**MURREE BREWERY COMPANY LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2012**

## 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Murree Brewery Company Limited ("the Company") was incorporated under the repealed Indian Companies Act (now the Companies Ordinance, 1984) in February 1861 as a Public Limited Company. 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), Alcoholic Beer, Non-Alcoholic Beer (NAB), Non-Alcoholic Products (NAP) which includes juices in Tetra packs in Rawalpindi and food products, juices, mineral water, 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.

#### (b) Staff retirement benefits

Certain actuarial assumptions have been adopted 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..

### 2.4 Significant accounting estimates (continued)

#### (c) Property, plant and equipment

The Company reviews the useful life and residual values 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.

#### (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 loose tools and stock in trade with a corresponding affect on the provision.

#### (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.

#### (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.

## 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:

**3.2 Staff retirement benefits (continued)**

**(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 2011 and 30 June 2010 respectively. Significant actuarial assumptions used for gratuity plan and pension plan are mentioned in notes 8.6 and 20.17 respectively.

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, 01 July 2007 and 30 June 2012 is stated at revalued figures.
- Buildings, which were revalued on 22 August 1991, 30 November 1991, 31 July 1995, 30 June 2002, 01 July 2007 and 30 June 2012 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, 01 July 2007 and and 30 June 2012 is stated at revalued figures less accumulated depreciation and impairment losses, if any.

Surplus on revaluation of property, plant and equipment to the extent of the incremental depreciation charged on the related assets is transferred by the Company to un-appropriated profits (net of deferred tax).

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 13. 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 terms 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 in note 13 to these financial statements.

### 3.4 Investment property

Investment property is a 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.

### 3.5 Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of qualifying asset are capitalized as part of the cost of that asset. Borrowing cost includes exchange differences arising from foreign currency borrowing to that extent these are regarded as an adjustment to borrowing costs. All other borrowing costs are charged to profit and loss account.

### 3.6 Investments at fair value through profit or loss - Held for trading

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 classified as held for trading and designated as such upon initial recognition. These are stated at fair values with any resulting gains or losses recognized directly in the profit and loss account. The Company recognizes the regular way purchase or sale of investments using settlement date accounting.

### 3.7 Stores, spare parts and loose tools

Stores, spare parts and loose tools are stated at lower of cost and 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 represents 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 and net realizable value. Cost is determined as follows:

- Raw materials 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 in the ordinary course of business less costs necessarily to be incurred in order to make a sale.

### 3.9 Work in process including stocks under maturation

These are valued at lower of cost and 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.

### 3.10 Trade debts and other receivables

Trade and other receivable are stated at original invoice amount as reduced by appropriate provision for impairment. Known impaired receivables are written off, while receivables considered doubtful of recovery are fully provided for.

The allowance 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 allowance 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.

### 3.11 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.

### 3.12 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.

### 3.13 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.

### 3.14 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of 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.

### 3.15 Unearned income

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

### 3.16 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 included in the profit and loss account.

### 3.17 Dividend appropriation

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

### 3.18 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 and bank balances.

### 3.19 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.

**3.19 Impairment (continued)**

– **Financial assets (including receivables) (continued)**

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 and 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.

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.

**3.20 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 settlement 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.

**3.21 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.

**3.22 Finance income and finance cost**

– Finance income comprises interest income on funds invested, dividend income, gain on sale of investments and changes in the fair value of investment held for trading. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which is in the case of quoted securities is the ex-dividend date.

– Finance costs comprise 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.

**3.23 Segment Reporting**

The Company has three reportable segments which are the Company's strategic business units. Related disclosures are given in note 35 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, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2012:

– Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption car be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.

– IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The Company's policy was to account for actuarial gains and losses using the corridor method and with the change unrecognized net actuarial losses amounting to Rs. 3.834 million at 30 June 2012 would need to be recognized in other comprehensive income.

– Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.

– IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.

– IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.

– Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 *Financial Instruments: Presentation*. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.

– Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.

**4 New accounting standards and IFRIC interpretations that are not yet effective (continued)**

– Annual Improvements 2009–2011 (effective for annual periods beginning on or after 1 January 2013). The new cycle of improvements contains amendments to the following five standards, with consequential amendments to other standards and interpretations.

- IAS 1 *Presentation of Financial Statements is amended to clarify that* only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the 'third statement of financial position', when required, is only required if the effect of restatement is material to statement of financial position.

- IAS 16 *Property, Plant and Equipment* is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 *Inventories*.

- IAS 32 *Financial Instruments: Presentation -* is amended to clarify that IAS 12 *Income Taxes* applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.

- IAS 34 *Interim Financial Reporting i*s amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 *Operating Segments*. IAS 34 now requires the disclosure of a measure of total assets *and* liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

The above amendments have no impact on financial statements of the Company.

– IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Company.