENTS	PAGES
Company Information	2
Notice of Meeting	3
Statement of Compliance with the Code of Corporate Governance	4
Review Report to the Members on Statement of Compliance	6
Directors' Report	7
Auditors' Report to the Members	13
Balance Sheet	14
Profit & Loss Account	15
Statement of Changes in Equity	16
Cash Flow Statement	17
Notes to the Financial Statements	18
Pattern of Holding of Shares	50
Financial Highlights for Last Six Years	52
Subsidiary Company's Accounts : LaksonPremier Tobacco Company (Pvt) Limited (Formerly Premier Tobacco Company (Pvt) Limited)	53
Form of Proxy	



Corporate Information

BOARD OF DIRECTORS

ARPAD KONYE (Chairman & Chief Executive)
 NICOLAS FLOROS
 PAUL NORMAN JANELLE
 DAVID CHARLES ABBOTT
 EUNICE HAMILTON
 MUJTABA HUSSAIN (Appointed on 01-02-2012)
 ASMER NAIM
 MOHAMMAD FAROOQ SHAKOOR (Resigned on 01-02-2012)

COMPANY SECRETARY

MUJTABA HUSSAIN

AUDIT COMMITTEE

PAUL NORMAN JANELLE (Chairman)
 EUNICE HAMILTON
 MUJTABA HUSSAIN (Appointed on 01-02-2012)
 ASMER NAIM
 MOHAMMAD FAROOQ SHAKOOR (Resigned on 01-02-2012)

SHARE TRANSFER COMMITTEE

ARPAD KONYE
 DAVID CHARLES ABBOTT
 MUJTABA HUSSAIN

AUDITORS

A.F. FERGUSON & CO.
 Chartered Accountants

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

BANKERS

FAYSAL BANK LIMITED
 DEUTSCHE BANK A.G.
 CITIBANK N.A.
 HABIB BANK LIMITED
 HSBC BANK MIDDLE EAST LIMITED
 MCB BANK LIMITED
 STANDARD CHARTERED BANK PAKISTAN LIMITED
 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 the 43rd Annual General Meeting of **PHILIP MORRIS (PAKISTAN) LIMITED** will be held on Monday, April 09, 2012 at 11.30 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, 2011 together with the Directors' and Auditor's Reports thereon.
2. To appoint auditor and fix their remuneration.

The retiring auditor M/s A. F. Ferguson & Co. Chartered Accountants has given their consent to act as auditor of the company for the year ending December 31, 2012.

By Order of the Board

MUJTABA HUSSAIN

Director & Company Secretary

Karachi: March 13, 2012

NOTES:

1. The share transfer books of the Company will remain closed from April 02, 2012 to April 09, 2012 (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, I.I. Chundrigar Road, Karachi up to March 30, 2012 will be considered in time to be eligible for attending the meeting.
2. A member who has deposited his/her shares into Central Depository Company of Pakistan Limited, must bring his/her participant's ID number and account/sub-account number along with original Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting.
3. A member entitled to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend, speak and vote instead of him/her. In case of corporate entity, the Board of Directors' Resolution/ Power of Attorney with specimen signatures shall be submitted with the proxy form to the Company.
4. Forms of proxy to be valid must be received at the Share Registrar's office not later than 48 hours before the time of the meeting.
5. Members are requested to notify the Share Registrar of the Company promptly of any change in their addresses.
6. Members who have not yet submitted photocopy of their Computerized National Identity Cards to the Company's Registrar are requested to send the same at the earliest.
7. A form of proxy is enclosed herewith.



Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 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 NBFC, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies occurred during the period under review. Mr. Matteo Lorenzo Pellegrini and Mr. Douglas Walter Werth resigned and Mr. Paul Norman Janelle and Mr. Nicolas Floros appointed as their successor effective February 28, 2011.
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 at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. No orientation course was arranged for the Directors during the year.
10. The Chief Financial Officer (CFO) was appointed during the year. The Company Secretary was appointed by the Board effective from July 1, 2007. No additional remuneration, terms and conditions was considered at the time of appointment of Company Secretary. However, the appointment, remuneration, terms and conditions of employment of the Company Secretary has been determined by CEO.



Statement of Compliance with the Code of Corporate Governance

11. The Directors' Report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and Executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises 4 members, of whom 2 are non-executive directors.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. 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.

ARPAD KONYE

Chairman & Chief Executive

Karachi: March 12, 2012



Review Report to the Members on Statement of Compliance with best Practices of Code of Corporate 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, 2011 prepared by the Board of Directors of Philip Morris (Pakistan) Limited (formerly Lakson Tobacco Company Limited) 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, 2011.

A.F. Ferguson & Co.

A.F. FERGUSON & CO.
CHARTERED ACCOUNTANTS

KARACHI: March 15, 2012



Directors' Report

FOR THE YEAR ENDED DECEMBER 31, 2011

On behalf of the Board of Directors of Philip Morris (Pakistan) Limited, formerly Lakson Tobacco Company Limited (the "Company") I am pleased to present the Directors' Report along with the Audited Financial Statements of the Company for the year ended December 31, 2011.

PERFORMANCE REVIEW

The analysis of key operating results for the year ended December 31, 2011 in comparison with the previous year is as follows:

	Year ended December 31, 2011		Year ended December 31, 2010	
	(Rs million)	%	(Rs million)	%
Gross Turnover	32,297	100.00	33,911	100.00
Gross Profit	3,126	9.68	4,366	12.88
Operating (Loss) / Profit	(92)	(0.29)	992	2.93
(Loss) / Profit before tax	(531)	(1.64)	877	2.59
(Loss) / Profit after tax	(455)	(1.41)	573	1.69

In 2011, the gross turnover decreased by 4.8% while gross profit decreased by 28.4% resulting in a loss of Rs. 455 million after tax. This year-on-year decline is primarily attributable to weaker sales by 4.0 billion cigarettes, representing a 14.6% fall, due to the adverse impact of the non-tax paid tobacco products and market share erosion. The non-tax paid tobacco brands are increasingly damaging the Company, and the legitimate industry as a whole, as excise tax-driven price increases provide the non-tax paid products with an increasingly unfair competitive advantage. These results were further impacted by adverse economic factors weighing on income per capita, pressure on manufacturing costs and increases in tax and excise duty rates.

The Company's loss per share is Rs. 7.39 in 2011 as compared to earnings per share of Rs 9.30 in 2010.

OPERATIONAL CAPACITY

The Company continued to actively invest in its operational capabilities and, as such, increased its investment in property, plant and equipment to Rs. 769 million in 2011 or an increase of 27% versus last year. These investments are primarily made under the umbrella of a comprehensive project of modernizing manufacturing facilities and equipments, safeguarding assets through warehousing upgrades and achieving overall improvements in productivity and product quality. The investments are planned to continue over the next 2 to 3 years. These investment and expansion plans show the Company's belief in prospects for growth in future.

The Management of the Company has made a decision to reduce operations in its Mandra Factory. The Mandra factory is the smallest of our manufacturing facilities but has a substantially higher cost of production. This difficult but necessary decision was taken following an extensive review of our cigarette manufacturing operations and as part of our continuous effort to enhance productivity and operational efficiency.



Directors' Report

DIVIDEND

Keeping in view the position of the company due to loss during the year and envisaged expansion plans, the directors have recommended no dividend/payout for the year 2011.

APPROPRIATION OF PROFIT

The (loss) / profit for the year, along with distributable profit at year end, have been appropriated as follows:

	Year ended December 31, 2011 (Rs '000)	Year ended December 31, 2010
Operating (Loss) / Profit	(91,979)	992,225
(Loss) / Profit after tax	(454,806)	572,562
Accumulated profit brought forward	2,943	4,332
(Loss) / Profit available for appropriation	(451,863)	576,894
Appropriations:		
Proposed cash dividend	Nil	153,951
(For reference, in 2010 it was 25% per ordinary share of Rs. 10/- each)		
Transfer to general reserve	Nil	420,000
Un-appropriated (loss) / profit carried forward	(451,863)	2,943
Basic (Loss) / Earnings Per Share (Rs)	(7.39)	9.30

MATERIAL CHANGES AND COMMITMENTS

During the period between the end of the financial year 2011 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 2011, the Company contributed Rs 20.8 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 4.6% decrease compared to 2010. The government revenues are negatively affected by the strength and growth of the non-tax paid market. We, therefore, actively support all efforts by the government to enforce regulation to stop illicit trade for establishing a level playing field for the overall tobacco industry and for the benefit of the National Exchequer.



Directors' Report

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 2011, 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 2011, PMI contributed Rs 54.3 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 2011, the Company continued to take steps 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 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 significant 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, 2011 and for the last six financial periods are set out on page 52.
- Information about taxes and levies is given in the corresponding notes in the financial statements.



Directors' Report

STATEMENT OF INTERNAL CONTROLS

Management of the Company is responsible for establishing and maintaining a system of adequate internal controls and procedures. Management's statement of internal controls forms part of this Annual Report.

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	861	(Financial statements audited as of December 31, 2010)
Gratuity Fund	357	(Financial statements audited as of December 31, 2010)

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 2011, 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. Salman Hameed	2
Mr. Arpad Konye	2
Mr. Paul Norman Janelle	2
Mr. Nicolas Floros	2
Ms. Eunice Hamilton	2
Mr. David Charles Abbott	4
Mr. Asmer Naim	2
Mr. Mohammad Farooq Shakoor	3

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

CHANGES IN BOARD OF DIRECTORS

During the year under review, two Directors M/s Matteo Lorenzo Pellegrini and Douglas Walter Werth resigned from the Board of Directors and M/s Paul Norman Janelle and Nicolas Floros were appointed as successors, effective February 28, 2011.



Directors' Report

Subsequent to the financial year December 2011, Mr. Farooq Shakoor, Director and Company Secretary of the Company resigned from the Board of Directors and as Company Secretary. Mr. Mujtaba Hussain was appointed as Director and Company Secretary of the Company, effective February 1, 2012 and February 20, 2012 respectively.

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.

CHANGES IN AUDIT COMMITTEE COMPOSITION

During the year under review, Mr. Douglas Walter Werth member of the Audit Committee resigned and Mr. Paul Norman Janelle was appointed as member of the Audit Committee, effective February 28, 2011.

Moreover, Mr. David Charles Abbott, Chairman and member of the Audit Committee resigned from the Audit Committee as he was appointed as Chief Financial Officer of the Company in place of Mr. Farooq Shakoor, effective July 7, 2011.

Mr. Farooq Shakoor was appointed member of the Audit Committee in place of Mr. David Charles Abbott and Mr. Paul Norman Janelle was appointed as Chairman Audit Committee in place of Mr. David Charles Abbott, effective August 11, 2011.

Subsequent to the financial year December 2011, Mr. Farooq Shakoor, Director and Company Secretary of the Company resigned from the Audit Committee and Mr. Mujtaba Hussain was appointed as member of the Audit Committee, effective February 1, 2012.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the Company as of December 31, 2011 is included further in this 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, 2012. Members are requested to appoint them as auditors and validate their remuneration.



Directors' Report

ACCOUNTING POLICIES

The Company has adopted or applied new accounting standards, amendments to approved standards and new interpretations during 2011. 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 PRODUCTS

The Company is increasingly affected by the non-tax paid tobacco products in Pakistan. The detrimental implications of a growing non-tax paid market extend not only to the Company but to the legitimate industry as a whole and materially reduce government's revenues. The Company supports the government's efforts to enforce regulation in this area and secure a necessary level playing field for the overall tobacco industry as well as for the benefit of the national exchequer.

NAME CHANGE

Effective March 1, 2011, The Company changed its name from Lakson Tobacco Company Limited to Phillip Morris (Pakistan) Limited. Pursuant to the change in company name, the Company also changed its website to www.philipmorriskakistan.com.pk. In addition, Premier Tobacco Company (Private) Limited, subsidiary of the Company, has changed its name to LaksonPremier 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 2011.

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



ARPAD KONYE

Chairman and Chief Executive

Karachi, March 12, 2012



Auditors' Report to the Members

We have audited the annexed balance sheet of Philip Morris (Pakistan) Limited (formerly Lakson Tobacco Company Limited) as at December 31, 2011 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, 2011 and of the loss, 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 (XVIII of 1980) was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

A.F. Ferguson & Co.

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

Karachi: March 15, 2012



Balance Sheet as at December 31, 2011

	Note	2011	2010
(Rupees in thousand)			
ASSETS			
NON CURRENT ASSETS			
FIXED ASSETS			
Property, plant and equipment	3	3,941,452	3,847,679
Intangible	4	1,750	-
		<u>3,943,202</u>	<u>3,847,679</u>
Investment in a subsidiary company	5	1	1
Long term loans	6	17	421
Long term deposits and prepayments	7	57,354	51,678
		<u>4,000,574</u>	<u>3,899,779</u>
CURRENT ASSETS			
Stores and spares	8	361,615	359,922
Stock in trade	9	6,776,689	7,706,696
Trade debts	10	210,781	164,240
Loans and advances	11	70,280	10,405
Prepayments		148,218	161,579
Profit accrued		-	556
Other receivables	12	116,109	90,018
Income tax - net		533,810	398,964
Cash and bank balances	13	28,088	15,104
		<u>8,245,590</u>	<u>8,907,484</u>
		<u>12,246,164</u>	<u>12,807,263</u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital	14	1,000,000	1,000,000
Issued, subscribed and paid-up capital	14	615,803	615,803
Reserves		6,399,238	5,972,124
Unappropriated (loss) / profit		(451,863)	576,894
		<u>6,563,178</u>	<u>7,164,821</u>
NON CURRENT LIABILITIES			
Deferred taxation	15	221,000	472,000
CURRENT LIABILITIES			
Short term borrowings	18	2,810,170	2,471,772
Trade and other payables	19	1,117,395	1,187,234
Accrued mark-up on short term borrowings		82,586	61,564
Sales tax and excise duty payable		1,451,835	1,449,872
		<u>5,461,986</u>	<u>5,170,442</u>
		<u>12,246,164</u>	<u>12,807,263</u>
CONTINGENCIES AND COMMITMENTS	20		

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

ARPAD KONYE
Chairman & Chief Executive

Karachi : March 12, 2012

DAVID CHARLES ABBOTT
Director



Profit and Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011	2010
(Rupees in thousand)			
Gross turnover		32,296,490	33,910,750
Less: Sales tax		4,568,921	4,925,476
Excise duty		15,140,587	15,662,922
Turnover - net of sales tax and excise duty		12,586,982	13,322,352
Cost of sales	21	9,460,827	8,956,591
Gross profit		3,126,155	4,365,761
Distribution and marketing expenses	22	2,254,522	2,560,141
Administrative expenses	23	963,612	813,395
		3,218,134	3,373,536
Operating (loss) / profit		(91,979)	992,225
Other expenses	24	152,247	71,934
		(244,226)	920,291
Other income	25	22,167	93,663
		(222,059)	1,013,954
Finance cost	26	308,690	137,275
(Loss) / profit before taxation		(530,749)	876,679
Taxation	27	(75,943)	304,117
(Loss) / profit after taxation		(454,806)	572,562
			Rupees
(Loss) / earnings per share - basic	28	(7.39)	9.30

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

ARPAD KONYE
Chairman & Chief Executive

DAVID CHARLES ABBOTT
Director

Karachi : March 12, 2012



Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2011

	Issued, subscribed and paid- up capital	Reserves		Sub Total	Unappropriated profit	Total
		Revenue General reserve	Capital Other - note 2.19			
(Rupees in thousand)						
Balance as at January 1, 2010	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 17)	-	-	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
Transactions with owners						
Share-based payment - expense	-	-	22,994	22,994	-	22,994
- recharge by the ultimate parent (notes 2.19 and 17)	-	-	(15,880)	(15,880)	-	(15,880)
Final dividend for the year ended December 31, 2010 @ Rs 2.50	-	-	-	-	(153,951)	(153,951)
	-	-	7,114	7,114	(153,951)	(146,837)
Total comprehensive income						
Transfer to general reserve for the year ended December 31, 2010	-	420,000	-	420,000	(420,000)	-
Loss after taxation for the year ended December 31, 2011	-	-	-	-	(454,806)	(454,806)
	-	420,000	-	420,000	(874,806)	(454,806)
Balance as at December 31, 2011	615,803	6,347,000	52,238	6,399,238	(451,863)	6,563,178

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

ARPAD KONYE
Chairman & Chief Executive

DAVID CHARLES ABBOTT
Director

Karachi : March 12, 2012



Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011	2010
(Rupees in thousand)			
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from / (utilised in) operations	32	1,144,797	(417,024)
Finance cost paid		(278,078)	(101,905)
Income taxes paid		(309,903)	(534,959)
Long term loans		404	432
Long term deposits and prepayments		(5,676)	(9,075)
Net cash inflow / (outflow) from operating activities		<u>551,544</u>	<u>(1,062,531)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(769,071)	(604,299)
Acquisition of intangible		(1,800)	-
Proceeds from disposal of items of property, plant and equipment		40,302	82,257
Income received from short term deposits		7,597	53,399
Net cash used in investing activities		<u>(722,972)</u>	<u>(468,643)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(153,986)	(245,528)
Net cash used in financing activities		<u>(153,986)</u>	<u>(245,528)</u>
Net decrease in cash and cash equivalents during the year		<u>(325,414)</u>	<u>(1,776,702)</u>
Cash and cash equivalents at the beginning of the year		<u>(2,456,668)</u>	<u>(679,966)</u>
Cash and cash equivalents at the end of the year	33	<u><u>(2,782,082)</u></u>	<u><u>(2,456,668)</u></u>

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

ARPAD KONYE
Chairman & Chief Executive

DAVID CHARLES ABBOTT
Director

Karachi : March 12, 2012



Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2011

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 ultimate parent) through Philip Morris Investments B.V. and Philip Morris Brands Sarl.
- 1.3 The consolidated financial statements of the group comprising the Company and its subsidiary, Lakson Premier Tobacco Company (Private) Limited [formerly 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/233/619/2002-373 dated November 30, 2011 from the requirement of Section 237 of the Companies Ordinance, 1984 (the Ordinance). The exemption is, however, subject to certain conditions including that the audited financial statements of the subsidiary company will be available for inspection at the registered office of the Company and would be available to the members on request without any cost.

Further in accordance with the requirements of the said exemption, financial highlights of the subsidiary company are stated in note 5.

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 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, 2011:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or before January 1, 2011:

IFRS 7 (amendment), 'Financial instruments' (effective January 1, 2011). The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Company's financial statements, other than certain additional disclosures.



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

IAS 1 (amendments), 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any significant impact on the Company's financial statements.

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

There are certain amendments to the standards and new interpretations that are mandatory for accounting periods beginning 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 mentioned 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 historical 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 these financial statements:

Property, plant and equipment

Estimates with respect to residual values and useful lives are based on the recommendation of technical teams of the Company. Any change in the estimates of residual values and useful lives might affect the carrying amounts of the respective items of property, plant and equipment (note 3) with a corresponding affect on the depreciation charge. Further, the Company reviews the external and internal indicators for possible impairment of assets on an annual basis.

Stock in trade

Assumptions and estimates used in writing down items of stock in trade to their net realisable value (note 9). 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, the 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 15).

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 16.1 for valuation of present value of defined benefit obligations and fair value of plan assets.



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

Equity settled share-based payment plans

Estimates with respect to the number of employees who are expected to receive the ultimate 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 Property, plant and equipment and intangible assets

2.4.1 Operating property, plant and equipment

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

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 no longer in use. Assets' residual values and useful lives are annually reviewed, and adjusted, if material. During the year, the Company has revised its estimate of the useful lives of certain items of 'leasehold improvements'. The impact of this change in estimate is however not considered to be material in the overall context of these financial statements.

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.

Residual values 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.

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.



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

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.

2.4.3 Intangible

Consistent with prior years, an intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are recognised when it is probable that the expected future economic benefits will flow to the Company and the cost of the asset can be measured reliably. Cost of the intangible asset (i.e. computer software) includes purchase cost and directly attributable expenses incidental to bring the asset for its intended use.

Costs associated with maintaining computer software are recognised as an expense as and when incurred.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged over the estimated useful life of the asset on a systematic basis applying the straight line method at the rate of 33.33%.

Useful lives of intangible operating assets are reviewed at each balance sheet date and adjusted if the impact of amortisation is significant.

The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount in income. Reversal of impairment losses are also recognised in income, however, is restricted to the original cost of the asset.

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.



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

- 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.



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

2.7 Stock in trade

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

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.

Cost of redried tobacco includes procurement expenses and overheads incurred on redrying of tobacco leaf.

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.



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

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, cheques in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, running finance under mark-up arrangements and short term loans which form an integral part of the Company's cash management.

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.



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

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

Consistent with prior years, the Company recognises as expense the services acquired over the vesting period and the corresponding increase in equity (contribution from the ultimate parent) on fair value of the ultimate 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. In the event the Company is recharged by the ultimate parent the equity is reduced to the extent of such recharge.

2.20 Foreign currency transactions

Foreign currency transactions are translated into Pakistan Rupees (i.e. the 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.

Other 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	2011	2010
(Rupees in thousand)			
3. PROPERTY, PLANT AND EQUIPMENT			
Operating property, plant and equipment	3.1	2,907,963	3,434,314
Capital work-in-progress	3.2	1,033,489	413,365
		3,941,452	3,847,679



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 improvements	Plant and machinery	Furniture and fixtures	Office equipment	Vehicles	Power and other installations	Computer equipment	Total
(Rs. in thousand)												
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
Year ended December 31, 2010												
Additions	-	-	85,072	-	-	468,000	46,972	2,585	103,616	144,383	19,969	870,597
Transfers												
Cost	-	-	-	-	-	1,076	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
Year ended December 31, 2011												
Additions	-	-	12,063	-	-	38,115	8,946	1,486	49,874	24,026	14,437	148,947
Transfers												
Cost	-	-	-	-	-	(432)	-	432	-	-	-	-
Accumulated depreciation	-	-	-	-	-	60	-	(60)	-	-	-	-
	-	-	-	-	-	(372)	-	372	-	-	-	-
Disposals												
Cost	-	-	-	-	-	(26,235)	(69)	(916)	(32,909)	(1,408)	(92)	(61,629)
Accumulated depreciation	-	-	-	-	-	12,447	69	538	22,735	572	92	36,453
	-	-	-	-	-	(13,788)	-	(378)	(10,174)	(836)	-	(25,176)
Write-offs												
Cost	-	-	-	-	(6,221)	(306,933)	(6,232)	(1,240)	(432)	(3,743)	(4,794)	(329,595)
Accumulated depreciation	-	-	-	-	4,361	195,934	4,947	1,213	432	2,058)	4,734	213,679
	-	-	-	-	(1,860)	(110,999)	(1,285)	(27)	-	(1,685)	(60)	(115,916)
Depreciation charge - note 3.1.1	-	(90)	(18,542)	(4,976)	(24,974)	(299,963)	(22,824)	(5,390)	(92,166)	(30,858)	(34,423)	(534,206)
Net book value as at December 31, 2011	108,450	1,858	251,148	35,632	27,563	1,797,509	34,073	9,659	355,997	232,446	53,628	2,907,963
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
At December 31, 2011												
Cost	108,450	2,441	622,054	60,190	101,541	4,154,962	123,010	56,652	701,109	469,865	254,867	6,655,141
Accumulated depreciation	-	(583)	(370,906)	(24,558)	(73,978)	(2,317,539)	(88,475)	(46,293)	(345,112)	(227,293)	(200,741)	(3,695,478)
Accumulated impairment	-	-	-	-	-	(39,914)	(462)	(700)	-	(10,126)	(498)	(51,700)
Net book value	108,450	1,858	251,148	35,632	27,563	1,797,509	34,073	9,659	355,997	232,446	53,628	2,907,963
Depreciation rate	-	4%	4% to 10%	5% to 10%	20%	6.67% to 10%	20%	20%	20%	10%	20% to 33.33%	



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

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

	Note	2011	2010
(Rupees in thousand)			
Purchases, redrying and related expenses	21.1	54,156	55,913
Manufacturing expenses	21.2	323,136	321,264
Distribution and marketing expenses	22	63,606	68,388
Administrative expenses	23	93,308	105,514
		534,206	551,079

3.1.2 Operating property, plant and equipment include assets having cost of Rs 1.471 billion (2010: Rs 1.401 billion) which were fully depreciated as at the year end.

3.1.3 Details of items of property, plant and equipment disposed off during the year and having net book value of more than Rs 50,000 either individually or in aggregate are given in note 36.

	Note	2011	2010
(Rupees in thousand)			
3.2 Capital work-in-progress			
Civil works		105,383	79,187
Plant and machinery	3.2.1	635,141	149,124
Power and other installations		138,500	139,967
Furniture and fittings		45,956	1,468
Computer equipment pending installation		34,362	1,911
Advance to suppliers and contractors		74,147	41,708
		1,033,489	413,365

3.2.1 This includes plant and machinery in transit aggregating Rs 234.531 million (2010: Rs nil).

4. INTANGIBLE

	Note	2011	2010
Computer software (Rupees in thousand)			
At January 1			
Cost		187,609	187,609
Accumulated amortisation		187,609	187,609
Net book value		-	-
Year ended December 31			
Additions		1,800	-
Amortisation for the year	4.1	50	-
Net book value as at December 31		1,750	-
At December 31			
Cost		189,409	187,609
Accumulated amortisation		187,659	187,609
Net book value		1,750	-



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

- 4.1 Amortisation for the year relates to administrative expenses (note 23).
- 4.2 Intangible include assets having cost of Rs 187.609 million (2010: Rs 187.609 million) which were fully amortised as at the year end.

5. INVESTMENT IN A SUBSIDIARY COMPANY

This represents the cost of 103 fully paid ordinary shares of Rs 10 each in Lakson Premier Tobacco Company (Private) Limited [formerly 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, 2011, 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, 2011 amounted to Rs nil, in accordance with the reviewed condensed interim financial statements for the six months period then ended.

Further, the annual audited accounts of the subsidiary company 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.

	Note	2011	2010
(Rupees in thousand)			
6. LONG TERM LOANS			
Considered good			
Loans to employees	6.1	284	950
Less: Current portion shown under current assets	11	(267)	(529)
		<u>17</u>	<u>421</u>

- 6.1 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. The difference between the carrying amount and the related amortised cost is not considered material in the overall context of these financial statements, therefore, is not recognised.

	Note	2011	2010
(Rupees in thousand)			
7. LONG TERM DEPOSITS AND PREPAYMENTS			
Deposits		54,556	50,096
Prepayments		2,798	1,582
		<u>57,354</u>	<u>51,678</u>

8. STORES AND SPARES

Stores	8.2	10,119	7,599
Spares	8.1 & 8.2	352,924	352,323
Less: Provision for slow moving spares		(1,428)	-
		<u>361,615</u>	<u>359,922</u>



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

- 8.1 This includes spares in transit amounting to Rs nil (2010: Rs 5.370 million).
- 8.2 During the year, the Company has written off stores and spares aggregating Rs 49.655 million (2010: Rs 4.785 million).

	Note	2011	2010
(Rupees in thousand)			
9. STOCK IN TRADE			
Raw and packing materials	9.1 & 9.2	6,500,703	7,274,668
Work-in-process		13,748	12,618
Finished goods	9.2 & 9.3	263,798	419,410
		<u>6,778,249</u>	<u>7,706,696</u>
Less: Provision for obsolete stocks - packing material		(1,560)	-
		<u>6,776,689</u>	<u>7,706,696</u>

- 9.1 These include raw and packing material in transit aggregating Rs 77.354 million (2010: Rs 203.251 million).
- 9.2 During the year, the Company has written off inventory aggregating Rs 7.022 million (2010: Rs 78.279 million).
- 9.3 Finished goods include items costing Rs 23.339 million (2010: Nil) which are stated at their net realisable value aggregating Rs 13.033 million (2010: Nil). The amount charged to the profit and loss account in respect of stocks written down to their net realisable values is Rs 10.306 million (2010: Nil).

	Note	2011	2010
(Rupees in thousand)			
10. TRADE DEBTS			
Considered good-unsecured	10.1	210,781	164,240
Considered doubtful		2,780	-
		<u>213,561</u>	<u>164,240</u>
Less: Provision for doubtful debts	10.2	(2,780)	-
		<u>210,781</u>	<u>164,240</u>

- 10.1 The amount includes outstanding balance from the following group undertakings:

Philip Morris (Malaysia) SDN. BHD.	14	4,172
PMFTC, Inc. (Philippines)	171,063	10,223
Philip Morris Asia Limited. Hong Kong.	1,976	-
Philip Morris Philippines Manufacturing Inc.	2,908	-
Philip Morris Limited (Australia)	29,624	-
PT Hanjaya Mandala Sampoerna TBK	3,570	-
	<u>209,155</u>	<u>14,395</u>



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

		2011	2010
		(Rupees in thousand)	
10.2	Provision for doubtful debts		
	Balance at beginning of the year	-	-
	Provision for the year	24 (2,780)	-
	Balance at end of the year	<u>(2,780)</u>	<u>-</u>

11. LOANS AND ADVANCES

Considered good

Secured

Current portion of long term loans to employees 6 267 529

Unsecured

Advances to:

- Employees	11.1 & 11.2	9,585	8,352
- Suppliers and contractors		60,428	1,524
		<u>70,013</u>	<u>9,876</u>
		<u>70,280</u>	<u>10,405</u>

11.1 The maximum aggregate balance of advances due from executives at the end of any month during the year was Rs 4.247 million (2010: Rs 2.970 million).

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

	Note	2011	2010
		(Rupees in thousand)	

12. OTHER RECEIVABLES

Receivable from 'associated undertakings'	12.1	114,589	77,781
Others		1,520	12,237
		<u>116,109</u>	<u>90,018</u>

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

	Note	2011	2010
		(Rupees in thousand)	
Philip Morris Services S.A.		106,452	75,917
Philip Morris Products S.A.		7,449	1,722
PT Hanjaya Mandala Sampoerna TBK		688	142
		<u>114,589</u>	<u>77,781</u>



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

		2011	2010
		(Rupees in thousand)	
13.	CASH AND BANK BALANCES		
	With banks		
	● in saving accounts	13.1	27
	● in current accounts		2,330
	- Foreign currency	254	461
	- Local currency	23,827	10,433
		24,081	10,894
	Cash in hand	3,980	1,880
		28,088	15,104

13.1 These carry mark-up rates ranging from 5% to 10.33% (2010: 5% to 9.5%) per annum.

14. SHARE CAPITAL

14.1 Authorised capital

2011 (Number of shares)	2010		2011 (Rupees in thousand)	2010
<u>100,000,000</u>	<u>100,000,000</u>	Ordinary shares of Rs 10 each	<u>1,000,000</u>	<u>1,000,000</u>

14.2 Issued, subscribed and paid-up capital

2011 (Number of shares)	2010		2011 (Rupees in thousand)	2010
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 other than cash	83,160	83,160
<u>61,580,341</u>	<u>61,580,341</u>		<u>615,803</u>	<u>615,803</u>

14.3 As at December 31, 2011, the number of ordinary shares of Rs 10 each held by Philip Morris Investments B.V. and Philip Morris Brands Sarl, subsidiaries of Philip Morris International Inc., were 47,819,356 and 12,316,061 respectively (2010: 47,819,356 and 12,316,061 respectively).



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

	Note	2011	2010
(Rupees in thousand)			
15. DEFERRED TAXATION			
Deferred tax liability on taxable temporary differences:			
Tax depreciation allowance		400,040	483,625
Deferred tax asset on deductible temporary differences:			
Accrual for employees compensated absences		(878)	(955)
Amortisation of intangible		(4,282)	(10,670)
Unutilised tax loss and credit		(59,598)	-
Minimum tax		(112,313)	-
Provision for spares		(488)	-
Provision for obsolete stocks		(532)	-
Provision for doubtful debts		(949)	-
		<u>221,000</u>	<u>472,000</u>
16. STAFF RETIREMENT BENEFITS			
16.1 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, 2011.			
The fair value of the 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:			
	Note	2011	2010
(Rupees in thousand)			
Present value of defined benefit obligation		383,002	368,466
Fair value of plan assets		<u>(383,002)</u>	<u>(368,466)</u>
Liability recognised in the balance sheet		<u>-</u>	<u>-</u>
Amounts charged to profit and loss account:			
Current service cost		30,723	28,929
Interest cost		51,217	45,026
Expected return on plan assets		(55,270)	(50,215)
Actuarial loss recognised		18,940	7,505
		<u>45,610</u>	<u>31,245</u>
The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	21.1	6,212	3,711
Manufacturing expenses	21.2	13,246	8,902
Distribution and marketing expenses	22	14,662	10,903
Administrative expenses	23	11,490	7,729
		<u>45,610</u>	<u>31,245</u>



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

	2011	2010			
	(Rupees in thousand)				
Movement in the liability recognised in the balance sheet:					
Balance as at the beginning of the year	-	-			
Net charge for the year	45,610	31,245			
Contribution to the fund	(45,610)	(31,245)			
Balance as at the end of the year	<u>-</u>	<u>-</u>			
Movement in the present value of defined benefit obligation:					
Opening balance	368,466	334,769			
Current service cost	30,723	28,929			
Interest cost	51,217	45,026			
Benefits paid	(55,940)	(16,385)			
Actuarial gain	(11,464)	(23,873)			
Closing balance	<u>383,002</u>	<u>368,466</u>			
Movement in the fair value of plan assets:					
Opening balance	368,466	334,769			
Expected return	55,270	50,215			
Contributions	45,610	31,245			
Benefits paid	(55,940)	(16,385)			
Actuarial loss	(30,404)	(31,378)			
Closing balance	<u>383,002</u>	<u>368,466</u>			
Principal actuarial assumptions used are as follows:					
Expected rate of increase in salary level	<u>14.00%</u>	<u>13.40%</u>			
Valuation discount rate	<u>14.70%</u>	<u>13.90%</u>			
Rate of return on plan assets	<u>15.00%</u>	<u>15.00%</u>			
Comparisons for five periods					
	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008	Six months period ended December 31, 2007
	(Rupees in thousand)				
Present value of defined benefit obligation	383,002	368,466	334,769	248,888	246,165
Fair value of plan assets	(383,002)	(368,466)	(334,769)	(248,888)	(246,165)
Surplus / (deficit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Experience adjustment on plan liabilities	<u>11,464</u>	<u>23,873</u>	<u>(47,235)</u>	<u>(12,766)</u>	<u>(7,489)</u>
Experience adjustment on plan assets	<u>(30,404)</u>	<u>(31,378)</u>	<u>36,522</u>	<u>(31,556)</u>	<u>(4,616)</u>



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

	2011	2010
	(Rupees in thousand)	
Major categories / composition of plan assets are as follows:		
Debt instruments	9,187	8,470
Mutual funds units	-	92,258
Equity	45,354	24,579
Balances with banks	<u>328,461</u>	<u>243,159</u>
	<u><u>383,002</u></u>	<u><u>368,466</u></u>

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, 2011 was Rs 24.866 million (2010: Rs 18.837 million).

Expected contribution to defined benefit plan for the year ending December 31, 2012 is Rs 39.943 million (2011: Rs 26.670 million).

	Note	2011	2010
		(Rupees in thousand)	
16.2	Defined contribution plan		
The charge for the year has been allocated as follows:			
	Purchases, redrying and related expenses	21.1	5,578
	Manufacturing expenses	21.2	11,430
	Distribution and marketing expenses	22	22,484
	Administrative expenses	23	12,766
		<u>52,258</u>	<u>47,302</u>

17. 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 & February 11, 2011
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)
Share price at grant date (February 11, 2011)	Rs 5,128 / share (US \$ 59.62 / share)
Number of shares outstanding at the end of the year	17,659

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



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

	Note	2011	2010
(No. of shares)			
Outstanding as at the beginning of the year		15,583	10,233
Granted during the year		5,860	6,980
Vested / exercised during the year	17.2	(3,084)	-
Forfeited during the year		(700)	(1,630)
Outstanding as at the end of the year		<u>17,659</u>	<u>15,583</u>

	Note	2011	2010
(Rupees in thousand)			
17.1 The charge for the year has been allocated as follows:			
Purchase, redrying and related expenses	21.1	1,289	256
Manufacturing expenses	21.2	368	690
Distribution and marketing expenses	22	5,074	2,913
Administrative expenses	23	16,263	14,792
		<u>22,994</u>	<u>18,651</u>

17.2 During the year ended December 31, 2011, options granted on February 20, 2008 were fully vested. An amount of Rs 15.880 million (US\$ 183,082) was recharged by the ultimate parent, which was payable as at the year end.

2011	2010
(Rupees in thousand)	

18. SHORT TERM BORROWINGS

Running finance under mark-up arrangements	1,010,170	1,671,772
Short term loans	1,800,000	800,000
	<u>2,810,170</u>	<u>2,471,772</u>

The Company has arranged for running finance and other short term loan facilities to the extent of Rs 6,000 million (2010: Rs 6,000 million) from commercial banks. These facilities are available for various periods expiring between April 30, 2012 to July 23, 2013 (2010: May 31, 2011 to July 23, 2013). 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 12.23% to 14.66% (2010: 13.626% to 14.39%) per annum.

The facilities for opening of letters of credit as at December 31, 2011 aggregated Rs 1,050 million of which the amount remaining unutilised was Rs 248.510 million.



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

	Note	2011	2010
(Rupees in thousand)			
19. TRADE AND OTHER PAYABLES			
Creditors		352,063	303,242
Bills payable		395,567	316,917
Royalty payable to a related party		25,917	27,415
Accrued expenses		215,263	372,679
Tobacco development cess	19.2	55,511	43,392
Contractors' retention money		11,873	13,153
Advance from customers		12,830	8,228
Workers' profits participation fund		-	47,200
Workers' welfare fund		14,728	18,900
Unpaid and unclaimed dividends		28,531	28,566
Others		5,112	7,542
		<u>1,117,395</u>	<u>1,187,234</u>

19.1 The amount due to group undertakings included in creditors and royalty payable aggregated Rs 152.140 million (2010: Rs 83.009 million).

2011	2010
(Rupees in thousand)	

19.2 The movement of tobacco development cess is as follows:

Balance as at the beginning of the year	43,392	33,329
Provision for the year	96,844	78,728
	<u>140,236</u>	<u>112,057</u>
Less: Payments made during the year	(84,725)	(68,665)
Balance at the end of the year	<u>55,511</u>	<u>43,392</u>

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.

During the year, a penalty amounting to Rs. 4.014 million was imposed by Excise and Taxation Office, Mardan vide its Letter No. 4430-31/TDC dated March 31, 2011 on account of late payment of Tobacco Development Cess in 2007-08 for Crop-2007.

20. CONTINGENCIES AND COMMITMENTS

20.1 Guarantees

Indemnities given to a bank for guarantees issued by it in the normal course of business aggregated Rs 19.332 million (2010: Rs 19.332 million).



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

	2011	2010
	(Rupees in thousand)	
20.2 Commitments		
Capital expenditure contracted for but not incurred	1,282,254	603,307
Letters of credit	-	5,493

20.3 Contingent liabilities

20.3.1 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 to 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.

20.3.2 Post dated cheques have been issued to custom authorities as a security against duties and taxes amounting to Rs 59.498 (2010: 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	2011	2010
		(Rupees in thousand)	
21. COST OF SALES			
Raw material consumed			
Opening stock		7,274,668	5,549,885
Purchases, redrying and related expenses	21.1	6,969,313	9,342,219
		14,243,981	14,892,104
Closing stock	9	(6,500,703)	(7,274,668)
		7,743,278	7,617,436
Government levies		68,081	97,375
Manufacturing expenses	21.2	1,278,037	1,216,261
		9,089,396	8,931,072
Work in process			
Opening stock		12,618	16,994
Closing stock	9	(13,748)	(12,618)
Sale of waste		(62,009)	(80,031)
		(75,757)	(92,649)
		(63,139)	(75,655)
Balance carried forward		9,026,257	8,855,417



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

	Note	2011	2010
(Rupees in thousand)			
Balance brought forward		9,026,257	8,855,417
Cost of goods manufactured			
Finished goods			
Opening stock		419,410	313,357
Finished goods purchased		278,958	207,227
Closing stock	9	(263,798)	(419,410)
		434,570	101,174
		<u>9,460,827</u>	<u>8,956,591</u>
21.1 Purchases, redrying and related expenses			
Raw and packing material		6,183,983	8,538,660
Salaries, wages and other benefits	16 & 17.1	236,015	291,161
Stores and spares consumed		40,216	40,713
Fuel and power		158,706	126,674
Rent, rates and taxes		50,777	51,191
Freight and stacking		88,679	114,585
Postage, telephone and stationery		7,346	6,266
Depreciation	3.1.1	54,156	55,913
Insurance		11,764	13,521
Repair and maintenance		5,365	6,212
Travelling and vehicle expenses		35,977	28,402
Professional charges		1,806	2,505
Fumigation and pesticide expenses		33,666	45,177
Security charges		44,789	10,603
Other expenses		16,068	10,636
		785,330	803,559
		<u>6,969,313</u>	<u>9,342,219</u>
21.2 Manufacturing expenses			
Salaries, wages and other benefits	16 & 17.1	452,840	389,186
Stores and spares consumed		152,359	135,817
Fuel and power		172,611	209,574
Rent, rates and taxes		8,766	10,935
Cartage		83,285	90,118
Postage, telephone and stationery		2,299	1,932
Depreciation	3.1.1	323,136	321,264
Travelling and vehicle expenses		35,684	23,700
Insurance		23,320	23,266
Security charges	21.2.1	18,148	8,831
Other expenses		5,589	1,638
		<u>1,278,037</u>	<u>1,216,261</u>

21.2.1 For better presentation, expenses relating to 'security charges' which were previously shown as part of 'other expenses' have now been shown separately in this note. Accordingly, the corresponding amount of Rs 8.831 million pertaining to the said expense previously appearing under 'other expenses' has now been reclassified and included in 'security charges'.



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

	Note	2011	2010
(Rupees in thousand)			
22. DISTRIBUTION AND MARKETING EXPENSES			
Salaries, allowances and other benefits	16 & 17.1	599,253	517,988
Selling expenses		1,260,126	1,683,656
Freight expense	22.1	135,291	92,534
Rent, rates and taxes		29,707	29,524
Postage, telephone and stationery		16,094	16,142
Depreciation	3.1.1	63,606	68,388
Travelling and vehicle expenses		80,834	75,158
Insurance		6,747	5,668
Royalty		24,375	23,843
Repair and maintenance		3,980	4,204
Security charges	22.2	12,183	11,002
Other expenses		22,326	32,034
		<u>2,254,522</u>	<u>2,560,141</u>
22.1	For better presentation, expense relating to 'shipping charges' on export sales which were previously deducted from 'Gross turnover' have now been shown as part of 'Freight expense'. Accordingly, the corresponding amount of Rs 19.850 million pertaining to that expense previously deducted from 'Gross turnover' has now been reclassified and is included in 'Freight expense'.		
22.2	For better presentation, expense relating to 'security charges' which were previously shown as part of 'other expenses' have now been shown separately in this note. Accordingly, the corresponding amount of Rs 11.002 million pertaining to that expense previously appearing under 'other expenses' have now been reclassified and is included in 'security charges'.		
	Note	2011	2010
(Rupees in thousand)			
23. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits	16 & 17.1	450,054	361,192
Rent, rates and taxes		93,897	91,626
Postage, telephone and stationery		17,214	26,794
Travelling and vehicle expenses		98,237	65,911
Repairs and maintenance		34,612	27,591
Legal and professional charges		62,663	45,974
Utilities		23,541	29,025
Fee and subscription		6,775	4,326
Insurance		7,597	8,104
Auditors' remuneration	23.1	7,401	2,539
Donations		-	1,964
Depreciation	3.1.1	93,308	105,514
Amortisation	4.1	50	-
Security charges	23.2	52,876	28,998
Other expenses		15,387	13,837
		<u>963,612</u>	<u>813,395</u>
23.1	Auditors' remuneration		
Audit fee		1,500	1,200
Review of half yearly financial statements		450	375
Taxation and other services		4,886	805
Out of pocket expenses		565	159
		<u>7,401</u>	<u>2,539</u>



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

23.2 For better presentation, expenses relating to 'security charges' which were previously shown as part of 'other expenses' have now been shown separately in this note. Accordingly, the corresponding amount of Rs 28,998 million pertaining to that expense previously appearing under 'other expenses' have now been reclassified and included in 'security charges'.

	Note	2011	2010
(Rupees in thousand)			
24. OTHER EXPENSES			
Workers' profits participation fund		-	47,200
Workers' welfare fund - current period		-	18,900
- prior period		(4,172)	(2,285)
		(4,172)	16,615
Property, plant and equipment written off	3.1	115,916	7,317
Provision for doubtful debts	10.2	2,780	-
Miscellaneous expenses		37,723	802
		156,419	8,119
		152,247	71,934
25. OTHER INCOME			
Income from financial assets:			
● Profit on short term deposits		7,041	52,547
● Others		-	2,822
		7,041	55,369
Income from assets other than financial assets:			
● Profit on disposal of property, plant and equipment		15,126	38,294
		22,167	93,663
26. FINANCE COST			
Mark-up on:			
● Short term borrowings		299,100	128,259
● Workers' profits participation fund		-	34
		299,100	128,293
Bank commission and other charges		9,590	8,982
		308,690	137,275
27. TAXATION			
Current - for the year		162,000	233,650
- for prior years		13,057	(10,533)
		175,057	223,117
Deferred		(251,000)	81,000
		(75,943)	304,117



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

	Note	2011	2010
(Rupees in thousand)			
27.1 Relationship between tax expense and accounting profit			
Accounting (loss) / profit before tax		(530,749)	876,679
Applicable tax rate		34.125%	34.125%
Tax on accounting (loss) / profit		(181,118)	299,167
Tax effect of:			
• expenses / (income) that are not allowed in determining taxable income		1,662	(7,429)
• income assessed under Final Tax Regime		95,115	44,756
• tax credit for investments u/s 65B of the Income Tax Ordinance, 2001		(6,363)	(37,024)
• others		1,704	15,180
Adjustments in respect of current tax of prior periods		(89,000)	314,650
Tax expense for the year		13,057	(10,533)
		(75,943)	304,117
28. EARNINGS PER SHARE- BASIC			
(Loss) / profit for the year after taxation		(454,806)	572,562
			(No. of shares)
Number of ordinary shares	14.2	61,580,341	61,580,341
			Rupees
(Loss) / earnings per share		(7.39)	9.30

There were no convertible dilutive potential ordinary shares outstanding on December 31, 2011 and 2010.

29. 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	
	2011	2010	2011	2010	2011	2010	2011	2010
	-----Rupees in thousand -----		-----Rupees in thousand -----		-----Rupees in thousand -----		-----Rupees in thousand -----	
Remuneration	30,000	30,000	44,639	44,016	217,002	181,974	291,641	255,990
House rent	-	-	4,697	4,417	97,680	81,887	102,377	86,304
Bonus	-	-	5,041	6,322	51,074	45,484	56,115	51,806
Motor vehicle expenses	-	-	-	-	-	822	-	822
Retirement benefits	-	-	1,620	2,756	31,256	38,472	32,876	41,228
Utilities	-	-	1,044	982	21,706	18,256	22,750	19,238
Others	90	90	2,648	2,327	55,808	30,911	58,546	33,328
	30,090	30,090	59,689	60,820	474,526	397,806	564,305	488,716
Number of persons	1	1	3	4	218	191	222	196



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

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 22.994 million (2010: Rs 18.651 million).

Certain executives are on secondment from the group undertaking and no remuneration is charged to the Company in respect of those executives.

The company considers its chief executive and directors as members of key management personnel.

30. RELATED PARTIES DISCLOSURES

Related parties comprise of Philip Morris Investments B.V. and Philip Morris Brands Sarl, related group undertakings, subsidiary company Lakson Premier Tobacco Company (Private) Limited [formerly 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 29, are as follows:

	Nature of transactions	2011	2010
		(Rupees in thousand)	
Associated undertakings	Sale of goods	1,174,932	328,142
	Services rendered	7,449	1,720
	Purchase of goods	336,760	185,055
	Services procured	18,181	9,786
	Royalty charges	24,375	26,159
Staff retirement plans	Contribution to gratuity fund	45,610	31,245
	Contribution to provident fund	52,258	47,302

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, 2011 is included in notes 10.1, 12.1 and 19.1.

31. CAPACITY AND PRODUCTION

Against an installed manufacturing capacity of 50,112 million (2010: 51,723 million) cigarettes, actual production was 22,440 million (2010: 27,186 million) cigarettes. Actual production was sufficient to meet the demand.



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

	Note	2011	2010
(Rupees in thousand)			
32. CASH GENERATED FROM OPERATIONS			
(Loss) / profit before taxation		(530,749)	876,679
Adjustments for:			
Depreciation		534,206	551,079
Amortisation		50	-
Profit on disposal of items of property, plant and equipment		(15,126)	(38,294)
Property, plant and equipment written off		115,916	7,317
Stock in trade - written off		7,022	78,279
- written down to net realisable value		10,306	-
Provision for obsolete stocks - packing material		1,560	-
Stores and spares written off		49,655	4,785
Provision for slow moving spares		1,428	-
Expenses arising from equity-settled share-based payment plan		22,994	18,651
Profit on short term deposits		(7,041)	(52,547)
Finance cost		299,100	128,293
Provision for doubtful debts		2,780	-
Working capital changes	32.1	652,696	(1,991,266)
		<u>1,144,797</u>	<u>(417,024)</u>
32.1 Working capital changes			
Decrease / (increase) in current assets			
Stores and spares		(52,776)	(45,230)
Stock in trade		911,119	(1,904,739)
Trade debts		(49,321)	(98,393)
Loans and advances		(59,875)	39,645
Prepayments		13,361	(52,417)
Other receivables		(26,091)	(9,321)
		<u>736,417</u>	<u>(2,070,455)</u>
Increase / (decrease) in current liabilities			
Trade and other payables		(85,684)	(24,043)
Sales tax and excise duty payable		1,963	103,232
		<u>652,696</u>	<u>(1,991,266)</u>
33. CASH AND CASH EQUIVALENTS			
Cash and cash equivalents comprise of the following items as included in the balance sheet:			
Cash and bank balances	13	28,088	15,104
Short term borrowings	18	(2,810,170)	(2,471,772)
		<u>(2,782,082)</u>	<u>(2,456,668)</u>



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

34. FINANCIAL RISK MANAGEMENT

34.1 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, 2011, the impact of increase / decrease in fixed interest rates by 50 basis points will not have a material impact on the profit after tax of the company.
- 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, 2011, 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 9.256 million (2010: Rs 8.141 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 19) and trade debts (note 10) in respect of import of packing materials, stores and spares and plant and machinery and export sales.

As at December 31, 2011, 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 1.070 million (2010: Rs 4.257 million) mainly as a result of foreign exchange losses / gains.



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

(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 34.3, those that are subject to credit risk aggregates Rs 405.838 million (2010: Rs 319.084 million).

The analysis below summarises the credit quality of the Company's financial assets as at December 31, 2011:

The bank balances along with credit ratings are tabulated below:

	2011	2010
Credit ratings		
	(Rupees in '000)	
A-1+	24,108	10,672
P-1	-	2,552
	<u>24,108</u>	<u>13,224</u>

Credit limits are assigned to the Company's customer's 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. Further, amounts aggregating Rs 323.744 million is receivable from group companies whereby credit exposure and the corresponding risk associated with recoverability is considered minimal, therefore, the Company 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:

	2011	2010
	(Maturity within one year)	
	(Rupees in thousand)	
Short term borrowings	2,810,170	2,471,772
Trade and other payables	1,034,326	1,069,514
Accrued mark-up on short term borrowings	82,586	61,564
	<u>3,927,082</u>	<u>3,602,850</u>
34.2 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, 2011 the carrying values of all financial assets and liabilities approximate to their fair values due to the fact that most of the financial assets and liabilities are of short term nature.

34.3 Financial instruments by category

	2010	2009
	(Rupees in thousand)	
FINANCIAL ASSETS		
Loans and receivables at amortised cost		
Loans	284	950
Long term deposits	54,556	50,096
Trade debts	210,781	164,240
Profit accrued	-	556
Other receivables	116,109	90,018
Cash and bank balances	28,088	15,104
	<u>409,818</u>	<u>320,964</u>
FINANCIAL LIABILITIES		
Loans and receivables at amortised cost		
Short term borrowings	2,810,170	2,471,772
Trade and other payables	1,034,326	1,069,514
Accrued mark-up on short term borrowings	82,586	61,564
	<u>3,927,082</u>	<u>3,602,850</u>

35. CAPITAL RISK MANAGEMENT

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

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



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

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 bank balances. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

During 2011, the Company's strategy, which was unchanged from 2010, was to maintain gearing ratio at a minimum level. The gearing ratios as at December 31, 2011 and 2010 were 30% and 26% respectively. The increase in gearing ratio resulted primarily due to decrease in 'cash and cash equivalent' as at the balance sheet date.

36. DETAILS OF PROPERTY, PLANT AND EQUIPMENT DISPOSED OFF

The following operating property, plant and equipment 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).....						
Vehicles	879	559	320	288	Company policy	Mr. Feroze Anwar
	888	367	521	410	- do -	Mr. Kamil
	879	703	176	308	- do -	Mr. Jabbar Moosa
	1,288	1,030	258	440	- do -	Mr. Mukhtyar Ahmed
	1,043	834	209	339	- do -	Mr. Syed Viqar Ali
	749	593	156	245	- do -	Mr. Imran Rajput
	1,319	771	548	548	- do -	Mr. Rahatullah Khan
	1,350	810	540	558	- do -	Mr. Nazakat Hussain
	365	224	141	119	- do -	Mr. Yaseer Saeed
	469	375	94	154	- do -	Mr. Javed Ghazipura
	1,768	778	990	579	- do -	Mr. Tabish Z Haque
	1,309	986	323	458	- do -	Mr. Raza Ullah
	879	539	340	415	- do -	Mr. Zafar Jameel
	367	294	73	260	Insurance claim	Century Insurance Company Limited
	367	192	175	335	- do -	- do -
	467	93	374	457	- do -	- do -
	64	9	55	55	- do -	- do -
	367	294	73	-	- do -	- do -
	367	294	73	315	- do -	- do -
	367	294	73	305	- do -	- do -
	507	95	412	465	- do -	- do -
	367	294	73	305	- do -	- do -
	855	114	741	790	- do -	- do -
	772	340	432	740	- do -	- do -
	618	494	124	567	Tender	Mr. Guldad Khan
Balance c/f	18,670	11,376	7,294	9,455		



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	18,670	11,376	7,294	9,455		
Vehicles	469	375	94	389	Tender	Mr. Shafiq Rehman
	367	294	73	386	- do -	Mr. Syed Yasir
	367	294	73	353	- do -	Mr. Tahir ul Haq
	367	294	73	392	- do -	Mr. Syed Yasir
	1,039	831	208	730	- do -	Mr. Syed M Saeed
	560	441	119	493	- do -	Mr. Farhan Mehboob
	678	542	136	489	- do -	Mr. Imran Khan
	678	542	136	515	- do -	Mr. M. Baktyar Jan
	618	494	124	492	- do -	Mr. Syed Mohammad Saeed
	618	494	124	506	- do -	Mr. Abar Khan
	618	494	124	509	- do -	Mr. Tahir ul Haq
	367	294	73	382	- do -	Mr. Muzafar Khan
	367	294	73	357	- do -	- do -
	367	294	73	346	- do -	Mr. Tahir ul Haq
	647	518	129	532	- do -	Mr. Abdul Basit
	367	294	73	383	- do -	Mr. Yasir Ahmad
	678	542	136	550	- do -	Mr. Gul Quraish
	678	542	136	570	- do -	Mr. Jahanzeb Khan
	739	591	148	660	- do -	Mr. Zaheer Ullah
	749	561	188	569	- do -	Mr. Imran Khan
	312	250	62	358	- do -	Mr. Imran Ahmed
	367	294	73	300	- do -	Mr. Tahir ul Haq
	367	294	73	350	- do -	- do -
	367	294	73	350	- do -	- do -
	367	294	73	350	- do -	- do -
	367	294	73	350	- do -	- do -
Power and other installation	704	242	462	450	Tender	Mr. Sahab Zada
	704	330	374	375	Negotiation	Ms. Rehana Salman
Office equipment	270	156	114	109	Tender	Shahbaz Traders
	210	135	75	84	Negotiation	Ms. Rehana Salman
Plant and machinery	26,235	12,447	13,788	14,853	Group policy	PMFTC, Inc. (Philippines)
	<u>60,278</u>	<u>35,431</u>	<u>24,847</u>	<u>36,987</u>		



Notes to and Forming Part of the Financial Statements

37. SUBSEQUENT EVENTS

37.1 Dividend and appropriation

Subsequent to December 31, 2011, the Board of Directors has proposed a final dividend of Rs Nil per share (2010: Rs 2.5 per share) amounting to a total dividend of Rs Nil (2010: Rs 153.951 million) in its meeting held on March 12, 2012 for approval of the members at the Annual General Meeting to be held on April 09, 2012. The Board has also approved transfer from / appropriation to general reserve of Rs Nil (2010: Rs 420 million).

37.2 Federal excise duty

During the year certain show cause notices were served on the Company by the tax authorities which inter alia stated that during the period October 2008 to March 2011 it (the Company) had imported various consignments of 'Marlboro' and certain taxes and duties, i.e. Federal Excise Duty (FED), sales tax and withholding income tax paid on these imports were not based on their imported value, resultantly, there is a short fall in payments of FED, sales tax and withholding income tax which aggregates to Rs 400 million.

The management of the Company is of the view that in accordance with the applicable legal framework the aforementioned taxes and duties should be based on the retail price of 'Marlboro' printed on its packet. Subsequent to the year ended December 31, 2011 the Company has filed a writ petition in the High Court of Sindh requesting it to declare the aforementioned notices of no legal effect and that the FED is payable on the retail price printed on packets of imported cigarettes and the retail price so printed is conclusive for the purpose of determining the liability for FED. Further, it has requested for granting an injunction restraining tax authorities from taking any coercive action against the Company.

38. DATE OF AUTHORISATION FOR ISSUE

38.1 These financial statements were authorised for issue on March 12, 2012 by the Board of Directors of the Company.

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

ARPAD KONYE
Chairman & Chief Executive

DAVID CHARLES ABBOTT
Director

Karachi : March 12, 2012



Pattern of Holding of the Shares Held by The Shareholders

AS AT DECEMBER 31, 2011

INCORPORATION NUMBER -0002832

NUMBER OF SHAREHOLDERS	SHARE HOLDING			TOTAL SHARES HELD
	From	–	To	
918	1	–	100	22,108
411	101	–	500	107,003
150	501	–	1000	104,576
237	1001	–	5000	481,718
38	5001	–	10000	270,316
5	10001	–	15000	61,037
1	15001	–	20000	16,387
1	20001	–	25000	21,206
1	25001	–	30000	28,915
1	35001	–	40000	36,601
1	40001	–	45000	44,526
1	45001	–	50000	46,255
1	200,001	–	205,000	204,283
2	12,315,001	–	12,320,000	24,632,116
1	35,500,001	–	35,505,000	35,503,294
1,744			TOTAL	61,580,341

CATEGORIES OF SHAREHOLDERS	SHARES HELD	PERCENTAGE
Directors, Chief Executive Officer, their spouses and minor children	7	0.00
Associated Companies, Undertakings and related parties	60,135,410	97.65
Banks, Development Financial institutions, Non Banking Financial Institutions	216,654	0.35
Insurance Companies	21,206	0.03
Modarabas and Mutual Funds	3,786	0.00
Shareholders holding 10% and above	60,135,410	97.65
General Public		
Local	1,083,738	1.80
Others		
(a) Joint Stock Companies	54,124	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.

ARPAD KONYE
Chairman & Chief Executive



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

CATEGORIES OF SHAREHOLDERS	<u>NO. OF SHARES HELD</u>
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	
Philip Morris Investments B.V.	47,819,356
Philip Morris Brands Sarl	12,316,061
	<u>60,135,417</u>
DIRECTORS, CEO, THEIR SPOUSE AND MINOR CHILDREN	
Mr. Arpad Konye	1
Mr. Nicolas Floros	1
Mr. Paul Norman Jenelle	1
Mr. David Charles Abbott	1
Ms. Eunice Hamilton	1
Mr. Mohammad Farooq Shakoor	1
Mr. Asmer Naim	1
	<u>7</u>
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. Pakistan Reinsurance Company Limited	21,206
5. CDC - Trustee AKD Index Tracker Fund	3,728
6. Summit Bank Limited	9,000
	<u>37,305</u>
<u>SHAREHOLDERS HOLDING 10% OR MORE</u>	
1. Philip Morris Investments B.V.	47,819,356
2. Philip Morris Brands Sarl	12,316,061
	<u>60,135,417</u>



Financial Highlights for Last Six Years

	Year ended December 31					Year ended June 30
	2011	2010	2009	2008	2007 (Six months period ended)	2007
	(Rupees in thousand)					
Share Capital	615,803	615,803	615,803	615,803	615,803	615,803
Reserves & Surplus	5,947,375	6,549,018	6,204,126	5,378,158	4,899,018	4,951,190
Share Holders' Equity	6,563,178	7,164,821	6,819,929	5,993,961	5,514,821	5,566,993
Liabilities against assets subject to finance lease	-	-	-	-	-	-
Deferred Liabilities	221,000	472,000	391,000	392,904	312,000	286,820
TOTAL CAPITAL EMPLOYED	6,784,178	7,636,821	7,210,929	6,386,865	5,826,821	5,853,813
Fixed assets - NET	3,943,202	3,847,679	3,845,739	3,322,278	2,804,956	2,805,140
Long term investment	1	1	1	1	1	1
Long term loans deposits & prepayments	57,371	52,099	43,456	39,315	27,386	13,996
Working capital	2,783,604	3,737,042	3,321,733	3,025,271	2,994,478	3,034,676
TOTAL ASSETS	6,784,178	7,636,821	7,210,929	6,386,865	5,826,821	5,853,813
Turnover	32,296,490	33,910,750	30,475,781	24,937,931	10,271,943	22,425,268
(Loss) / Profit before tax	(530,749)	876,679	1,500,133	1,745,319	672,441	2,631,296
(Loss) / Profit after tax & adjustment	(454,806)	572,562	958,384	1,105,400	471,261	1,737,633
Dividend declared (Cash)	-	153,951	246,321	554,223	230,926	357,167
Bonus shares	-	-	-	-	-	-
	(Rupees)					
Break-up value of shares (inclusive of Fixed Assets Revaluation)	106.58	116.35	110.75	97.34	89.55	90.40
Break-up value of shares (excluding Fixed Assets Revaluation)	106.58	116.35	110.75	97.34	89.55	90.40
Dividend (Rupees Per Share)	-	2.50	4.0	9.00	3.75	5.80
Bonus shares	-	-	-	-	-	-
Net Earnings per Share	(7.39)	9.30	15.56	17.95	7.65	28.22



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

INTRODUCTION:

We have reviewed the accompanying condensed interim balance sheet of **LAKSONPREMIER TOBACCO COMPANY (PVT) LIMITED (FORMERLY: PREMIER TOBACCO COMPANY (PVT) LIMITED ("the Company")** as at December 31, 2011 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, 2011, is not presented, in all material respects, in accordance with the approved Accounting Standards as applicable in Pakistan for interim financial reporting.

OTHER MATTER:

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 **PHILIP MORRIS (PAKISTAN) LTD (FORMERLY 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
HYDER ALI BHIMJI



Condensed Interim Balance Sheet as at December 31, 2011 (Un-audited)

	December 31, 2011 Rupees	June 30, 2011 Rupees
<u>ASSETS:</u>	-	-
<u>EQUITY & LIABILITIES:</u>		
<u>SHARE CAPITAL:</u>		
<u>Authorized Capital:</u>		
1,000,000 Ordinary Shares of Rs. 10 each	10,000,000	10,000,000
<u>Issued, Subscribed & Paid-up Capital:</u>		
103 Ordinary 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.

DAVID CHARLES ABBOTT
Chief Executive

MUJTABA HUSSAIN
Director

Karachi : the February 15, 2012



Condensed Interim Profit & Loss Account (Un-audited)

FOR THE HALF YEAR ENDED DECEMBER 31, 2011

	December 31, 2011 Rupees	December 31, 2010 Rupees
<u>Income:</u>	-	-
<u>Expenditure:</u>	-	-
Income/Loss for the year	-	-

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

Karachi : the February 15, 2012

DAVID CHARLES ABBOTT
Chief Executive

MUJTABA HUSSAIN
Director



Condensed Interim Cash Flow Statement (Un-audited)

FOR THE HALF YEAR ENDED DECEMBER 31, 2011

	December 31, 2011	December 31, 2010
	<u>Rupees</u>	<u>Rupees</u>
Cash Flow from Operating Activities	-	-
Cash Flow from Investing Activities	-	-
Cash Flow from Financing Activities	-	-
Net Increase/ (Decrease) in Cash and Bank Balance	-	-
Cash and Bank Balances at the beginning of the year	-	-
Cash and Bank Balances at the end of the year	-	-

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

Karachi : the February 15, 2012

DAVID CHARLES ABBOTT
Chief Executive

MUJTABA HUSSAIN
Director



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

FOR THE HALF YEAR ENDED DECEMBER 31, 2011

	Issued Subscribed & Paid-up Capital	General Reserve	Accumulated Profit/(Loss)	Total
	(Rupees)			
Balance as at July 01, 2010	-	-	-	-
Profit / (Loss) for the year	-	-	-	-
Balance as at June 30, 2011	-	-	-	-
Profit / (Loss) for the year	-	-	-	-
Balance as at December 31, 2011	-	-	-	-

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

DAVID CHARLES ABBOTT
Chief Executive

MUJTABA HUSSAIN
Director

Karachi : the February 15, 2012



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

FOR THE HALF YEAR ENDED DECEMBER 31, 2011

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 fully owned by Philip Morris (Pakistan) Limited (formerly Lakson Tobacco Company Ltd). The Philip Morris (Pakistan) Limited (formerly Lakson Tobacco Company Ltd) has sufficient facilities to meet the tobacco production requirements so LaksonPremier Tobacco Company (Pvt) Ltd (formerly Premier Tobacco Company (Pvt) Limited) 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 condensed 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 ended June 30, 2011.

December 31, 2011 Rupees	December 31, 2010 Rupees
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4. **TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS/RELATED PARTY:**

Expenses borne by Holding Company:

Filing fees for Annual Returns to SECP

Form 29 Form A with Registration of Joint Stock Companies

Auditors Remuneration

7,000	4,000
68,000	30,000

5. **DATE OF AUTHORIZATION FOR ISSUE:**

These financial statement were authorized for issue on 15-02-2012 by the Board of Directors of the Company.

6. **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.

DAVID CHARLES ABBOTT
Chief Executive

MUJTABA HUSSAIN
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 09, 2012 and at any adjournment thereof.

Signed this _____ day of _____ 2012.

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.

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Philip Morris (Pakistan) Limited

(Formerly Lakson Tobacco Company Ltd.)

4th Floor, Bahria Complex-III, M.T. Khan Road,
Karachi - 74000, Pakistan.