MURREE BREWERY COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

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Murree Brewery Company Limited ("the Company") was incorporated under the repealed Indian Companies Act (now the Companies Ordinance, 1984) in February 1861 as a Public Limited Company in Pakistan.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 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.

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 3.2 for accounting policy of taxation and note 32 for disclosures).

2.4 Significant accounting estimates (continued)

(b) Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 3.3 (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 3.3 (b) for accounting policy of retirement benefits and notes 8 and 21.1 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 3.4 for accounting policy of property, plant and equipment and note 14 for disclosures).

(d) Stores, spare parts and loose tools and stock in trade including stocks under maturation

The Company reviews the value of inventory of stores, spare parts and loose tools and stock in trade including stocks under maturation 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 3.8, 3.9 and 3.10 for accounting policies of stores, spare parts and loose tools and stock in trade and stocks under maturation respectively and notes 17

(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 3.11 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 3.20 for accounting policy of impairment).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Change in accounting policy

The Company has applied revised IAS-1 “Presentation of Financial Statements” which became effective as of 01 July 2009. As a result, the Company has presented in the statement of changes in equity, all owner related changes in equity whereas all other changes in equity are presented in a separate statement of comprehensive income. The separate statement of comprehensive income has been applied in these financial Statements for the year ended 30 June 2010. Comparative information has been represented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on profit and loss account.

3.2 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.

3.3 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 of pension and gratuity were conducted as of 30 June 2009 and 30 June 2010 respectively. Significant actuarial assumptions used for gratuity plan are mentioned in note 8.4.

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.

3.4 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

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.

3.5 Investment property

Investment property is property held for either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. 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.

3.6 Borrowing costs

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

3.7 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 recognized 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 recognizes the regular way purchase or sale of investments using settlement date accounting.

3.8 Stores, spare parts and loose tools

Stores, spare parts and loose tools 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.

3.9 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.
- 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.

3.10 Work in process including stocks under maturation

These are valued at lower of cost or net realizable value. Stocks under maturation and work in process are valued at manufacturing cost. 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.

3.11 Trade debts 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.

3.12 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.
- Rental income on investment property is recognized when due.

3.13 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 rate method.

3.14 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 receiv

3.15 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.

3.16 Unearned income

Rental income received in advance from the tenant is shown as unearned income.

3.17 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.

3.18 Dividend appropriation

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

3.19 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.

3.20 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.

– **Financial assets (including receivables)**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss account. An impairment loss is reversed in the profit and loss account if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

– **Non financial assets**

The carrying amount 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, recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

3.20 Impairment (continued)

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 assessments of the time value of money and the risks specific to the asset. In the absence of any information about the fair value of a cash-generating unit, the recoverable amount is deemed to be the value in use. For the purpose of impairment testing, assets 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").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the profit and loss account. Reversal of impairment loss is restricted to the original cost of asset.

3.21 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.

3.22 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

3.23 Finance income and finance cost

- Finance income comprises interest income on bank deposits. Income on bank deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.
- Finance cost comprises interest expense on borrowings and bank charges. Mark up, interest and other charges on borrowings are charged to income in the period in which they are incurred.

3.24 Segment Reporting

The Company has three reportable segments which are the Company's strategic business units. Related disclosures are given in note 37 to the financial statements. Common expenses of the Company are allocated in reportable segments in the ratio of turnover of the respective segments.

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;

- Amendments to IFRS 8 - Operating Segments - April 2009 Annual Improvements to IFRSs. (effective 01 January 2010)
- IFRS 9- Financial Instruments - Classification and Measurement. (effective 01 January 2010)
- Amendments to IAS 17 - Leases - April 2009 Annual Improvements to IFRSs. (effective 01 January 2010)
- IAS 24 - Related Party Disclosures - revised definition of related parties. (effective 01 January 2011)
- Amendments to IAS 32 - Financial Instruments: Presentation - classification of right issue. (effective 01 January 2010)
- Amendments to IAS 36 - Impairment of Assets - April 2009 Annual Improvements to IFRSs. (effective 01 January 2010)
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments. (effective 01 July 2010)
- Amendments to IFRS 2 - Share-based Payment - group cash settled share-based Payment transactions. (effective 01 January 2010)
- Amendments to IAS 7- Statement of Cash Flows - April 2009 Annual Improvements to IFRSs. (effective 01 January 2010)
- Amendments to IAS 1 - Presentation of Financial Statements - April 2009 Annual Improvements to (effective 01 January 2010)
- Amendments to IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations -April 2009 Annual Improvements to IFRSs. (effective 01 January 2010)
- Amendments to IAS 39 - Financial Instruments: Recognition and Measurement - April 2009 Annual improvements to IFRSs. (effective 01 January 2010)
- Amendments to IFRIC 14 (IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) - voluntary prepaid contributions. (effective 01 January 2011)