Khyber Tobacco Company Limited

61st Annual Report

June 2016

KPIs

		2016	2015	16 vs 15
Sales Revenue	**(Rupees in Million)**	**1,588.58**	1,541.82	46.76
- Local Sales	**(Rupees in Million)**	**1,537.59**	1,333.68	203.91
- Export Sales	**(Rupees in Million)**	**50.99**	208.15	(157.16)
Profit After Tax	**(Rupees in Million)**	**69.61**	101.43	(31.82)
Earning Per Share	**(Rupees per Share)**	**57.92**	84.39	(26.47)
Shareholder's Equity	**(Rupees in Million)**	**608.99**	531.80	77.19
Return on Equity	**(%)**	**11.15**	18.54	(7.39)
Current Ratio		**2.51**	2.07	0.44

Vision Statement

To outperform nationally and internationally and be on top through Teamwork, Quality, Brand Recognition and Customer Services

Mission Statement

To expand the presence of our brands and operations nationally and globally through a network of reliable partners, suppliers and distributors

Trust

* We build confidence in our people, principals, customers and brands by fulfilling commitments.
* We believe our people work best when they are empowered.
* We value the capabilities and intentions of all stakeholders.
* We ensure consistent quality of service at all ends
* We encourage fairness and respect the opinion and emotions of others.

Integrity

* Be honest and straightforward to everyone.
* Always try to do the right things.
* Our respect to individuals drives success.
* We help our communities live a better life.
* We operate within the spirit of law and encourage transparency.

Passion to Win

* We are determined to deliver the best.
* We dare our people to take risks and accept challenges.
* We have a compelling desire to excel with knowledge, experience and dedication.
* We combine our spirit and energy to continuously raise our expectations.

Leadership

* We lead from the front and have a clear vision where we are going.
* Our leaders are role models who listen, coach, develop and recognize talent.
* We promote an open and diverse culture where individuals are empowered to contribute to the best of their potential.
* We believe in setting trends rather than following the conventional methods of business.
* We work together to achieve collective results.

Ownership

* We are one family.
* We take charge of responsibilities towards our principals, business, customers and communities.
* We hold ourselves accountable for whatever we do .
* Our processes, systems and decisions are based on input from concerned stake holders.

Contents

Corporate Information

Board of Directors

Mr. Waseem Ur Rehman	Chief Executive / Executive Director
Mr. Pir Farhan Shah	Non-Executive Director
Mr. Liaqat Ali Khan	Executive Director
Mr. Hazrat Bilal	Non-Executive Director
Mr. Fazli Rabi	Non-Executive Director
Mr. Shafiq Afzal Khan	Non-Executive Director
Mr. Khalil Ur Rehman	Non-Executive Director

Audit Committee

Mr. Pir Farhan Shah	Chairman
Mr. Fazli Rabi	Member
Mr. Shafiq Afzal Khan	Member

Human Resource Committee

Mr. Liaqat Ali Khan	Chairman
Mr. Pir Farhan Shah	Member
Mr. Shafiq Afzal Khan	Member

Senior Management

Mr. Waseem Ur Rehman	Chief Executive

Company Secretary

Mr. Liaqat Ali Khan

Bankers

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

External Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

Internal Auditors

Shahid Ahmad & Co
Chartered Accountants

Registered Office

Khyber Tobacco Company Limited
Nowshera Road, Mardan
Telephone: +92-937-844668,844639
Fax: +92-937-843329

Share Registrar

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

Statement of Ethics and Business Practices

All employees of Khyber Tobacco Company Limited, hereinafter called KTC, shall:-

Abidance of Laws / Rules

• Conform to and abide by the KTC rules and obey all lawful orders and directives which may from time to time be given by any person or persons under whose jurisdiction, superintendence or control they may for the time being, be placed. They shall comply with and observe all applicable laws, regulations and KTC policies.

• Not bring or attempt to bring any political or other pressure / influence directly or indirectly to bear on the authorities / superior officers or indulge in derogatory pamphleteering, contribute or write letters to the news papers, anonymously or in their own name with an intent to induce the authority / superior officers to act in a manner inconsistent with rules, in respect of any matter relating to appointment, promotion, transfer, punishment, retirement or for any other conditions of service of employment.

Integrity

• Conduct themselves with the highest standards of ethics, professional integrity and dignity in all dealings with the public, clients, employees, and not engage in acts discreditable to KTC, the profession and the nation. If they become aware of any irregularity that might affect the interests of KTC, they shall inform the senior management immediately.

• Maintain all books, data, information and records with scrupulous integrity, reporting in an accurate and timely manner all transactions / reports.

• Avoid all such circumstances in which there is conflict of personal interest, or may appear to be in conflict, with the interests of KTC or its stakeholders.

• Not use their employment status to seek personal gain from those doing business or seeking to do business with KTC, nor accept any such gain if offered. They shall not accept any gift, favor, entertainment or other benefits the size or frequency of which exceeds normal business contacts from a constituent or a subordinate employee of KTC or from persons likely to have dealings with KTC and candidates for employment in KTC.

Confidentiality

• Maintain the privacy and confidentiality of all the information acquired during the course of professional activities and refrain from disclosing the same unless otherwise required by statutory authorities / law. All such information will remain as a trust and will only be used for the purpose for which it is intended and will not be used for the personal benefits of any individual(s). Inside information about KTC's customers / affairs shall not be used for their own gain or for that of others either directly or indirectly.

Professionalism

• Serve KTC honestly and faithfully and shall strictly serve KTC's affairs and the affairs of its constituents.

Statement of Ethics and Business Practices

They shall endeavor to promote the interest and goodwill of KTC and shall show courtesy and attention in all transactions / correspondence with officers of the Government, Banks & Financial Institutions, other establishments dealing with KTC, KTC's constituents and the general public.

• Disclose and assign to KTC all interests in any invention, improvement, discovery or work of authorship that they may make or conceive and which may arise out of their employment with KTC. If their employment is terminated, all rights to the property and information generated or obtained as part of their employment relationship will remain the exclusive property of KTC.

Business / Work Ethics

• Respect fellow colleagues and work as a team. They shall at all times be courteous and not let any personal differences affect their work. They will treat every customer of KTC with respect and courtesy.

• Ensure good attendance and punctuality. For any absence during working hours, they shall obtain written permission of their immediate supervisor. They shall not absent themselves from their duties, nor leave their station over night, without having first obtained the permission of the competent authority.

• Maintain a standard of personal hygiene and dress appropriately for attendance at work. Their appearance must inspire confidence and convey a sense of professionalism.

• As personal responsibility, safeguard both the tangible and intangible assets of KTC that are under their personal control and shall not use KTC assets for their personal benefits except where permitted by KTC. They shall not use any KTC facilities including a telephone to promote trade union activities, or carry weapons into KTC premises unless authorized by the management, or carry on trade union activities during office hours, or subject KTC officials to physical harassment.

• Fulfill their responsibilities to fellow employees, by helping in maintaining a healthy and productive work environment and shall not engage in the selling, manufacturing, distributing and using any illegal substance or being under the influence of illegal drugs while at work.

• Ensure strict adherence to all health and safety policies as may be implemented from time to time by KTC.

• Intimate the Human Resource department of any changes in the personal circumstances relating to their employment or benefits.

• Guarantee in their private capacity the pecuniary obligation of another person or agree to indemnify in such capacity any person from loss.

Financial Performance

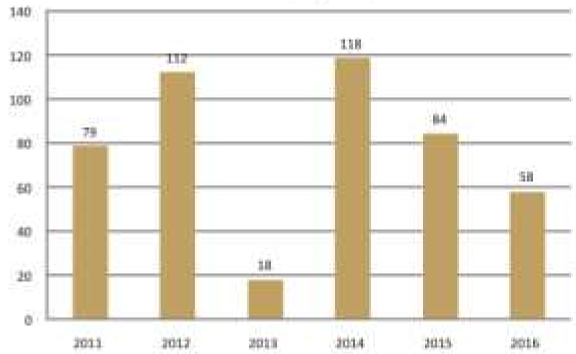
		2016	2015	2014	2013	2012	2011
Financial Performance-Profitability		Rupees in Million					
Gross Profit Margin	%	23.29	22.51	26.82	9.84	29.63	34.77
Net Profit Margin	%	9.18	11.49	15.99	2.38	19.24	22.25
Return on equity	%	11.15	18.54	32.00	7.40	54.10	90.08
Operating Performance-Liquidity							
Total Asset Turnover	Time	0.67	0.90	1.10	1.10	0.91	2.36
Fixed Asset Turnover	Time	2.12	2.36	2.50	2.71	2.47	25.40
Inventory Turnover	Time	1.16	1.77	2.45	4.21	2.36	3.38
Inventory Turnover	Days	315.60	206.30	149.00	86.70	154.66	108.07
Receivable turnover	Time	3.93	7.61	8.57	5.34	7.46	8.12
Receivable turnover	Days	92.92	47.95	42.59	68.35	48.93	44.94
Payable Turnover	Time	2.70	4.11	3.68	2.86	4.85	7.15
Payable Turnover	Days	135.06	88.74	99.00	127.62	75.26	51.05
Current Ratio		2.51	2.08	2.48	1.59	1.82	1.68
Quick Ratio		0.78	0.78	0.83	0.89	0.72	0.79
Capital Market/Capital Structure Analysis							
Earning per share (pre tax)	Rs	67.58	114.02	146.61	31.82	120.97	92.02
Earning per share (after tax)	Rs	57.92	84.39	118.38	17.90	112.26	78.60
Debt: equity	Rs	0.62	0.76	0.53	1.19	1.17	1.34

Financial Performance

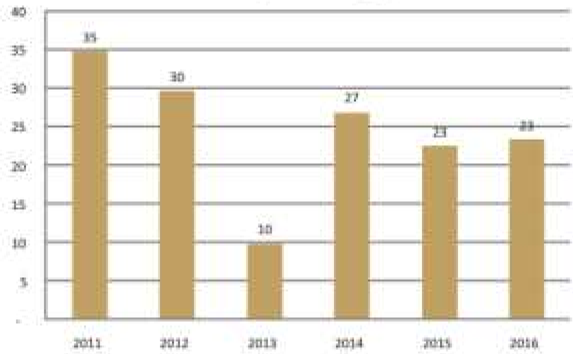
	2016	2015	2014	2013	2012	2011
Summary of Balance sheet	Rupees in Million					
Share Capital	12.02	12.02	12.02	12.02	12.02	12.02
Shareholder's funds/Equity	624.32	547.13	444.61	293.57	249.37	104.88
Capital employed	624.32	547.13	444.61	293.57	249.37	104.88
Property, plant & Equipment	342.28	371.67	375.70	336.89	283.53	16.71
Long term assets	347.82	375.88	378.40	338.34	284.49	17.67
Net Current Assets	475.64	380.97	281.68	183.72	221.95	91.83
Summary of Profit and Loss						
Sale	758.26	882.72	890.00	914.46	701.35	882.72
Gross Profit	176.63	198.67	238.74	90.00	206.81	198.67
Operating Profit	75.06	117.40	181.03	41.24	146.65	117.40
Profit before tax	81.22	137.04	176.21	38.26	145.39	137.04
Profit after tax	69.61	101.43	142.28	21.73	134.92	101.43
Summary of Cash Flows						
Net cash flow from operating activities	(19.07)	(38.06)	107.40	109.73	13.52	21.83
Net cash flow from investing activities	(14.45)	62.56	(138.10)	(74.08)	(17.40)	(9.25)
Net cash flow from financing activities	-	-	-	-	-	-
Changes in cash and cash equivalents	(33.53)	24.51	(30.70)	35.65	(3.88)	12.58
Cash and cash equivalents- Year end	17.67	51.19	26.69	57.39	21.74	25.62

Graphical Analysis

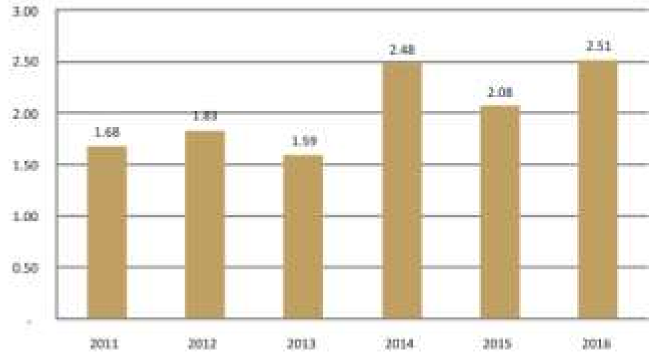
Earning Per Share-after tax
(Rupees)



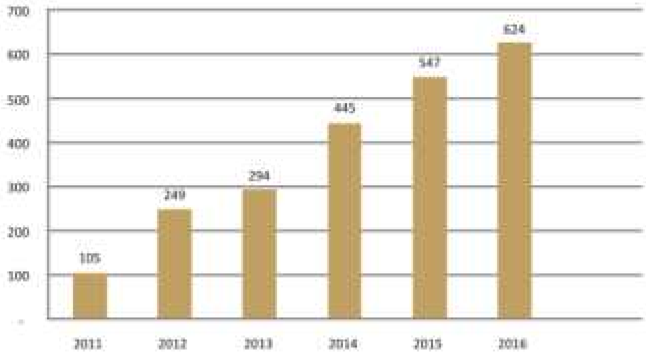
Gross Profit Margin
(Percentage)



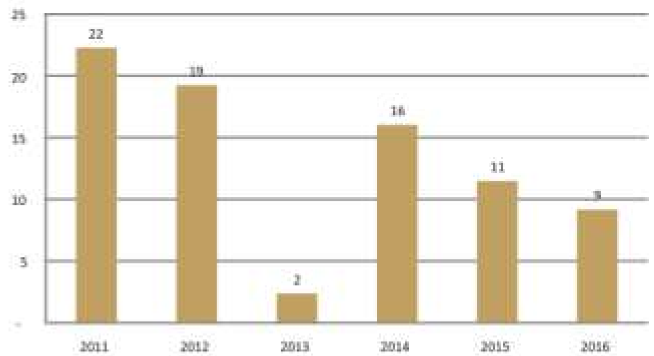
Current Ratio
(Times)



Shareholder's Equity
(Rs. in Million)



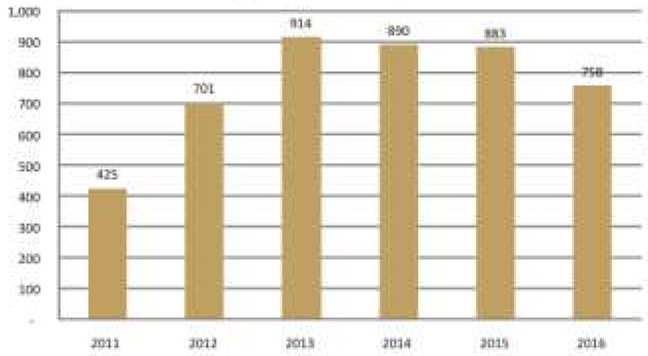
Net Profit Margin
(Percentage)



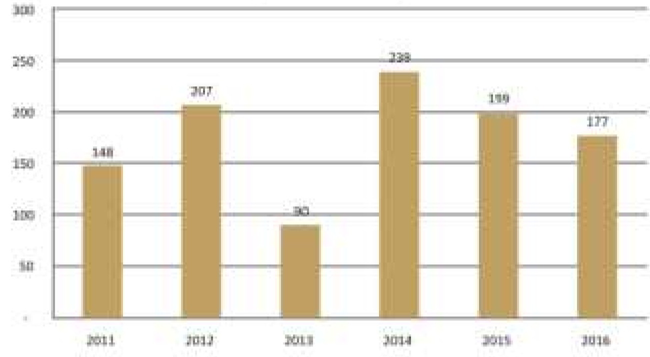
Sales Revenue vs Profit for the year
(Rs. in Million)

Graphical Analysis

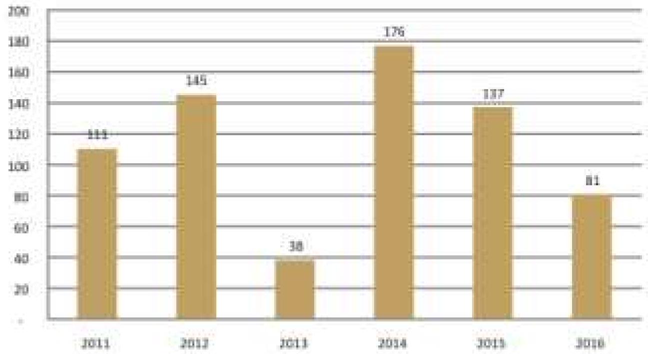
Net Sales
(Rs. in Million)



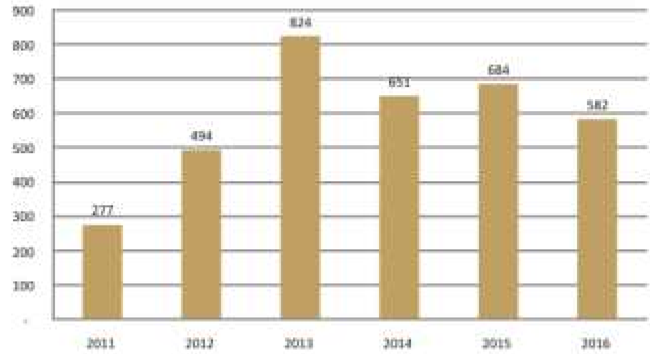
Gross Profit
(Rs. in Million)



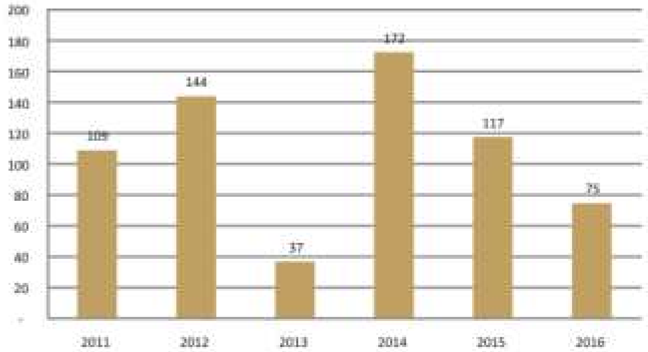
Profit before tax
(Rs. in Million)



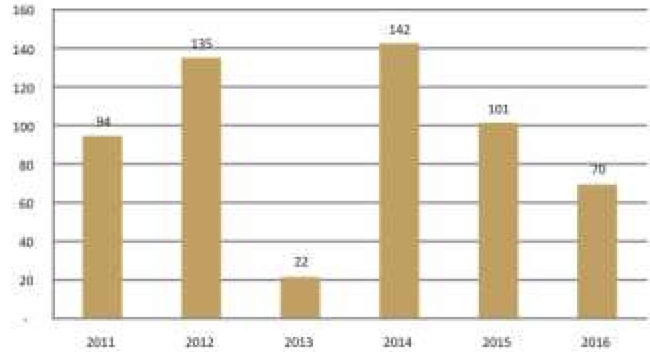
Cost of Sales
(Rs. in Million)



Operating Profit
(Rs. in Million)



Profit after tax
(Rs. in Million)



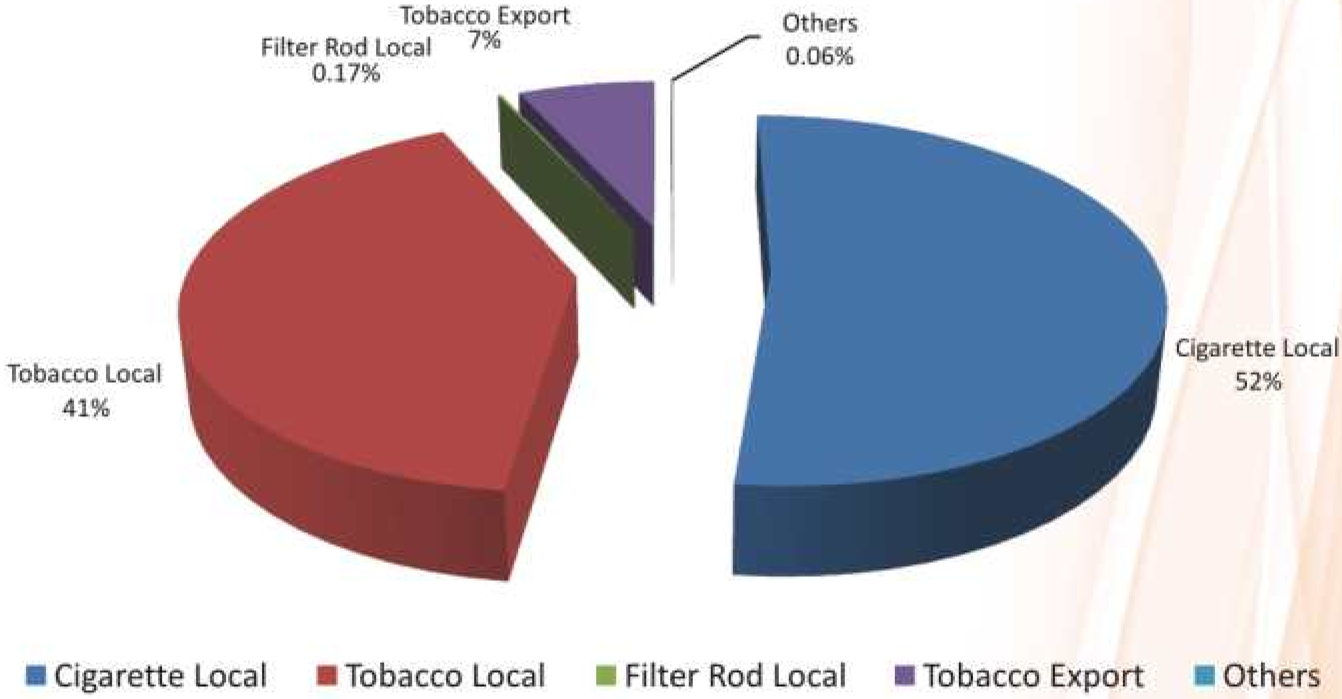
Vertical Analysis

	2016	2015	2014	2013	2012	2011
Profit and Loss Account						
Net Sales	100.0	100.0	100.0	100.0	100.0	100.0
Cost of Sales	76.7	77.5	73.2	90.2	70.4	65.2
Gross Profit	**23.3**	**22.5**	**26.82**	**9.8**	**29.6**	**34.8**
Administrative Expenses	9.5	7.3	5.17	3.7	3.4	3.3
Distribution Cost	3.1	0.9	1.11	1.8	4.5	4.3
Other Operating Expenses	0.8	1.0	1.3	0.3	1.2	1.5
Operating Profit	**9.9**	**13.3**	**19.29**	**4.0**	**20.6**	**25.7**
Finance Cost	0.6	0.3	0.54	0.3	0.2	0.6
Other Operating Income	1.4	2.5	1.1	0.5	0.3	0.9
Profit before Taxation	**7.9**	**10.5**	**17.69**	**4.2**	**20.7**	**26.1**
Taxation	1.5	4.0	3.8	1.8	1.5	3.8
Profit for the Year	**6.4**	**6.4**	**13.9**	**2.4**	**19.2**	**22.3**
Balance Sheet						
Share Capital & Reserves	54.8	49.2	52.3	35.2	32.2	42.8
Non-Current Liabilities	17.5	18.9	25.4	27.4	3.0	1.9
Current Liabilities	27.7	31.9	22.3	37.4	64.8	55.3
Total Equity and Liabilities	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Non-Current Assets	30.5	33.8	44.5	40.6	36.7	7.2
Current Assets	69.5	66.2	55.5	59.4	63.3	92.8
Total Assets	**100.0**	**100.0**	**100**	**100.0**	**100.0**	**100.0**

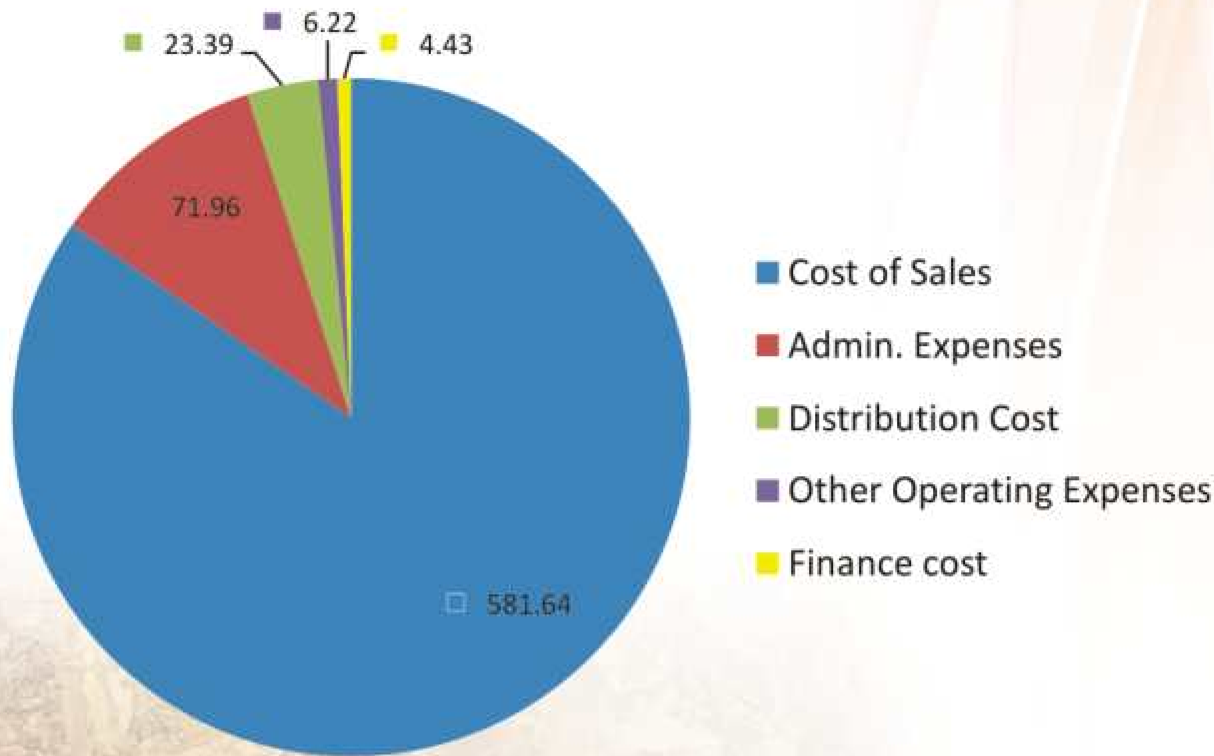
Horizontal Analysis

	2016	2015	2014	2013	2012	2011
Profit and Loss Account						
Net Sales	78.6	107.9	109.6	115.4	65.2	100.0
Cost of Sales	110.1	147.0	135.2	197.7	78.2	100.0
Gross Profit	**19.7**	**34.6**	**61.7**	**(39.0)**	**40.8**	**100.0**
Administrative Expenses	410.1	357.6	226.1	141.7	69.7	100.0
Distribution Cost	28.4	(57.7)	(45.8)	(9.9)	72.1	100.0
Other Operating Expenses	0.2	45.0	80.4	(54.5)	32.3	100.0
Operating Profit	**(31.2)**	**7.6**	**57.4**	**(66.4)**	**32.3**	**100.0**
Finance Cost	84.9	15.0	101.5	24.8	(47.1)	100.0
Other Operating Income	171.2	473.1	140.1	16.9	(39.1)	100.0
Profit before Taxation	(26.6)	23.9	42.4	(65.4)	31.5	**100.0**
Taxation	(28.0)	120.8	110.9	2.4	(35.1)	100.0
Profit for the Year	**(26.3)**	**7.4**	**30.7**	**(77.0)**	**42.8**	**100.0**
Balance Sheet						
Share Capital & Reserves	495.3	421.7	323.9	179.9	137.8	100.0
Non-Current Liabilities	100.0	100.0	100.0	100.0	100.0	100.0
Current Liabilities	132.2	161.1	39.9	129.6	97.6	100.0
Total Equity and Liabilities	**364.3**	**353.2**	**246.7**	**240.0**	**215.9**	**100.0**
Non-Current Assets	1,868.9	2,027.7	2,042.0	1,815.2	1,510.4	100.0
Current Assets	247.5	223.1	107.3	117.7	115.4	100.0
Total Assets	**364.3**	**353.2**	**246.7**	**240.0**	**215.9**	**100.0**

Breakup of Sales
(Percentage)



Breakup of Costs
(Rupees in Million)



Notice of Annual General Meeting

Notice is hereby given that the 61st Annual General Meeting of the members of Khyber Tobacco Company Limited will be held on the 31st of October, 2016 at 11.00 a.m. at its registered office, Nowshera Road, Mardan to transact the following business;

ORDINARY BUSINESS

1. To confirm the minutes of the 60th Annual General Meeting held on 31 October, 2015.
2. To receive, consider and adopt the audited financial statements of the company for the year ended 30 June, 2016 together with the Directors' and Auditors' Reports thereon.
3. To approve the final cash dividend @ Rs. 10 per share i.e.100 % for the year ended 30 June 2016 as recommended by the Board of Directors.
4. To appoint Auditors for the year ending 30 June 2017 and to fix their remuneration. The present auditors M/s KPMG Taseer Hadi & Co. Chartered Accountants will stand retired on the conclusion of this meeting and being eligible have offered themselves for re-appointment.
5. To transact any other business with the permission of the Chair.

By Order of the Board

Pir Farhan Shah
Company Secretary

09 October, 2016
The Mardan

Notes:

1. **Closure of Share Transfer books:**
The Share Transfer Books of the Company will remain closed from 24 October 2016 to 31 October 2016 (both days inclusive). Transfers received in order at the office of the Company's Share Registrar, Central Depository Company of Pakistan Limited, CDC House, 99-B, Block 'B', S.M.C.H.S. Main Shahrah-e-Faisal, Karachi, at the close of business on 21 October 2016 will be in time to determine the above mentioned entitlement.

2. **Participation in the Annual General meeting:**
A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy and such proxy will have the right to attend, speak and vote in place of that member. Forms of proxy must be lodged with the Secretary of the Company at the registered office of the Company not less than 48 hours before the time of the Meeting.

3. **Guidelines for CDC Account holders:**
Attendance of members who have deposited their shares into Central Depository Company of Pakistan Limited shall be in accordance with the following;

a) **For attending the meeting:**

i) In case of individuals, the account holder or sub account holder and/or the person whose securities are in group account and their registration details are uploaded as per regulations, shall authenticate his/her identity by showing his/her original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting.

ii) In case of corporate entities, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

b) **For appointing proxies:**

i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per regulations, shall submit the proxy form as per the above requirement.

ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

iii) Attested copies of CNIC or the passport of the beneficial owner and of the proxy shall be furnished with the proxy form.

iv) The proxy shall produce his/her original CNIC or original passport at the time of meeting.

v) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the person nominated to represent and vote on behalf of the corporate entity shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

4. **Change of Address:**
Members are requested to promptly notify any change in their addresses to our Share Registrar, Central Depository Company of Pakistan Limited, CDC House, 99-B, Block 'B', S.M.C.H.S. Main Shahrah-e-Faisal, Karachi.

1	Rate of tax deduction for filer of income tax returns	12.5%
2	Rate of tax deduction for non-filer of income tax returns	20%

5. **Confirmation for filing status of Members:**
All members of the company are hereby informed that the rates of deduction of income tax from dividend has been revised through Finance Act, 2016 effective 1st July 2016 as follows:

To enable the Company to make tax deduction on the amount of cash dividend at the rate of 12.5% instead of 20%, shareholders whose names are not entered into the Active Tax-payers List available on the website of FBR, although they are filers, are advised to immediately make sure that their names are entered into the Active Tax-payers List, otherwise tax on their cash dividend will be deducted at the rate of 20% instead of 12.5%.

6. **CNIC/NTN number on dividend warrant:**
Members are requested to provide attested photocopies of their CNIC to the Company at its registered address in order to comply with SRO 831 (1) 2012 of 5 July 2012 which requires that the dividend warrant should bear the Computerized National Identity Card (CNIC) number of the registered member. Issuance of dividend warrants will be subject to submission of CNIC by individual and NTN by corporate shareholders.

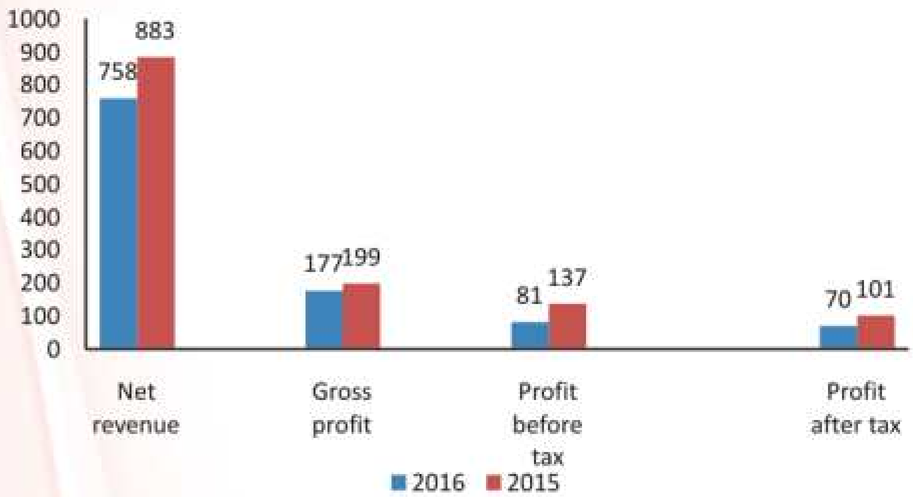
DIRECTORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2016

I; on behalf of the Board of Directors of Khyber Tobacco Company Limited take great pleasure in presenting the 61" Annual Report and the audited financial statements along with the auditors' report thereon for the year ended June 30, 2016.

THE COMPANY'S FINANCIAL RESULTS

Following is a brief of the Company's financial performance for the year ended 30 June 2016 as compared to the year ended 30 June 2015; (Amounts are presented as Rs. in Millions)



Production and Sales

PRODUCT	UNIT OF MEASUREMENT	PRODUCTION		SALE	
		2016	2015	2016	2015
RE-DRIED TOBACCO	KGS	2,071,656	3,003,441	1,596,185	2,124,302
CUT TOBACCO	KGS	479,962	405,809	85,000	33,000
CIGARETTES	STICKS (In Million)	432.90	428.53	431.16	422.83

During the year under review, the company re-dried 2.1 million Kgs tobacco at its Green Leaf Threshing plant as compared to 3.0 million Kgs in the financial year 2015. During the year, the export of re dried tobacco has declined to 0.356M Kgs compared to 0.397M Kgs in the year 2015.Local sale of re-dried tobacco has declined to 1.2M Kgs in the year under review compared to local sale of 1.7M Kgs in the year 2015 showing a decline of about 29%.

The production of cut tobacco has increased to 0.479 million Kgs in the current year under review compared to 0.405 million Kgs in the last financial year.

During the year, the production of cigarettes has increased from 428.53 million sticks in the last financial year to 432.90 million sticks in the year under review. The sale of cigarettes has increased from 422.83 million sticks in 2015 to 431.16 million sticks in the year under review.

Operating Highlights

During the year, the overall gloomy economic, coupled with uncertain energy and law & order situation persisted generally all over the country and specifically in the province; badly affecting the operations and marketing activities of the

Company, although management strived its best for the expansion of the local and international sale of tobacco and cigarettes but they succeeded in their endeavors up to an extent.

As in previous years, the management maintained its focus on the export sales of the Company. However, the Company's export sales decreased significantly from Rs. 208.15 million in Financial Year 2015 to Rs. 50 million in Financial Year 2016. Pakistani Tobacco is facing numerous challenges in the Export market to compete with tobacco of various low cost producing countries in the world. Management is endeavoring not only to maintain but to expand its export market by adding new customers to its existing customer base. This is made more difficult in a situation where the overall exports of the country are declining. Management is focusing on new avenues of export of tobacco in foreign market because of the good demand of Pakistani tobacco as well as the handsome profit margins involved. Management strongly expects to bring lucrative revenues from the export market in the years to come.

Profit before taxation for the year ended 30 June 2016 stood at Rs. 81.0 million compared to profit of Rs. 137.04 million in the previous year. Profit after taxation for the year ended 30 June 2016 amounted to Rs. 69.61 million compared to profit of Rs. 101.43 million in the last financial year. The inability of the company to process sufficient export orders for the re-dried tobacco in the foreign market has been the main cause of decline in the profit this year compared to Financial Year 2015.

Earnings per share of the Company for the year ended 30 June 2016 on its paid up capital stood at Rs. 57.92 as compared to last year's earnings per share of Rs. 84.39.

Balance Sheet

The capital and reserves of the Company have risen to Rs. 624.32 million as compared to Rs. 547.13 million at the end of the last financial year. This remarkable increase in the capital reserves of the company is the evidence of the managements' focus and determination to build a strong capital base of the company.

Plants' performance

The company's management has been striving to upgrade the installed plant & Machinery with the passage of time at all departments. However the installed plant & Machinery is not operated at the optimum level because of the fact that most of the installed plant and machinery is too old and is not running at optimum capacity. Still the management is actively involved in continuous up-gradation and efficient maintenance of the installed plant and machinery in all the departments i.e. GLT (Green Leaf Threshing), PPD (Primary Processing Department), CMD (Cigarette Making Department) and CPD (Cigarette Packing Department).

In spite of the facts mentioned above, during the year under review, the installed plant and machinery operated satisfactorily.

Quality Assurance

Khyber Tobacco Company Limited is a company driven by efficiency and quality consciousness. Strict quality control procedures are applied to ensure that these aims are achieved. Quality standards are being improved continuously with the passage of time to keep abreast with the prevailing quality standards.

Marketing

As we know, the Company has re-started its production of Cigarettes a couple of years ago after a long spell of dependency on only the sale of re-dried tobacco, the Company is facing stiff competition in the local market. The management is striving for the development of its brands in both the local and international market.

As mentioned above, the company's majority of the installed plant and machinery is too old and not operating at the optimum level. This results in the inability of the company to meet the quality requirements of the export market. The Company, thus, has been dependent mainly upon the export of re-dried and cut tobacco and has captured a good market for its re-dried and cut tobacco in the United Arab Emirates, South Africa, Germany, Belgium, Turkey, Egypt and the Philippines.

Health, Safety and Environment

The Company attaches highest priority to the health and safety of its personnel who are an essential and valuable component of its operations. Initiatives including safety meetings, incident reporting, safety audits, good housekeeping and hygiene controls are actively and consistently pursued to instill safe behavior in all personnel.
The Company actively pursues protection of the environment by ensuring that its plant continues to comply with established environmental quality standards at all times. Management is also focusing on meeting the stringent

environmental quality standards prescribed by the 'Environment Protection Authority of Pakistan'.

Social Responsibility

The Company regards itself as a responsible corporate citizen. With the resumption of operating activities, the Company has taken its social responsibilities, particularly towards the local community, very seriously and takes pride in its active participation in the development and welfare of the under-privileged. In the badly affected area of the country both by the energy crises and the law and order situation, the management prefers to provide job opportunities to the local people of the area which greatly helps in the social up gradation of the local masses.

KEY OPERATING AND FINANCIAL DATA

A Summary of key operating and financial data of the company for the last six years is annexed to these financial statements.

DIVIDEND

The Directors have recommended a final cash dividend of Rs. 10 per share i.e. 100% on the issued share capital of the company.

HUMAN CAPITAL

The Company's human resource strategy focuses on maximizing return on investment in the organization's human capital to minimize financial risk. We seek to achieve this by aligning the supply of skilled and qualified individuals and the capabilities of the current workforce with the organization's ongoing and future business plans and requirements to maximize return and to secure the future survival and success.

EMPLOYEE RETIREMENT BENEFITS

The Company is running an unfunded gratuity scheme for all the permanent employees of the company. A provision of Rs. 5.2 million was created in the current year's financial statements for employee benefits.

CORPORATE GOVERNANCE

We ensure best practices of Corporate Governance by adopting a set of processes, customs and policies, to help us direct and control management activities with good business sense, objectivity, accountability and integrity.

We have made corporate governance a system of structuring, operating and controlling the Company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers. We adhere to the best ethical practices and comply with applicable legal and regulatory requirements.

The Statement on Compliance with Code of Corporate Governance is annexed to these financial statements.

THE BOARD

The Board comprises of seven members, of which five are non-executive directors while the remaining two are executive directors. The position of Chairman and Chief Executive Officer are kept separate in line with good governance practices.

The Directors are fully aware of the level of trust that shareholders have in them and the immense responsibility that they have bestowed on them for smooth running of the Company and safe guarding its assets.

For the purpose of ensuring consistency and standardization, the Board has devised formal policies for conducting business and ensures their monitoring through an independent Internal Audit, which continuously ensures adherence to Company policies and reports any deviations observed to the Audit Committee.

BOARD OF DIRECTORS MEETINGS

Legally, the Board is required to meet at least once in each quarter to monitor the Company's performance aimed at effective and timely accountability of its management.

Five (05) meetings of the Board of Directors were held during the year and the attendance of each director is given below. The Directors of the Company did not have any personal interest in decisions taken by the Board in these meetings.

DIRECTORS' ATTENDANCE

	Name of Director	No. of meetings attended
1)	**Mr. Waseem ur Rehman** Chief Executive	2
2)	**Mr. Liaqat Ali Khan** Executive Director	5
3)	**Mr. Muhammad Sayyad** Non-Executive Director	5
4)	**Mr. Bilalzada** Non-Executive Director	1
5)	**Mr. Shafiq Afzal Khan** Non-Executive Director	5
6)	**Mr. Hazrat Bilal** Non-Executive Director	5
7)	**Mr. Khalil Ur Rehman** Non-Executive Director	-
8)	**Mr. Fazli Rabi** Non-Executive Director	2
9)	**Mr. Pir Farhan Shah** Non-Executive Director	-

Committees of the Board

In order to ensure effective implementation of a sound internal control system and compliance with the Code of Corporate Governance, the Board has constituted various committees. Composition of these committees is annexed with this report.

Corporate Governance

The company is committed to high standards of corporate governance to ensure business integrity and upholding the confidence of all the stakeholders. The Board of Directors is accountable to the shareholders for good corporate governance and the management of the company is continuing to comply with the provisions of best practices set out in the Code of Corporate Governance particularly with regard to independence of non-executive directors. The Company remains committed to conduct its business in line with the listing regulations of Pakistan Stock Exchange, which clearly define the role and responsibilities of the Board of Directors and the management. Vision & Mission statements, Core values and Statement of Ethics & Business Practices have been prepared and approved by the Board. Significant policies as required under the Code of Corporate Governance have been framed and reviewed by the Board and shall be approved shortly.

The following specific statements are being given to comply with the requirements of the Code of Corporate Governance;

There has been no transaction in the shares of the Company by the Chief Executive Officer, Directors, Company Secretary and their spouses and minor children during the year under review.
The financial statements prepared by the management of the Company fairly present its state of affairs, the results of its operations, cash flows and changes in equity.
The Company has maintained proper books of account. Appropriate accounting policies have been adopted and consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
The system of internal control is sound in design and has been effectively implemented. The system itself is also subject to continuous review for enhancement wherever and whenever necessary.
There are no doubts about the Company's ability to continue as a going concern.
There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

Key operating and financial data of the last six (06) years in summarized form is annexed to this report.

AUDITORS

The Auditors Messrs KPMG Taseer Hadi & Co, Chartered Accountants retire at the conclusion of the 61st Annual General Meeting and being eligible, have offered themselves for reappointment as Auditors for the ensuing financial year ending 30 June 2017.The Audit Committee in their meeting held on 08 October, 2016 has recommended the re-appointment of Messrs KPMG Taseer Hadi & Co, Chartered Accountants as the Auditors for the financial year ending 30 June, 2017.

PATTERN OF SHAREHOLDING

The pattern of shareholding as at June 30, 2016 along with disclosure as required under the Code of Corporate Governance is annexed to these financial statements.

The Directors, Chief Executive, Chief Financial Officer, the Secretary and their spouses and minor children have reportedly carried out no trading in the shares of the Company.

FUTURE PROSPECTS

As mentioned earlier, the management is focusing on the foreign market both for cigarettes and tobacco, especially re-dried tobacco because the foreign market has good demand for Pakistani tobacco. The Company expects a good performance in the tobacco export sector in the coming financial year which will enable the Company to earn handsome profits.

Tobacco export has been the main source of profitability of the Company in the past couple of years. However export of Pakistani Tobacco is faced with numerous problems in the Export market mainly increasing costs, cultivation of non recommended varieties of Tobacco by Pakistani Farmers and Non Tobacco Related Material (NTRM). The company is endeavoring to overcome these hurdles in export of Pakistani Tobacco but the efforts of the Company have not been much fruitful so far.

Management is continuously endeavoring to improve quality of processing to compete with international competitors for which purpose the management is continuously striving on up-gradation of the Green Leaf Threshing Line (GLT). The ability to produce quality product will also enable the Company to expand local sales by working on brand recognition and management.

Acknowledgments

At the end, I on behalf of the Board would like to thank our valued customers for their continued trust in our products. We are making all out efforts to widen the range of our brands with the highest of quality standards. We also thank our vendors, distributors and the financial institutions for their extended cooperation.

This would not have been possible without unwavering support of our shareholders and all the stakeholders; our suppliers, customers, local community and our dedicated and hardworking employees. I would also like to mention here the tireless efforts of the Company's management, members of the Board of Directors and staff at all levels, without their dedication and hard work, the financial and operational results mentioned in this report would not have been accomplished.

On behalf of the Board

Waseem ur Rehman
Chief Executive

08 October 2016

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the 'Code') prepared by the Board of Directors of Khyber Tobacco Company Limited(the 'Company') for the year ended 30 June 2016 to comply with the requirements of Regulation No. 5.19.23(b) of Pakistan Stock Exchange, where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. 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 a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its 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 and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended 30 June 2016.

Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in the note reference where these are stated in the Statement of Compliance:

i. As disclosed in point 5 of the Statement, the Company has not placed the Code of Conduct along with related policies and procedures at its website as required by the Code;

ii. As disclosed in point 6 of the Statement, significant policies of the Company have not been approved by the Board as required by the Code and the Board is in process of developing a mechanism for an annual evaluation of the Board's own performance and policy regarding level of materiality which was required to be put into place as required by the Code; and

iii. As disclosed in point 10 of the Statement, the position of Chief Financial Officer remained vacant during the year and the Board has not made appointment as required by the Code.

KPMG Taseer Hadi

KPMG Taseer Hadi & Co.
Chartered Accountants
Engagement Partner: Riaz Pesnani

Islamabad
08 October 2016

Statement of Compliance
(with the code of Corporate Governance)

Name of Company: Khyber Tobacco Company Limited
Year Ended: 30 June 2016

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 5.19.24 of listing regulations of Pakistan Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the CCG in following manner;

1. The Company encourages representation of independent non-executive directors and directors representing minority interest son its board of directors (the Board). At present the Board includes:

Category	Names
Independent Directors	Mr. Shafiq Afzal
	Mr. Pir Farhan Shah
	Mr. Fazli Rabi
	Mr. Hazrat Bilal
	Mr. Khalil Ur Rehman
Executive Directors	Mr. Liaqat Ali Khan
	Mr. Waseem Ur Rehman
Non-Executive directors	Mr. Shafiq Afzal
	Mr. Pir Farhan Shah
	Mr. Fazli Rabi
	Mr. Hazrat Bilal
	Mr. Khalil Ur Rehman

The independent directors meet the criteria of independence under clause 5.19.1.(b) of the CCG.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.

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

4. All casual vacancies occurring on the Board were filled up by the Directors within 90 days.

Statement of Compliance
(with the code of Corporate Governance)

5. The Company has prepared a "Code of Conduct"and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures. However, the Company is in the process of placing the same on its website.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. These documents except for the significant policies have been approved by the Board. The board is also in the process of developing a mechanism for an annual evaluation of the Board's own performance and policy regarding level of materiality which shall be effective in forthcoming financial year.

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

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the boardfor this purpose and the board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting s were appropriately recorded and circulated.

9. The Board had made arrangements for orientation course for its directors to apprise them of their duties and responsibilities. During the year, three members of the Board have completed the prescribed training under Code of Corporate Governance.

10. There was no new appointment of Company secretary or Internal Auditor, however the position of Chief Financial Officer remained vacant during the year.

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

12. The financial statements of the Company were duly endorsed by the CEO and Senior Finance Manager in place of CFO, before approval of the Board.

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

14. The Company has complied with all the corporate and financial reporting requirements of the CCG except wherever mentioned otherwise.

15. The board has formed an audit committee. It comprises 3 members, all of whom including chairman of the committee, are independent / 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 CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.

Statement of Compliance
(with the code of Corporate Governance)

17. The board has formed a Human Resource and Remuneration committee. It comprises 3 members, of whom majority are non-executive directors and chairman of the committee is an executive director.

18. The Board outsourced its internal audit function to M/s Shahid Ahmed & Co, Chartered Accountants who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

20. The statutory auditors or persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. The closed period, prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchange(s).

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).

23. We confirm that all other material principles enshrined in the CCG have been complied with, except for whatever mentioned otherwise with reasons, towards which reasonable progress is being made by the company to seek compliance by the end of next accounting year.

For & On Behalf of the Board

(Waseem ur Rehman)
Chief Executive

Auditor's Report To The Members

We have audited the annexed balance sheet of **Khyber Tobacco Company Limited** ("the Company") as at 30 June 2016 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion-

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting polices consistently applied except for the change as stated in note 3.13 with which we concur;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2016 and of the profit, its cash flows and changes in equity for the year then ended; and

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

Islamabad
08 October 2016

KPMG Taseer Hadi

KPMG Taseer Hadi & Co.
Chartered Accountants
Engagement Partner
Riaz Pesnani

BALANCE SHEET
AS AT 30 JUNE 2016

	Note	2016 Rupees	2015 Rupees
SHARE CAPITAL AND RESERVES			
Share capital	4	12,018,410	12,018,410
General reserve		3,312,465	3,312,465
Unappropriated profit		608,991,341	531,803,587
		624,322,216	547,134,462
Surplus on revaluation of property, plant and equipment - net of tax	5	127,417,025	148,547,166
NON CURRENT LIABILITIES			
Deferred liabilities	6	71,717,539	61,167,244
CURRENT LIABILITIES			
Trade and other payables	7	315,092,780	354,264,331
		1,138,549,560	1,111,113,203
CONTINGENCIES AND COMMITMENTS	8		

The annexed notes 1 to 28 form an integral part of these financial statements.

CHIEF EXECUTIVE

BALANCE SHEET
AS AT 30 JUNE 2016

	Note	2016 Rupees	2015 Rupees
NON CURRENT ASSETS			
Property, plant and equipment	9	342,282,345	371,666,076
Intangible assets	10	1,527,031	1,452,840
Long term deposits		4,010,411	2,759,151
		347,819,787	375,878,067
CURRENT ASSETS			
Stock in trade	11	546,317,189	459,523,166
Trade debts	12	184,027,433	202,054,271
Advances and prepayments	13	29,829,170	17,233,718
Advance income tax - net		12,890,779	5,229,280
Cash and bank balances	14	17,665,202	51,194,701
		790,729,773	735,235,136
		1,138,549,560	1,111,113,203

DIRECTOR

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 Rupees	2015 Rupees
Turnover - net	15	**758,263,979**	882,717,081
Cost of sales	16	**(581,635,916)**	(684,044,650)
Gross profit		**176,628,063**	198,672,431
Distribution cost	17	**(23,390,907)**	(7,709,517)
Administrative expenses	18	**(71,963,515)**	(64,557,906)
Other operating expenses	19	**(6,218,112)**	(9,001,409)
Finance cost	20	**(4,430,865)**	(4,569,502)
Other income	21	**10,596,842**	24,203,748
Profit before taxation		**81,221,506**	137,037,845
Taxation	22	**(11,611,429)**	(35,610,825)
Profit for the year		**69,610,076**	101,427,020
Earnings per share - Basic and diluted	26	**57.92**	84.39

The annexed notes 1 to 28 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	2016 *Rupees*	2015 *Rupees*
Profit for the year	**69,610,076**	101,427,020
Other comprehensive income for the year		
Items that will not be reclassified to profit and loss account		
Remeasurement gain/(loss) on defined benefit obligation	**181,359**	(3,163,003)
Related tax	**(54,132)**	948,901
	127,227	(2,214,102)
Total comprehensive income for the year	**69,737,303**	99,212,918

The annexed notes 1 to 28 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 Rupees	2015 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		81,221,506	137,037,845
Adjustments for:			
- Depreciation	9	39,754,540	31,552,775
- Amortisation	10	773,083	406,526
- Finance cost	20	4,430,865	2,756,342
- Gain on disposal of non-current asset held for sale	21	-	(18,543,570)
- Advances written off	13	-	1,117,770
- Advances from customers - written back	21	(10,354,067)	(4,168,828)
- Provision for gratuity	6.2	5,231,716	3,950,185
		39,836,137	17,071,200
		121,057,643	154,109,045
Changes in:			
- Stock in trade		(86,794,023)	(145,808,256)
- Trade debts		18,026,838	(172,193,597)
- Advances		(12,595,452)	(11,306,541)
- Other receivable		-	360,900
- Trade and other payables		(27,976,010)	165,577,625
		(109,338,647)	(163,369,869)
Cash generated from / (used in) operating activities		11,718,996	(9,260,824)
Finance cost paid		(4,430,865)	(2,756,342)
Income tax paid		(20,295,768)	(16,772,399)
Gratuity paid	6.2	-	(204,000)
Dividend paid		(6,066,919)	(9,062,465)
Net cash used in operating activities		(19,074,556)	(38,056,030)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	9	(12,356,409)	(28,138,058)
Increase in long term deposits		(1,251,260)	(60,000)
Acquisition of intangibles	10	(847,274)	(1,238,366)
Proceeds from disposal of non-current asset held for sale		-	92,000,000
Net cash (used in) / generated from investing activities		(14,454,943)	62,563,576
Net (decrease)/increase in cash and cash equivalents		(33,529,499)	24,507,546
Cash and cash equivalents at beginning of the year		51,194,701	26,687,155
Cash and cash equivalents at end of the year	14	17,665,202	51,194,701

The annexed notes 1 to 28 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Share capital	Revenue reserve		Total
		General reserve	Unappropriated profit	
	Rupees			
Balance at 01 July 2014	12,018,410	3,312,465	429,280,064	444,610,939
Total comprehensive income for the year				
Profit for the year	-	-	101,427,020	101,427,020
Other comprehensive income for the year - net of tax	-	-	(2,214,102)	(2,214,102)
Transfer from surplus on revaluation of property, plant and equipment - net of tax	-	-	15,329,015	15,329,015
	-	-	114,541,933	114,541,933
Transactions with owners of the Company				
Distributions				
Final dividend 2014 @ Rs. 10 per share	-	-	(12,018,410)	(12,018,410)
	-	-	(12,018,410)	(12,018,410)
Balance at 30 June 2015	12,018,410	3,312,465	531,803,587	547,134,462
Balance at 01 July 2015	**12,018,410**	**3,312,465**	**531,803,587**	**547,134,462**
Total comprehensive income for the year				
Profit for the year	-	-	69,610,076	69,610,076
Other comprehensive income for the year - net of tax	-	-	127,227	127,227
Transfer from surplus on revaluation of property, plant and equipment - net of tax	-	-	14,661,497	14,661,497
	-	-	84,398,800	84,398,800
Transactions with owners of the Company				
Distributions				
Final dividend 2015 @ Rs. 6 per share	-	-	(7,211,046)	(7,211,046)
	-	-	(7,211,046)	(7,211,046)
Balance at 30 June 2016	12,018,410	3,312,465	608,991,341	624,322,216

The annexed notes 1 to 28 form an integral part of these financial statements.

CHIEF EXECUTIVE

Pir Jahan Shah

DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. **THE COMPANY AND ITS OPERATIONS**

Khyber Tobacco Company Limited (the "Company") is a public listed company incorporated in Pakistan on 15 October 1954 under the Companies Act, 1913 since repealed and replaced by the Companies Ordinance, 1984 and is listed on the Karachi and Lahore stock exchanges. The Company is engaged in the manufacture and sale of cigarettes, cut tobacco and re-dried tobacco. The Company's registered office is situated at Nowshera Malakand Road, Mardan.

2. **BASIS OF PREPARATION**

2.1 **Statement of Compliance**

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

2.2 **Basis of measurement**

These financial statements have been prepared under historical cost convention, except for the following:

- certain items of property, plant and equipment have been measured at revalued amounts; and
- liability related to staff retirement benefit is stated at present values determined through actuarial valuation.

The methods used to measure fair values are explained in the respective policy notes.

2.3 **Functional and presentation currency**

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistan Rupees (PKR), which is the Company's functional and presentation currency. Figures have been rounded off to the nearest rupee, unless otherwise stated.

2.4 **Use of estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

a) **Property, plant and equipment**

The Company reviews the useful lives and residual values of property, plant and equipment on regular basis. Further, the Company reviews the value of the assets for possible impairment or possible adjustment in revalued amounts for assets which are carried at revalued amounts on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge, impairment, revaluation surplus and related deferred tax liability.

b) **Intangible assets**

Amortisation methods, useful lives and residual values of intangible assets are reviewed at each reporting date and adjusted if appropriate.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

c) **Impairment of financial assets**

In making an estimate of future cash flows of the Company's financial assets, the management considers estimated cash flows and their terminal value for impairment testing.

d) **Impairment of non-financial assets**

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated using criteria given in respective accounting standards to determine the extent of impairment loss, if any.

e) **Stock in trade**

The Company reviews the carrying amount of stock in trade on a regular basis and as appropriate, stock is written down to its net realizable value or provision is made for obsolescence if there is any change in usage pattern and/or physical form of related inventory.

f) **Provision against trade debts, advances and other receivables**

The carrying amounts of trade debts, advances and other receivables are assessed on a regular basis and if there is any doubt about the realizability of their carrying amounts, appropriate amount of provision is made.

g) **Taxation**

The Company takes into account the current income tax laws and decisions taken by the taxation authorities. Instances where the Company's view differs from the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with the law, the amounts are shown as contingent liabilities.

The Company regularly reviews the trend of proportion of incomes under Presumptive Tax Regime and Normal Tax Regime income and the change in proportions, if significant, is accounted for in the year of change.

h) **Provisions and contingencies**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost, if any.

Where 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, it is disclosed as contingent liability.

I) **Staff retirement benefits plan - gratuity**

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

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2016:

- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures) [effective for annual periods beginning on or after 1 January 2016) clarifies (a) which subsidiaries of an investment entity are consolidated; (b) exemption to present consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity; and (c) how an entity that is not an investment entity should apply the equity method of accounting for its investment in an associate or joint venture that is an investment entity. The amendments are not likely to have an impact on the Company's financial statements.

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2016) clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. They require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. The amendments are not likely to have an impact on the Company's financial statements.

- Amendment to IAS 27 'Separate Financial Statements' (effective for annual periods beginning on or after 1 January 2016) allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is not likely to have an impact on the Company's financial statements.

- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. The amendments are not likely to have an impact on the Company's financial statements.

- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are not likely to have an impact on the Company's financial statements.

- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

- Amendments to IFRS 2 - Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are not likely to have an impact on the Company's financial statements.

- Annual Improvements 2012-2014 cycles (amendments are effective for annual periods beginning on or after 1 January 2016). The new cycle of improvements contain amendments to the following standards:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. IFRS 5 is amended to clarify that if an entity changes the method of disposal of an asset (or disposal group) i.e. reclassifies an asset from held for distribution to owners to held for sale or vice versa without any time lag, then such change in classification is considered as continuation of the original plan of disposal and if an entity determines that an asset (or disposal group) no longer meets the criteria

NOTES TO THE FINANCIAL STATEMENTS
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to be classified as held for distribution, then it ceases held for distribution accounting in the same way as it would cease held for sale accounting.

- IFRS 7 'Financial Instruments- Disclosures'. IFRS 7 is amended to clarify when servicing arrangements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety are in the scope of its disclosure requirements. IFRS 7 is also amended to clarify that additional disclosures required by 'Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS7)' are not specifically required for inclusion in condensed interim financial statements for all interim periods.

- IAS 19 'Employee Benefits'. IAS 19 is amended to clarify that high quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.

- IAS 34 'Interim Financial Reporting'. IAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.
The above amendments are not likely to have an impact on the Company's financial statements.

2.6 Application of new accounting standards

Following standards became applicable during the year, however, these standards are not relevant to the financial statements of the Company:

a. IFRS 10 - Consolidated Financial Statements
b. IFRS 11 - Joint Arrangements
c. IFRS 12 - Disclosure of Interest in Other Entities
d. IAS 27 - Separate Financial Statements
e. IAS 28 - Investment in Associates and Joint Ventures

- IFRS 10 'Consolidated Financial Statements' became effective from financial periods beginning on or after 1 January 2015. IFRS 10 introduces a new control model, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The Company has no investment in other entity. Accordingly, IFRS 10 is not relevant to the Company and its application has no effect on the financial statements of the Company.

- IFRS 11 'Joint Arrangements' is a replacement of IAS 31 'Interest in Joint Ventures' and modifies the accounting for joint arrangements. Under IFRS 11, the Company classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Company's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Company considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. The Company is not involved in any joint arrangements. Accordingly, IFRS 11 is not relevant to the Company and its application has no effect on the financial statements of the Company.

- IFRS 12 'Disclosure of Interest in Other Entities' became effective from financial periods beginning on or after 01 January 2015. The application of IFRS 12 does not have any impact on the financial statements of the Company.

- IAS 27 'Separate Financial Statements' (revised 2011) deals only with accounting for subsidiaries, associates and joint ventures in separate financial statements of the parent company. This standard does not have any impact on the Company's financial statements.

- IAS 28 'Investment in associates and joint ventures (revised 2011)' sets out the requirements of application of equity method of accounting when accounting for investment in associates and joint ventures. This standard does not have any impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently for all periods presented in these financial statements except for change mentioned in note 3.13 below:

3.1 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses except for the buildings on leasehold land, plant and machinery, and furniture and fittings which are stated at revalued amounts less accumulated depreciation there on and impairment loss, if any. Items of CWIP are stated at cost less impairment loss, if any. These costs are transferred to items of property, plant and equipment as and when assets are available for use.

Cost of property, plant and equipment comprise of purchase price non refundable local taxes and other directly attributable costs.

Any gain or loss on disposal of an item of property plant and equipment are recognized in profit and loss account. When revalued assets are sold, the amounts included in the surplus on revaluation of property, plant and equipment are transferred to retained earnings.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day to day servicing of property, plant and equipment is recognized in profit and loss account when incurred.

Surplus arising out of revaluation of fixed assets is treated in accordance with the requirements of Section 235 of the Companies Ordinance, 1984.

Depreciation is charged on depreciable amount using the straight line method at rates specified in note 9. Full month depreciation is charged in the month of addition while no depreciation is charged in the month of disposal.

3.2 Intangible assets

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit and loss account as incurred.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit and loss account.

3.3 Stock in trade

Stocks of raw materials, work in process and finished goods are valued at lower of weighted average cost and net realizable value. Cost of raw material, work in process and finished goods comprises of direct materials, labor and appropriate manufacturing overheads. Net realizable value signifies estimated selling price less estimated cost of completion and estimated cost to sell.

3.4 Employee benefits

Salaries, wages and benefits are accrued in the period in which the associated services are rendered by employees of the Company and measured on an undiscounted basis. The accounting policy for defined benefit plan is described below:

3.4.1 Defined benefit plan (gratuity)

The Company operates a defined benefit plan comprising an unfunded gratuity scheme covering all eligible employees completing the minimum qualifying period of service as specified by the scheme. Annual provisions to cover the obligations under the scheme are based on actuarial estimates and are charged to profit and loss account. Actuarial valuations are carried out using the Projected Unit Credit Method. Latest valuation was conducted as at 30 June 2016.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

3.5 Foreign currency translation

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into PKR at the rate of exchange ruling on the reporting date and exchange differences, if any, are charged to other income for the year.

3.6 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic resources will be required to settle such obligations and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at the end of each reporting period, and adjusted to reflect current best estimate.

3.7 Financial instruments

Non-derivative financial assets

These are initially recognized on the date that they are originated i.e. on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. Investments are recognized on settlement date.

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or when the Company transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies non-derivative financial assets into the following categories: held to maturity, financial assets at fair value through profit or loss, available for sale investments and loans and receivables:

Loans and receivables

Loans and receivables comprise deposits, trade and other receivables and cash and cash equivalents.

Trade debts and other receivables

Trade debts and other receivables are stated initially at the fair value, subsequent to initial recognition these are stated at their amortized cost as reduced by appropriate provision for impairment. Known impaired receivables are written off, while receivables considered doubtful of recovery are fully provided for.

The provision for doubtful accounts is based on the Company's assessment of the collectability of counterparty accounts. The Company regularly reviews its debts and receivables that remain outstanding past their applicable payment terms and establishes provision and potential write-offs by considering factors such as historical experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date and are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Non-derivative financial liabilities

The Company initially recognizes non derivative financial liabilities on the date that they are originated or the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

These financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Non derivative financial liabilities comprise of trade and other payables.

Off-setting of financial assets and liabilities

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

3.8 **Impairment**

Non-financial assets

The carrying amounts of non-financial assets other than inventories and deferred tax asset, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss account.

Impairment loss recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Non-derivative Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired includes significant financial difficulty of the counterparty, a breach of contract such as default or delinquency in interest or principal payments, its becoming probable that borrower will enter bankruptcy or other financial reorganization, the disappearance of an active market for that financial asset because of financial difficulties.

All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss account.

3.9 **Revenue recognition**

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when significant risk and rewards of ownership have been transferred to the customers, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of transfer of risk and rewards varies depending on the individual terms of the sale agreements. For some international shipments transfer occurs on the loading of goods onto the relevant carrier at the port.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

3.10 Taxation

Income tax expense comprises current and deferred tax. Income tax is recognized in profit and loss account except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

3.10.1 Current

The Company accounts for current taxation on the basis of taxable income at the current rates of taxation after taking into account tax credits, rebates and tax losses, if any, adjusted for prior year effects and any adjustment to tax payable in respect of previous years in accordance with the provisions of the Income Tax Ordinance, 2001.

3.10.2 Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is not recognized on temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences arising on the initial recognition of goodwill.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

3.11 Dividend

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

3.12 Earnings per share

The Company presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

3.13 Change in accounting policy

The Company has adopted IFRS 13 "Fair Value Measurement", which became applicable to annual financial statements for the period beginning on and after 01 January 2015. IFRS 13 establishes a single framework for measuring fair value and enhances or replaces the disclosure about fair value measurement. Further, it unifies the definition of fair values as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement dates. This standards does not have significant impact on these financial statements, except for certain additional disclosures.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

		2016 Rupees	2015 Rupees
4.	**SHARE CAPITAL**		
4.1	***Authorized share capital***	**20,000,000**	20,000,000

Authorised share capital comprises of 2,000,000 (2015: 2,000,000) ordinary shares of Rs. 10 each.

4.2 *Issued, subscribed and paid up capital*

2016 Number of shares	2015		2016 Rupees	2015 Rupees
497,500	497,500	Ordinary shares of Rs. 10 each, allotted for consideration paid in cash	**4,975,000**	4,975,000
704,341	704,341	Ordinary shares of Rs. 10 each, allotted as bonus shares	**7,043,410**	7,043,410
1,201,841	1,201,841		**12,018,410**	12,018,410

Directors of the Company hold 401,836 i.e. 33.44% (2015: 399,101 i.e. 33.21%) ordinary shares of Rs. 10 each at the reporting date.

	2016 Rupees	2015 Rupees
5. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - net of tax		
Balance at 01 July	**182,101,779**	200,893,392
Surplus transferred to unappropriated profit in respect of incremental depreciation charged during the year:		
- Net of deferred tax	**(14,661,497)**	(15,329,015)
- Related deferred tax liability	**(4,130,117)**	(3,462,598)
	(18,791,614)	(18,791,613)
Surplus on revaluation of property, plant and equipment as at 30 June	**163,310,165**	182,101,779
Related deferred tax liability		
On revaluation surplus at 01 July	**(33,554,613)**	(31,443,834)
Transferred to profit and loss account in respect of incremental depreciation	**4,130,117**	3,462,598
Effect of change in ratio of export sales	**(6,468,644)**	(5,573,377)
	(35,893,140)	(33,554,613)
	127,417,025	148,547,166

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

		Note	2016 Rupees	2015 Rupees
6.	**DEFERRED LIABILITIES**			
	Deferred taxation	6.1	**49,328,735**	43,828,797
	Staff retirement benefit - gratuity	6.2	**22,388,804**	17,338,447
			71,717,539	61,167,244

6.1 Deferred tax liability is recognised on following major temporarydifferences:

	Note	2016 Rupees	2015 Rupees
Taxable temporary differences			
Surplus on revaluation of property, plant and equipment		**35,893,140**	33,554,613
Excess of accounting book value of property, plant and equipment and intangibles other than revalued amounts over their tax base		**14,768,863**	11,391,966
Deductible temporary differences			
Provisions for doubtful trade debts		**(698,836)**	(585,888)
Provisions for doubtful advances		**(634,432)**	(531,894)
	6.1.1	**49,328,735**	43,828,797

6.1.1 Movement of deferred tax liability is as follows:

	2016 Rupees	2015 Rupees
Balance at 01 July	**43,828,797**	35,593,496
Effect of change in ratio of export sales, related to surplus on revaluation	**6,468,644**	5,573,377
Tax (credit) / charge for the year	**(968,706)**	2,661,924
Balance at 30 June	**49,328,735**	43,828,797

6.2 Staff retirement benefit - gratuity

	2016 Rupees	2015 Rupees
Net defined benefit liability	**22,388,804**	17,338,447

a) Funding

- The net defined benefit liability in respect of gratuity scheme is unfunded.
- The company expects gratuity expense for the next financial year to be Rs. 6,051,960 (2015: Rs. 5,101,343).

	2016 Rupees	2015 Rupees
b) Movement in net defined benefit liability		
Balance at 01 July	**17,338,447**	10,429,259
Included in profit and loss account		
Current service cost	**3,497,871**	2,607,641
Interest cost	**1,733,845**	1,342,544
	5,231,716	3,950,185
Included in other comprehensive income		
Remeasurement (gain)/loss	**(181,359)**	3,163,003
Other		
Benefits paid	**-**	(204,000)
Balance at 30 June	**22,388,804**	17,338,447

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

6. **DEFERRED LIABILITIES (CONTINUED)**

6.2 **Staff retirement benefit - gratuity (continued)**

c) **Defined benefit obligation**

	2016 Percentage	2015 Percentage
i) Actuarial assumptions		
The following were the principal actuarial assumptions at the reporting date :		
Discount rate	**9%**	10%
Future salary growth	**9%**	10%
Employee turnover rate	**Moderate**	Moderate

Assumption regarding future mortality has been based on published statistics and mortality tables. The mortality rates are based on State Life Insurance Corporation (SLIC) 2001-05 table.

At 30 June 2016, the weighted-average duration of defined benefit obligation was 14.70 years (2015: 14.93 years).

ii) Sensitivity analysis

Reasonably possible changes at the reporting date at one of the relevant actuarial assumptions, holding other assumption constant, would have affected the defined benefit obligations by the amounts shown below.

	30 June 2016		30 June 2015	
	Increase	**Decrease**	Increase	Decrease
	Rupees			
Discount rate (1% movement)	**(2,269,309)**	**2,754,473**	(1,840,656)	2,244,561
Future salary growth (1% movement)	**2,824,326**	**(2,363,200)**	2,222,245	(1,855,951)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

Risk associated with defined benefit plan

Longevity Risks

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Salary Increase Risk

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

Withdrawal Risk

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

		Note	2016 Rupees	2015 Rupees
7.	**TRADE AND OTHER PAYABLES**			
	Creditors		**157,247,700**	238,404,120
	Accrued liabilities	*7.1*	**14,051,742**	12,104,404
	Advances from customers		**62,162,882**	21,589,796
	Unclaimed dividend		**8,300,198**	7,156,072
	Workers' Profit Participation Fund	*7.2*	**33,843,325**	27,130,023
	Workers' Welfare Fund		**1,846,131**	1,760,718
	Withholding tax payable		**1,046,798**	892,628
	Sales tax and excise duty payable		**17,331,298**	33,353,871
	Tobacco development cess payable		**19,262,706**	11,872,699
			315,092,780	354,264,331

7.1 This includes remuneration payable to Chief Executive Officer amounting to Rs. 2.3 million (2015: Rs. 1.95 million).

		Note	2016 Rupees	2015 Rupees
7.2	**Workers' Profit Participation Fund**			
	Balance at the beginning of the year		**27,130,023**	18,193,783
	Provision for the year		**4,371,981**	7,184,179
	Interest on funds utilised in the Company's business	*7.2.1*	**2,341,321**	1,752,061
			33,843,325	27,130,023

7.2.1 Interest is calculated using interest rate of KIBOR + 2.5% (2015: KIBOR + 2.5%) as per the guidance given in The Companies' Profits (Workers' Participation) Rules, 1971.

8. CONTINGENCIES AND COMMITMENTS

8.1 Contingencies:

On 14 July 2016, the Deputy Commissioner Inland Revenue (Appeals) Peshawar raised demand of Rs. 4,380,952 in respect of sales tax on plant and machinery sold by the Company in the previous year. However, based on SRO 727/(I)/2011 dated 01 August 2011 whereby the said machinery was exempted from payment of sales tax, the Company has filed an appeal before the Appellate Tribunal Peshawar

Bench. The date of hearing has not been fixed yet. The Company is confident of a favourable outcome.

		2016 Rupees	2015 Rupees
8.2	***Commitments in respect of :***		
a)	Letters of credit against import of spares	**1,278,700**	-
b)	Leasehold land	**75,971**	82,878

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

9. PROPERTY, PLANT AND EQUIPMENT

	Buildings on leasehold land	Plant and machinery	Tools and equipment	Furniture and fittings	Office equipment	Vehicles	Capital work in progress	Total
					Rupees			
Cost / revalued amounts								
Balance at 01 July 2014	145,845,745	155,711,243	12,809,436	1,558,080	1,899,140	2,596,074	119,185,571	439,605,289
Additions	-	4,445,055	265,803	-	173,600	-	23,253,600	28,138,058
Transfers	-	118,564,571	-	-	-	-	(119,185,571)	(621,000)
Balance at 30 June 2015	145,845,745	278,720,869	13,075,239	1,558,080	2,072,740	2,596,074	23,253,600	467,122,347
Balance at 01 July 2015	**145,845,745**	**278,720,869**	**13,075,239**	**1,558,080**	**2,072,740**	**2,596,074**	**23,253,600**	**467,122,347**
Additions	-	**6,482,678**	**5,582,706**	-	-	**291,025**	-	**12,356,409**
Transfers	-	-	**14,600,000**	-	-	**6,668,000**	**(23,253,600)**	**(1,985,600)**
Balance at 30 June 2016	**145,845,745**	**285,203,547**	**33,257,945**	**1,558,080**	**2,072,740**	**9,555,099**	-	**477,493,156**
Accumulated depreciation								
Balance at 01 July 2014	23,533,422	33,231,332	4,459,121	199,829	1,042,355	1,437,437	-	63,903,496
Charge for the year	9,375,798	19,835,562	1,171,139	140,227	562,756	467,293	-	31,552,775
Balance at 30 June 2015	32,909,220	53,066,894	5,630,260	340,056	1,605,111	1,904,730	-	95,456,271
Balance at 01 July 2015	**32,909,220**	**53,066,894**	**5,630,260**	**340,056**	**1,605,111**	**1,904,730**	-	**95,456,271**
Charge for the year	**9,375,798**	**25,415,109**	**2,635,859**	**140,227**	**467,629**	**1,719,918**	-	**39,754,540**
Balance at 30 June 2016	**42,285,018**	**78,482,003**	**8,266,119**	**480,283**	**2,072,740**	**3,624,648**	-	**135,210,811**
Carrying amounts :								
- At 30 June 2015	112,936,525	225,653,975	7,444,979	1,218,024	467,629	691,344	23,253,600	371,666,076
- **At 30 June 2016**	**103,560,727**	**206,721,544**	**24,991,826**	**1,077,797**	-	**5,930,451**	-	**342,282,345**
Rates of depreciation per annum	7.14%	10%	10%	10%	30%	20%		

NOTES TO THE FINANCIAL STATEMENTS
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9.1 Depreciation on property, plant and equipment has been allocated as follows;

	Note	2016 Rupees	2015 Rupees
Cost of sales	*16*	**32,002,322**	25,956,107
Administrative expenses	*18*	**7,752,218**	5,596,668
		39,754,540	31,552,775

9.2 Buildings on leasehold land, plant and machinery and furniture and fittings were revalued on 21 February 2012. Valuation was carried out by an independent valuer, M/S Construction Management Services under the market value basis. This revaluation resulted in a net surplus of Rs. 263.08 million. Had there been no revaluation, related figure of revalued assets would have been as follows;

	Opening cost	Additions	Transfer from capital work in progress	Closing cost	Accumulated depreciation	Carrying value
			Rupees			
Buildings on leasehold land	3,093,325	-	-	3,093,325	1,193,140	1,900,185
Plant and machinery	172,212,990	6,482,678	-	178,695,668	32,434,687	146,260,981
Furniture and fittings	1,236,263	-	-	1,236,263	1,347,527	(111,264)
30 June 2016	**176,542,578**	**6,482,678**	**-**	**183,025,256**	**34,975,354**	**148,049,902**
30 June 2015	53,532,952	4,445,055	118,564,571	176,542,578	18,835,833	157,706,745

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

		Note	2016 Rupees	2015 Rupees
10.	**INTANGIBLE ASSETS**			
	Computer software			
	Balance at 01 July		**1,452,840**	-
	Additions		**847,274**	1,238,366
	Transfers from capital work in progress		**-**	621,000
	Amortisation		**(773,083)**	(406,526)
	Balance at 30 June		**1,527,031**	1,452,840
	Amortisation rate		**30%**	30%
10.1	Amortisation on intangible assets has been allocated as follows;			
	Cost of sales	*16*	**586,783**	235,751
	Administrative expenses	*18*	**186,300**	170,775
			773,083	406,526
11.	**STOCK IN TRADE**			
	Raw and packing material		**528,498,267**	448,840,805
	Work in process		**-**	76,502
	Finished stock		**17,818,922**	10,605,859
			546,317,189	459,523,166
12.	**TRADE DEBTS**			
	Considered good		**184,027,433**	202,054,271
	Considered doubtful		**3,179,631**	3,179,631
			187,207,064	205,233,902
	Provision for doubtful debts		**(3,179,631)**	(3,179,631)
			184,027,433	202,054,271
13.	**ADVANCES AND PREPAYMENTS**			
	Advances to suppliers			
	- considered good		**29,700,602**	17,233,718
	- considered doubtful		**2,886,603**	4,004,373
			32,587,205	21,238,091
	Provision for doubtful advances		**(2,886,603)**	(2,886,603)
	Advances written off		**-**	(1,117,770)
	Prepayments		**128,568**	-
			29,829,170	17,233,718
14.	**CASH AND BANK BALANCES**			
	Cash in hand		**49,996**	213,586
	Cash at bank			
	Current accounts			
	- *Foreign currency*		**42,385**	41,211
	- *Local currency*	*14.1*	**17,572,821**	50,939,904
			17,615,206	50,981,115
			17,665,202	51,194,701

14.1 This includes Rs. 1,278,700 (2015: Rs. *nil*) lien marked by a bank against letter of credit issued on behalf of the Company - Also refer note 8.2.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

		Note	2016 Rupees	2015 Rupees
15.	**TURNOVER - NET**			
	Gross turnover			
	- Local		**1,537,588,251**	1,333,677,829
	- Export		**50,991,928**	208,149,628
			1,588,580,179	1,541,827,457
	Government levies			
	- Excise duty		**(620,861,992)**	(485,115,972)
	- Sales tax		**(174,405,208)**	(133,475,529)
			793,312,979	923,235,956
	Trade discount		**(35,049,000)**	(40,518,875)
			758,263,979	882,717,081
16.	**COST OF SALES**			
	Raw and packing material consumed	*16.1*	**454,950,765**	558,448,105
	Royalty		**2,674,890**	1,786,920
	Fuel and power		**34,234,489**	38,174,965
	Stores, spare parts and loose tools consumed		**10,321,154**	10,982,574
	Repairs and maintenance		**1,460,402**	4,037,472
	Salaries, wages and other benefits	*16.2*	**46,819,811**	46,268,804
	Insurance		**1,376,581**	559,862
	Machine hiring charges		**4,345,280**	3,284,233
	Depreciation	*9.1*	**32,002,322**	25,956,107
	Amortisation	*10.1*	**586,783**	235,751
			588,772,477	689,734,793
	Work in process at 01 July		**76,502**	83,716
	Work in process at 30 June		**-**	(76,502)
	Cost of goods manufactured		**588,848,979**	689,742,007
	Finished stock at 01 July		**10,605,859**	4,908,502
	Finished stock at 30 June		**(17,818,922)**	(10,605,859)
			581,635,916	684,044,650
16.1	Raw and packing materials consumed			
	Balance at 01 July		**448,840,805**	308,722,692
	Raw and packing material purchases		**534,608,227**	698,566,218
	Balance at 30 June		**(528,498,267)**	(448,840,805)
			454,950,765	558,448,105

16.2 Salaries, wages and other benefits include staff retirement benefits amounting to Rs. 4.1 million (2015: Rs. 3.4 million).

		2016 Rupees	2015 Rupees
17.	**DISTRIBUTION COST**		
	Customs, clearance and freight on export	**18,074,607**	4,453,567
	Freight on local sale	**2,398,900**	3,255,950
	Exhibition cost	**2,917,400**	-
		23,390,907	7,709,517

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 Rupees	2015 Rupees
18. ADMINISTRATIVE EXPENSES			
Salaries, wages and other benefits	18.1	43,791,019	38,758,392
Fuel and power		5,072,222	6,409,974
Communication		1,733,705	1,252,542
Printing and stationery		1,092,884	1,548,158
Security charges		3,434,556	3,369,702
Depreciation	9.1	7,752,218	5,596,668
Amortisation	10.1	186,300	170,775
Legal and professional		2,590,481	2,728,198
Auditors' remuneration	18.2	1,715,391	1,692,565
Repair and maintenance		1,766,879	33,750
Rent expenses		840,000	645,000
Advances written off	13	-	1,117,770
Others		1,987,860	1,234,412
		71,963,515	64,557,906

18.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs. 1.1 million (2015: Rs. 0.49 million)

	2016 Rupees	2015 Rupees
18.2 Auditors' remuneration		
Annual audit fee	800,000	750,000
Half yearly review fee	525,000	500,000
Other certification charges	165,000	150,000
Out of pocket expenses	225,391	292,565
	1,715,391	1,692,565
19. OTHER OPERATING EXPENSES		
Workers' Profit Participation Fund	4,371,981	7,184,179
Workers' Welfare Fund	1,846,131	1,817,230
	6,218,112	9,001,409
20. FINANCE COST		
Bank charges	1,003,839	1,004,281
Interest on Workers' Profit Participation Fund	2,341,321	1,752,061
Exchange loss - net	1,085,705	1,813,160
	4,430,865	4,569,502
21. OTHER INCOME		
Income from assets other than financial assets		
Gain on disposal of non current asset held for sale	-	18,543,570
Income tax refund	-	1,491,350
Advances from customers - written back	10,354,067	4,168,828
Scrap sale	242,775	-
	10,596,842	24,203,748

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
22. TAXATION	***Rupees***	*Rupees*
Current		
- For the year	**27,499,988**	32,948,901
- Prior year	**(14,919,853)**	-
	12,580,135	32,948,901
Deferred	**(968,706)**	2,661,924
	11,611,429	35,610,825

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

	2016	2015
	Rupees	*Rupees*
Accounting profit	**81,221,506**	137,037,845
Applicable tax rate	**32%**	33%
Tax on accounting profit at applicable rate of 32% (2015: 33%)	**25,990,882**	45,222,489
Effect of rebates	**(1,358,331)**	-
Tax effect of prior year	**(14,919,853)**	-
Tax effect of export income charged at lower tax rate	**(1,400,247)**	(6,884,463)
Permanent differences	**54,132**	807,864
Others	**3,244,846**	(3,535,065)
	11,611,429	35,610,825

22.2 The assessments of the Company up to and including the Tax Year 2015 stood finalized under the Self Assessment Scheme envisaged in the Income Tax Ordinance, 2001.

22.3 The Board of Directors in their meeting held on 8th October 2016 has proposed cash dividend for the year ended 30 June 2016 (refer note # 28.2) which complies with requirements of Section 5A of the Income Tax Ordinance, 2001. Accordingly, no provision for tax on undistributed reserves has been recognized in these financial statements for the year ended 30 June 2016.

22.4 Change in applicable income tax rate from 33% to 32% is due to change in relevant Income Tax Laws.

23. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

The Company has exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

NOTES TO THE FINANCIAL STATEMENTS
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The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks being faced by the Company.

23.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade debts, deposits, other receivables, margin on letter of credit and bank balances. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	2016	2015
	Rupees	*Rupees*
Long term deposits	**4,010,411**	2,759,151
Trade debts	**184,027,433**	202,054,271
Bank balances	**17,615,206**	50,981,115
	205,653,050	255,794,537

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

	2016	2015
	Rupees	*Rupees*
Banks	**17,615,206**	50,981,115
Others	**188,037,844**	204,813,422
	205,653,050	255,794,537

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

	2016	2015
	Rupees	*Rupees*
Domestic	**184,027,433**	183,193,376
Middle East	**-**	18,860,895
	184,027,433	202,054,271

In domestic market, balance outstanding from the most significant customer amounted to Rs. 124.95 million (2015: Rs. 112 million).

NOTES TO THE FINANCIAL STATEMENTS
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Impairment losses

The aging of trade debts at the reporting date is:

	30 June 2016		30 June 2015	
	Gross	Impairment	Gross	Impairment
	Rupees	*Rupees*	*Rupees*	*Rupees*
Not due 1-30 days	**128,208,490**	-	182,558,061	-
Past due 31-90 days	**14,805,021**	-	14,952,409	-
Past due 91-180 days	**21,199,928**	-	3,237,616	
Past due 181-365 days	**19,813,994**	-	1,306,185	-
Over 365 days	**3,179,631**	**3,179,631**	3,179,631	3,179,631
	187,207,064	**3,179,631**	205,233,902	3,179,631

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

	2016	2015
	Rupees	*Rupees*
Balance at 01 July	**3,179,631**	3,179,631
Provision made	-	-
Balance at 30 June	**3,179,631**	3,179,631

The allowance in respect of trade receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

Based on past experience and negotiations, management of the Company believes that overdue balances against which impairment has not been recorded have reasonable prospects of recovery.

	2016	2015
Long term deposits	*Rupees*	*Rupees*
Counterparties without external credit ratings		
Others	**4,010,411**	2,759,151
Trade debts		
Counterparties without external credit ratings		
Others	**184,027,433**	202,054,271

Bank balances

The Company held bank balance of Rs. 17,615,106 as at 30 June 2016 (2015: Rs. 50,981,115). Bank balances are held with banks which are rated A1+ based on PACRA rating.

23.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company uses different methods which assist it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a reasonable period, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities and excluding the impact of netting agreements:

NOTES TO THE FINANCIAL STATEMENTS
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	Carrying amount	Contractual cash flows Total	6 months or less	6-12 months
30 June 2016		*Rupees*		
Financial liabilities				
Trade and other payables	**213,442,965**	**(213,442,965)**	**(213,442,965)**	**-**
	213,442,965	**(213,442,965)**	**(213,442,965)**	**-**
30 June 2015				
Financial liabilities				
Trade and other payables	284,794,619	284,794,619	284,794,619	-
	284,794,619	284,794,619	284,794,619	-

23.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company is exposed to currency risk only.

23.3.1 Currency risk

Exposure to currency risk

Pakistan Rupee is the functional currency of the Company and as a result currency exposures arise from transactions and balances in currencies other than the Pakistan Rupee. Currently, the Company is exposed to currency risk pertaining to advances to suppliers, bank balances and creditors in foreign currencies.

30 June 2016	**Foreign Currency**			
	USD	***GBP***	***Euro***	***AED***
Advances to suppliers	**162,970**	**-**	**-**	**227,500**
Bank balance	**405**	**-**	**-**	**-**
Creditors	**(57,859)**	**(10,756)**	**(17,512)**	**-**
Net balance sheet exposure	**105,516**	**(10,756)**	**(17,512)**	**227,500**

30 June 2015	Foreign Currency			
	USD	*GBP*	*Euro*	*AED*
Trade debts	185,292	-	-	-
Bank balance	405	-	-	-
Creditors	(90,713)	-	-	-
Net balance sheet exposure	94,984	-	-	-

The following significant exchange rates applied during the year

	Average rate		Year-end spot rate	
	2016	2015	**2016**	2015
USD	**103.24**	100.29	**104.69**	101.79
Euro	**114.84**	124.27	**116.23**	113.44
GBP	**149.56**	164.37	**139.14**	159.97
AED	**28.12**	27.29	**28.51**	27.72

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

23. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

23.3 Market risk (continued)

23.3.1 Currency risk (continued)

Sensitivity analysis

A five percent strengthening (weakening) of the functional currency at 30 June would have increased (decreased) profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is performed on the same basis for 2015.

	Profit or loss	
	Strengthening	Weakening
30 June 2016		
USD (5% movement)	**552,323**	**(552,323)**
Euro (5% movement)	**(101,771)**	**101,771**
GBP (5% movement)	**(74,829)**	**74,829**
AED (5% movement)	**324,301**	**(324,301)**
30 June 2015		
US Dollar (5% movement)	483,422	(483,422)

23.3.2 Interest rate risk

The interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Currently, the Company is not exposed to interest rate risk.

23.4 Accounting classifications and fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying values of all financial assets and financial liabilities approximate their fair values. The basis for determining the fair values is as follows:

Fair value hierarchy

The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

Non - derivative financial assets

The fair value of non-derivative financial assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS
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23. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

23.4 Accounting classifications and fair values (continued)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Carrying amount				Fair value			
30 June 2016	**Note**	**Held to maturity**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
					Rupees				
Financial assets not measured at fair value									
Long term deposits		-	4,010,411	-	4,010,411	-	-	-	-
Trade debts	12	-	184,027,433	-	184,027,433	-	-	-	-
Cash and bank balances	14	-	17,665,202	-	17,665,202	-	-	-	-
		-	205,703,046	-	205,703,046	-	-	-	-
Financial liabilities not measured at fair value									
Trade and other payables	7	-	-	213,442,965	213,442,965	-	-	-	-
		-	-	213,442,965	213,442,965	-	-	-	-
30 June 2015									
Financial assets not measured at fair value									
Long term deposits		-	2,759,151	-	2,759,151	-	-	-	-
Trade debts	12	-	202,054,271	-	202,054,271	-	-	-	-
Cash and bank balances	14	-	51,194,701	-	51,194,701	-	-	-	-
		-	256,008,123	-	256,008,123	-	-	-	-
Financial liabilities not measured at fair value									
Trade and other payables	7	-	-	284,794,619	284,794,619	-	-	-	-
		-	-	284,794,619	284,794,619	-	-	-	-

* The Company has not disclosed the fair values for these financial assets and financial liabilities, as these are either short term in nature or re-price periodically. Therefore, their carrying amounts are reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

23. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

23.5 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net profit after taxation divided by total shareholders' equity. The Board of Directors also monitors the level of dividend to ordinary shareholders. In order to maintain or adjust the capital optimal structure, the Company may adjust the amount of dividend paid to shareholders. There were no changes to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

23.6 DISCLOSURE REQUIREMENTS FOR ALL SHARES ISLAMIC INDEX

Following information has been disclosed with reference to circular No. 14 of 2015 dated 21 April 2016, issued by the Securities and Exchange Commission of Pakistan relating to "All Shares Islamic Index".

Description	Explanation
Long term deposits	Non-interest bearing
Trade debts	Non-interest bearing
Bank balances	Non-interest bearing

24. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

	Directors	Chief Executive	Executives
30 June 2016		*Rupees*	
Managerial remuneration	**636,980**	**27,000,000**	**4,053,002**
Number of persons	**2**	**1**	**5**
30 June 2015			
Managerial remuneration	516,000	27,000,000	2,382,071
Number of persons	1	1	2

24.1 No other allowances than remuneration are given to chief executive, directors and executives.

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

24.3 Remuneration of executives includes gratuity amounting to Rs. 393,686 (2015: Rs. 178,071).

25. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of associated companies, directors and their close family members, companies with common directorship, executives, key management personnel and major shareholders of the Company. Balances with related parties are disclosed in note 4 and 7.1 and transactions with related parties are disclosed in note 24 to the financial statements. Transactions and balances with related parties other than those disclosed elsewhere in these financial statements are as follows:

	2016 *Rupees*	2015 *Rupees*
Transaction with key management personnel		
Dividend paid	**4,729,200**	7,730,000
Short term loan received during the year	**150,300,000**	73,000,000
Repayment of short term loan	**(150,300,000)**	(73,000,000)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

26. EARNINGS PER SHARE - Basic and diluted

a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

		2016	2015
i)	Profit attributable to ordinary shareholders (Rupees)	**69,610,076**	101,427,020
ii)	Weighted-average number of ordinary shares at 30 June	**1,201,841**	1,201,841
iii)	Basic earnings per share	**57.92**	84.39

b) Diluted earnings per share

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

		2016	2015
27.	**PLANT CAPACITY**		
	Available capacity (million cigarettes per annum)	**1,816**	1,816
	Actual production (million cigarettes)	**433**	429

- Actual production was sufficient to meet the market demand.

28. GENERAL

28.1 Number of persons employed

	2016	2015
Employees on year end	**224**	220
Average employees during the year	**221**	217

28.2 The Board of Directors proposed final dividend at the rate of Rs. 10 per share in its meeting held on 8th October 2016

28.3 These financial statements were authorized for issue by the Board of Directors of the Company in their meeting held on 8th October 2016

CHIEF EXECUTIVE

DIRECTOR

PATTERN OF SHAREHOLDING

AS AT 30 JUNE 2016

No of Shareholders	Shareholdings' Slab			Total Shares Held
373	1	to	100	12,129
255	101	to	500	69,029
57	501	to	1000	42,789
81	1001	to	5000	180,886
4	5001	to	10000	23,545
2	10001	to	15000	25,178
1	30001	to	35000	32,127
1	40001	to	45000	42,958
1	380001	to	385000	384,101
1	385001	to	390000	389,099
776				**1,201,841**

	No. of Shares
Associated companies, undertakings and related parties	-
Public sector companies and corporations	43,248
Directors, CEO and their spouse(s) and minor children	401,836
Banks, development finance institutions, non-banking finance companies,	-
Insurance companies, takaful, modarabas and pension funds	369
Others	2,920
Foreign companies	-
Individuals	753,468
	1,201,841

PATTERN OF SHAREHOLDING
AS AT 30 JUNE 2016

Categories of shareholders	Number	Shares Held	Percentage
Directors, CEO and their spouse(s) and minor children	7	401,836	33.44
Executives	-	-	-
Associated companies, undertakings and related parties	-	-	-
Public sector companies and corporations	2	43,248	3.60
Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds	1	369	0.03
Mutual Funds	-	-	-
General public Foreign	-	-	-
General public Local	763	753,468	62.69
Others	3	2,920	0.24
	776	1,201,841	100.00

Directors, CEO and their spouse(s) and minor children

Waseem Ur Rehman	384,101
Liaqat Ali Khan	2,500
Fazli Rabi	5,000
Shafiq Afzal	2,500
Pir Farhan Shah	2,735
Khalil Ur Rehman	2,500
Hazrat Bilal	2,500
	401,836

	No. of Shares
Associated companies, undertakings and related parties	-
Public sector companies and corporations	
Investment Corporation of Pakistan	290
State Life Insurance Corporation of Pakistan	42,958
	43,248
Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds	
The Eastern Federal Union Insurance Company Limited	369
Others	
M/s Ameen Estate Limited	121
Sukkur Memom Anjuman	199
Sherman Securities (Pvt) Limited	2,600
	2,920

Form of Proxy
61st Annual General Meeting

I/We ____

of ____

being a member(s) of Khyber Tobacco Company Limited holding ______________________

Ordinary Shares hereby appoint Mr/ Mrs/ Miss ______________________

of ______________ or failing him / her ______________________

of ______________ as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the 61st Annual General Meeting of the Company to be held on, 31 October , 2016 and / or any adjournment thereof.

As witness my/our hand/seal this ______________ day of ______________ 2016.

Signed by ____

In the presence of ____

Folio No.	CDC Account No.	
	Participant I.D	Account No.

Signature on Five Rupees Revenue Stamps

The Signature should agree with the specimen registered with the Company

IMPORTANT:

1. This Proxy Form, duly completed and signed , must be received at the Registered Office of the Company, Nowshera Road Mardan not less than 48 hours before the time of holding the meeting.
2. If a member appoints more than one proxy and more than one instruments of proxies are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

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

(i) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be provided with the proxy form.

(ii) The proxy shall produce his original CNIC or original passport at the time of the meeting.

(iii) In case of a corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier along with proxy form to the Company)

Khyber Tobacco Company Limited