MURREE BREWERY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

1 THE COMPANY AND ITS OPERATIONS

Murree Brewery Company Limited ("the Company") was incorporated under the repealed Indian Companies Act (now the Companies Ordinance, 1984) in February 1861 as a Public Limited Company in Pakistan. The shares of the Company are listed on Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the Company is situated at National Park Road in Rawalpindi. The Company is principally engaged in the manufacturing of Pakistan Made Foreign Liquor (PMFL) including Alcoholic Beer, Non-Alcoholic Beer (NAB), Non-Alcoholic Products (NAP) which includes Juices in Tetra packs in Rawalpindi and food products, juices, glass bottles and jars in Hattar. The Company is presently operating three divisions namely Liquor Division, Tops Division and Glass Division to carry out its principal activities.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standard 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 on historical cost basis except that certain components of property, plant and equipment and investment property have been stated at revalued amounts and fair value respectively and the investments held for trading have been measured at fair market value while obligations under employees' benefits have been recognized at present value on the basis of actuarial valuation.

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupee (PKR), which is the Company's functional and presentation currency.

2.4 Initial application of an approved accounting (IFRS) or an interpretation

During current year, the Company adopted IFRS 7 "Financial Instruments" which is applicable for annual periods beginning on or after 01 July 2008. IFRS 7 requires extensive disclosures about the significance of financial instruments for the Company's financial position and performance, and quantitative and qualitative disclosures on the nature and extent of risks. These requirements include many disclosures previously required by International Accounting Standard (IAS) 32- "Financial Instruments : Presentation". The Company has adopted this standard from the financial year beginning 01 July 2008 and its initial application has led to extensive disclosures in the Company's financial statements.

2.5 Early adoption of an approved accounting (IFRS) or an interpretation

During the year, the Company has opted for early adoption of IFRS 8 "Operating Segments" which was originally effective for annual periods beginning on or after 01 January 2009. This application has resulted in certain increased disclosures. However; there is no impact in the reported figures of profit and loss account and earnings per share.

2.6 Significant accounting estimates

The preparation of financial statements in conformity with the approved accounting standards, as applicable in Pakistan, requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and 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, 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.

2.6 Significant accounting estimates (continued)

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 effects only that period, or in the period of the revision and future periods if the revision effects both current and future periods.

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

(a) Income taxes

The Company takes into account the current income tax law and decisions taken by the appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its view on items is of material nature is in accordance with law, the amounts are shown as contingent liabilities. (Refer note 3.1 for accounting policy of taxation and note 31 for disclosures).

(b) Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 3.2 (b) to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Changes in these assumptions in future years may affect the liability under these schemes in those years.(Refer note 3.2 (b) for accounting policy of retirement benefits and notes 8 and 20.1 for disclosures).

(c) Property, plant and equipment

The Company reviews the useful life of property plant and equipment on regular basis. Further, the Company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding affect on the depreciation charge and impairment. (Refer note 3.3 for accounting policy of property, plant and equipment and note 14 for disclosures).

(d) Stores and spare parts and stock in trade

The Company reviews the value of inventory of stores and spares and stock in trade for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of stores and spare parts and stock in trade with a corresponding affect on the provision. (Refer notes 3.7 and 3.8 for accounting policies of stores and spares and stock in trade respectively and notes 17 and 18 for disclosures).

(e) Provision against trade debts

The Company reviews its trade debts to assess any amount of bad debts and provision required there against on regular basis. (Refer note 3.9 for accounting policy of trade debts and note 19 for disclosures).

(f) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. Any change in the estimates in future years might affect the carrying amounts of the respective assets with a corresponding affect on the depreciation/ amortization charge and impairment.(Refer note 3.4 for accounting policy of impairment).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Taxation

Income tax on profit or loss for the year comprises current and deferred taxation. Current and deferred tax is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity in which case it is recognized in equity.

(a) Current

Taxation charged in the financial statements is based on taxable income at the current rates of taxation after taking into account tax rebates and tax credits available, if any and any adjustment to tax payable in respect of previous years.

(b) Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated at the rates that are expected to apply to the period when the temporary differences are expected to reverse, based on tax rates that have been enacted at the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. At each balance sheet date, the Company re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Company recognizes the previously unrecognized deferred tax asset to the extent that it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilized.

3.2 Staff retirement benefits

Salaries, wages and benefits are accrued in the period in which the associated services are rendered by the employees of the Company. The accounting policy for pension, provident fund, gratuity and compensated absences is described below:

(a) Defined contribution plan

The Company operates a Provident Fund Trust for which the Company and the employees contribute equally @ 8.33 % of the basic salaries of employees. The Company's contribution is charged to profit and loss account.

(b) Defined benefit plans

The Company operates pension and gratuity plans for its eligible staff. The Pension Plan is funded while the Gratuity Plan is unfunded. The liabilities under the plans are determined on the basis of actuarial valuations carried out by independent actuary using the Projected Unit Credit Method. The Company has a policy of carrying out actuarial valuations after every two years. Latest valuations were conducted as of 30 June 2009. Significant actuarial assumptions used were as follows:

Discount rate	13%
Increase in salary	13%
Mortality rate	EFU 61-66 mortality rate

The amount recognized in the balance sheet represents the present value of defined benefits as is adjusted for unrecognized actuarial gains and losses. Unrecognized actuarial gains and losses, exceeding corridor limits defined in International Accounting Standard - 19 "Employee benefits" are amortized over the expected average remaining working lives of the employees participating in the plan.

(c) Compensated absences

The Company provides for compensated absences according to the Company's rules.

3.3 Property, plant and equipment

(a) Owned

These are stated at cost less accumulated depreciation and impairment losses, if any, except for:

- Land, which was revalued on 31 July 1995, 30 June 2002 and 01 July 2007 is stated at revalued figures.
- Buildings, which were revalued on 22 August 1991, 30 November 1991, 31 July 1995, 30 June 2002 and 01 July 2007 are stated at revalued figures less accumulated depreciation and impairment losses, if any.
- Plant and machinery which was revalued on 10 August 1992, 31 July 1992, 30 June 2002 and 01 July 2007 is stated at revalued figures less accumulated depreciation and impairment losses, if any.

Depreciation is charged to the profit and loss account on straight line method so as to write off the depreciable amount of the property, plant and equipment over their estimated useful lives at the rates specified in note 14. The Company charges depreciation on all additions to property, plant and equipment and assets subject to finance lease from the date asset is available for use till the date of its disposal. Depreciation on depreciable assets is commenced from the date the asset is available for use up to the date when the asset is retired.

Minor renewals, replacements and repairs are charged to the profit and loss account as and when incurred. Major improvements are capitalized and property, plant and equipment so replaced; if any, are retired. Gains and losses on disposals of property, plant and equipment are taken to profit and loss account.

Capital work in progress is stated at cost less impairment losses, if any and are transferred to the respective item of property, plant and equipment when available for intended use.

(b) Leased

Leases in term of which the Company assumes substantially all the risks and rewards of ownership are classified as finance lease. Assets acquired by way of finance lease are stated at amounts equal to the lower of their fair value and the present value of minimum lease payments at the inception of the lease less accumulated depreciation and impairment losses, if any. Outstanding obligations under the lease less finance charges allocated to the future periods are shown as liability. Value of leased assets is depreciated over the useful life of the asset using the straight line method at the rates given innote 14 to these financial statements.

3.4 Impairment

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

3.5 Borrowing costs

All borrowing costs are charged to the profit and loss account as incurred.

3.6 Investments held for trading

Investments designated as held for trading upon initial recognition include those group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with the documented risk management / investment strategy. These are the investments which are acquired principally for the purpose of selling in the near term or the investments that are part of a portfolio of financial instruments exhibiting short term profit taking are designated as investments held for trading and are stated at fair values with any resulting gains or losses recognised directly in the profit and loss account. The fair value of such investments representing listed equity securities are determined on the basis of prevailing market price. Investment in de- listed/suspended companies are carried at nil value. The Company recognises the regular way purchase or sale of investments using settlement date accounting.

3.7 Stores and spare parts

Stores and spare parts are stated at lower of cost or net realizable value. Cost is determined using the weighted average method. Items in transit are valued at invoice price and related expenses incurred up to the balance sheet date. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale.

3.8 Stock in trade

These are valued at lower of cost or net realizable value. Cost is determined as follows:

- Raw materials and finished goods are valued at weighted average cost.
- Stocks under maturation and work in process are valued at manufacturing cost.
- Goods in transit are valued at actual cost, which includes invoice value and other charges incurred thereon.
- Cost of finished goods include prime cost and appropriate portion of production overheads. Net realizable value represents the estimated selling price less costs necessary to make the sale.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale.

3.9 Trade and other receivables

These are originated by the Company and are stated at cost less provision for any uncollectible amount. An estimate is made for doubtful receivables when collection of the amount is no longer probable. Debts considered irrecoverable are written off.

3.10 Revenue recognition

- Sales are recorded on dispatch of goods to the customers and when risks and rewards are transferred.
- Return on deposits is accounted for on a time proportion basis using the applicable rate of interest.
- Capital gains or losses on sale of investments are taken to the profit and loss account in the period in which they arise.
- Dividend income is recognized when the Company's right to receive the dividend is established.

3.11 Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at amortized cost with any difference between originally recognized amount and redemption value being recognized in profit and loss account over the period of borrowing on an effective interest rate basis.

The Company accounts for lease obligations by recording the asset and corresponding liability there against determined on the basis of discounted value of total minimum lease payments. Finance charge is recognized in the profit and loss account using the effective mark-up

3.12 Trade and other payables

Trade and other payables are carried at cost, which is the fair value of the consideration to be paid in future for goods and services received.

3.13 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of any past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

3.14 Foreign currency transactions

Foreign currency transactions during the year are translated into PKR at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into PKR at the rates of exchange prevailing at the balance sheet date. Exchange differences if any, are charged to the profit and loss account.

3.15 Dividend appropriation

Dividends and other reserve movements are recognized in the financial statements in the period in which they are declared or appropriated.

3.16 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, short term running finance and bank balances .

3.17 Investment property

Investment property is stated at its fair value at the balance sheet date. Gains or losses, if any, arising from changes in the fair value of investment property are recognized as profit or loss for the period in which they arise.

3.18 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument i.e. on trade date basis. The Company de-recognizes the financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account currently.

3.19 Offsetting of financial assets and financial 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 setoff the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

3.20 Segment Reporting

The Company has three reportable segments which are the Company's strategic business units. Related disclosures are given in note 36 to the financial statements. Common expenses of the Company are allocated in reportable segments in the ratio of turnover of the respective segments.

MURREE BREWERY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

4 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS THAT ARE NOT YET EFFECTIVE:

The following standards, interpretations and amendments to approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than increase in disclosures in certain cases.

- Revised IAS 1- "Presentation of financial statements' (effective for annual periods beginning on or after 1 January 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.

- Revised IAS 23- "Borrowing costs' (effective for annual periods beginning on or after 1 January 2009) removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company's 2010 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions, the Company will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Company's 2010 financial statements.

- Amendments to IAS 32- "Financial instruments: Presentation" and IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2009) – Puttable financial instruments and obligations arising on liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met.

- Amendment to IFRS 2- "Share-based Payment' – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations.

- Revised IFRS 3- Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognized in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

- Amended IAS 27- Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss.

  IFRIC 15- Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 01 January 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete.

- IFRIC 16- Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

- The interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulativ currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used.

- IFRIC17- Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when a Company distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognized in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognized in the income statement.

4 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS THAT ARE NOT YET EFFECTIVE (CONTINUED)

- IFRIC 18- Transfers of Assets from Customers (to be applied prospectively to transfers of assets from customers received on or after 01 July 2009). This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged Items (effective for annual periods beginning on or after 1 July 2009 clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship.
- IAS 27 'Consolidated and separate financial statements' effective for annual periods beginning on or after 1 January 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor.
- IFRS 4 - Insurance Contracts (effective for annual periods beginning on or after 1 January 2009). The IFRS makes limited improvements to accounting for insurance contracts until the Board completes the second phase of its project on insurance contracts. The standard also requires that an entity issuing insurance contracts (an insurer) to disclose information about those contracts.
- Amendment to IFRS 7 - Improving disclosures about Financial Instruments (effective for annual periods beginning on or after 1 January 2009). These amendments have been made to bring the disclosure requirements of IFRS 7 more closely in line with US standards. The amendments introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements.
- Amendments to IAS 39 and IFRIC 9 - Embedded derivatives (effective for annual periods beginning on or after 1 January 2009). Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value.
- Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). Currently effective IFRSs requires attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.