MURREE BREWERY COMPANY
NOTES TO THE FINANCIAL
FOR THE YEAR ENDED 30 JUNE 2008

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Murree Brewery Company Limited ("the Company") was incorporated under the repealed Indian Companies Act (now the Companies Ordinance, 1984) in February 1861 as a public limited Company in Pakistan.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 the Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the Company is situated in Rawalpindi. The Company is principally engaged in the manufacturing of alcoholic beer, non alcoholic beer, Pakistan Made Foreign Liquor (P.M.F.L), juices in Tetra packs in Rawalpindi and food products, juices, glass bottles and jars in Hattar.

The Company is presently operating three divisions to carry out its principal activities namely Liquor Division, Tops Division and Glass Division.

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 Accounting convention and basis of measurement

These financial statements have been prepared under the historical cost convention except that certain components of property, plant and equipment have been stated at revalued amounts, investments at fair value through profit or loss have been measured at fair market value and obligations under certain staff retirement benefits have been measured at present value.

2.3 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 recognised 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:

2.3.1 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 27 for disclosures).

2.3.2 Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 3.3.2 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 3.3.2 for accounting policy of retirement benefits and notes 8 and 10.4 for disclosures).

2.3.3 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 12 for disclosures).

2.3.4 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 note 3.8 and 3.9 for accounting policies of stores and spares and stock in trade respectively and note 14 and 15 for disclosures).

2.3.5 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 3.10 for accounting policy of trade debts and note 16 for disclosures)

2.3.6 Impariment

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).

2.4 Functional and presentation currency

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

2.5 Initial Application of a standard or an Interpretation

Amendment to IAS 1 - "Presentation of Financial Statements - Capital Disclosures", introduces new disclosures about the level of an entity's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures given in note 32.6 to the financial statements.

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 recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity.

3.1.1 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.

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3.1.2 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

The Company operates following retirement benefit schemes for its employees :

3.2.1 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.

3.2.2 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 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 2007. Significant actuarial assumptions are as follows:

Discount rat	10%
Increase in s	10%
Mortality ra	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.

3.2.3 Compensated absences

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

3.3 Property, plant and equipment

3.3.1 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 12.

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.

During the year, the company has reviewed the remaining useful life of building and plant and machinery and accordingly has revised the estimate of its remaining useful life from 5-15 to 10-20 years and from 0-5 to 5-10 years respectively. This change has been applied prospectively as required under IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. Had there been no change in the estimate, the profit for the year after taxation would have been reduced by Rs. 276,659 and carrying amount of property, plant and equipment would have lowered by Rs. 425,629.

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.

3.3.2 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 in note 12 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 Securities purchased under resale arrangement

Transactions of purchase under resale (reverse repo) of marketable securities are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date are not recognised in the balance sheet. Amounts paid under these agreements are included in receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the reverse-repo agreement.

3.7 Investments at fair value through profit or loss

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 at fair value through profit or loss. These 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.

3.8 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.

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.
- 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.

3.10 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.

3.11 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.

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 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.

3.15 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.

3.16 Dividend appropriation

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

3.17 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 .

3.18 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

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

Segments have been identified on the basis of business namely Liquor Division, Glass Division and Tops Division. Main products of each segment are as follows:

Liquor Division:	Pakistan Made Foreign Liquor (PMFL), Beer, Bigg Apple, Cindy, Malt-79
Glass Division:	Glass bottles and jars
Tops Division:	Food products and juices

3.21 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 January 2008:

- 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 from 01 January 2009). Revised IAS 23 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 application of the standard is not likely to have an effect on Company's financial statements.
- IAS 29 – Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 28 April 2008). The application of the standard is not likely to have an effect on the Company's financial statements.
- Amendments to IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements – 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. The amendments, which become mandatory for the company’s financial statements, with retrospective application required, are not expected to have any impact on the financial statements.

- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective for 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. The application of this standard is not likely to have any effect on company's financial statements.

- 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 and transaction costs other than share and debt issue costs to be expensed. The application of this standard is not likely to have an effect on company's financial statements.

- 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 looses 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. The application of the standard is not likely to have an effect on the Company's financial statements.

- IFRS 7 – Financial Instruments: Disclosures (effective for annual periods beginning on or after 28 April 2008). The application of the standard is not expected to have significant impact on the Company's financial statements other than increase in disclosures.

- IFRS 8 – Operating Segments (effective for annual periods beginning on or after 28 April 2008). The application of the standard is not likely to have an effect on the Company's financial statements.

- IFRIC 12 – Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008) IFRIC 12 provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private concession arrangements. IFIRC 12 is not relevant to the company's operations.

- IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 01 July 2008). IFRIC 13 addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. The application of IFRIC 13 is not likely to have an effect on the Company's financial statements.

- IFRIC 14 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after 01 January 2008). IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on minimum funding requirements (MFR) for such asset. IFRIC 14 is not expected to have any material impact on the Company's financial statements.

- IFRIC 15- Agreement for the Construction of Real Estate. (effective for annual period beginning on or after 1 October 2009). The amendment 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. The amendment is not relevant to the Company.
- IFRIC 16- Hedge of Net Investment in a Foreign Operation. (effective for annual period beginning on or after 1 October 2008).IFRIC clarifies what risk in foreign operation can be hedged and which entity in the group can hold hedge instrument. The amendment is not relevant to the Company.