

Berger Paints Pakistan Limited Unconsolidated Financial Statements

for the year ended 30 June 2021



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Independent Auditor's Report

To the members of Berger Paints Pakistan Limited Report on the audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Berger Paints Pakistan Limited (the Company), which comprise the statement of financial position as at 30 June 2021, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2021 and of the profit, the comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Following are the Key audit matters.

Sr. No.	Key audit matters	How the matters were addressed in our audit
1.	<p>Revenue</p> <p>Refer to note 4.13 and 29 to the financial statements.</p> <p>The Company recognized revenue of Rs. 5,602 million (2020: Rs. 4,178 million) from contract with customers, during the year ended 30 June 2021.</p> <p>We identified recognition of revenue as a key audit matter because it is one of the key performance indicators of the Company and gives rise to a risk that revenue is recognized without transferring the control.</p>	<p>Our audit procedures to assess the recognition of revenue included the following:</p> <ul style="list-style-type: none"> obtaining an understanding of the process relating to recording of sales and testing the design, implementation and operating effectiveness of relevant key internal controls, including anti-fraud controls; assessing the appropriateness of the Company's accounting policies for recording of sales and compliance of those policies with the accounting and reporting standards as applicable in Pakistan;

Sr. No.	Key audit matters	How the matters were addressed in our audit
2.	<p>Valuation of Trade Debts</p> <p>Refer to note 4.6 and 14 to the financial statements.</p> <p>As at 30 June 2021, the Company's gross trade debtors were Rs. 1,437 million (2020: Rs. 1,405 million) against which an impairment allowance of Rs. 217 million (2020: Rs. 165 million) was recorded.</p> <p>The Company has applied simplified approach to measure Expected Credit Loss ('ECL') in accordance with IFRS-9.</p> <p>The Company determines ECL on trade debtors by using a provision matrix that is based on historical credit loss experience, adjusted for company specific forward-looking information.</p> <p>Due to the significance of trade debts and the complexity involved in determination of ECL, we have considered valuation of trade debtors to be a key audit matter.</p>	<ul style="list-style-type: none"> • comparing a sample of sale transactions recorded during the year with sales invoices, gate pass, delivery challans and relevant underlying documents; • comparing, on a sample basis, specific sales transactions recorded just before and just after the financial year end date to determine whether the revenue had been recognized in the appropriate financial period; and • scanning for any manual journal entries relating to sales recorded during the year which were considered to be material or met other specific criteria for inspecting underlying documentation. <p>Our audit procedures to assess the valuation of trade debts, amongst others included the following:</p> <ul style="list-style-type: none"> • evaluating the appropriateness of the selection of accounting policies; • involving our specialists to assess the appropriateness of the ECL model and the reasonableness of the assumptions applied in developing ECL; • assessing, on a sample basis, the accuracy of the data inputs used for ECL computation; and • assessing the adequacy of disclosure made in the financial statements in accordance with the requirements of the applicable accounting and reporting standards.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021 but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

The engagement partner on the audit resulting in this independent auditor's report is Fahad Bin Waheed.

Lahore
Date: 07 October 2021.


KPMG Taseer Hadi & Co.
Chartered Accountants

Statement of Financial Position

As at 30 June 2021

Rupees in thousand	Note	2021	2020
ASSETS			
<u>Non-current assets</u>			
Property, plant and equipment	6	1,634,795	1,638,058
Intangibles	7	211	25,516
Investments	8	52,505	52,037
Loan to related party - secured	9	-	40,000
Long term loans	10	34,147	23,974
Long term deposits and prepayments	11	36,419	17,875
Deferred taxation	12	29,093	-
		1,787,170	1,797,460
<u>Current assets</u>			
Stores, spare parts and loose tools		18,491	13,593
Stock-in-trade	13	1,225,895	1,085,933
Trade debts - unsecured	14	1,219,678	1,039,773
Loans and advances	15	277,245	156,048
Trade deposits and short term prepayments	16	31,676	34,038
Other receivables	17	184,323	104,579
Tax refund due from Government		192,661	250,706
Short term investment	18	30,000	32,195
Cash and bank balances	19	44,476	40,635
		3,224,445	2,757,500
		5,011,615	4,554,960
EQUITY AND LIABILITIES			
Authorised share capital		250,000	250,000
<u>Share capital and reserves</u>			
Issued, subscribed and paid-up capital	20	204,597	204,597
Reserves			
Capital reserves			
Share premium and other reserves		45,304	40,543
Revaluation surplus on property, plant and machinery		849,056	877,100
Revenue reserves	21	894,360	917,643
General reserve		285,000	285,000
Accumulated profits		841,416	647,783
	21	1,126,416	932,783
Total equity		2,225,373	2,055,023
<u>Non-current liabilities</u>			
Long term financing - secured	22	152,498	120,122
Deferred income	23	1,155	2,077
Staff retirement and other long term benefits	24	75,589	138,527
Deferred taxation		-	15,453
		229,242	276,179
<u>Current liabilities</u>			
Trade and other payables	25	1,569,174	900,926
Current portion of deferred income		2,407	1,662
Current maturity of long term financing		107,884	227,759
Unclaimed dividend		7,551	6,687
Accrued markup	26	22,479	35,173
Short term borrowings - secured	27	847,505	1,051,551
		2,557,000	2,223,758
		2,786,242	2,499,937
Contingencies and commitments	28		
		5,011,615	4,554,960

The annexed notes 1 to 52 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive

Director

Statement of Profit or Loss

For the year ended 30 June 2021

Rupees in thousand	Note	2021	2020
Revenue	29	5,602,160	4,177,951
Cost of sales	30	(4,485,600)	(3,301,617)
Gross profit		1,116,560	876,334
Selling and distribution costs	31	(538,891)	(479,685)
Administrative and general expenses	32	(172,057)	(167,647)
Impairment loss on trade debts and other receivables		(61,923)	-
Other income	33	91,580	84,041
Other expenses	34	(50,465)	(8,461)
		(731,756)	(571,752)
Profit from operations		384,804	304,582
Finance cost	35	(117,758)	(190,050)
Profit before taxation		267,046	114,532
Taxation	36	(71,825)	(40,224)
Profit after taxation		195,221	74,308
		Rupees	Rupees
Earnings per share - basic and diluted	37	9.54	3.63

The annexed notes 1 to 52 form an integral part of these financial statements.

Statement of Comprehensive Income

For the year ended 30 June 2021

Rupees in thousand	2021	2020
Profit after taxation	195,221	74,308
<u>Other comprehensive income</u>		
<u>Items that will not be reclassified to statement of profit or loss</u>		
Revaluation surplus on property, plant and machinery	-	472,492
Related deferred tax liability on revaluation surplus on property, plant and machinery	-	(52,117)
	-	420,375
Fair value gain / (loss) on investment classified as FVOCI	4,761	(2,467)
Actuarial (loss) / gain on staff retirement benefits	(9,172)	2,998
Total comprehensive income for the year	190,810	495,214

The annexed notes 1 to 52 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2021

Rupees in thousand	Note	2021	2020
<u>Cash flows from operating activities</u>			
Profit before taxation		267,046	114,532
<i>Adjustments for non-cash and other items:</i>			
Depreciation on property, plant and equipment		134,793	78,183
Amortization on computer software		1,305	1,745
Gain on disposal of property, plant and equipment		(4,640)	(6,288)
Provision charged against slow moving stock - net		28,227	6,557
Insurance claim		-	(20,347)
Revaluation deficit		-	15,241
Impairment loss on trade debts and other receivables		61,923	47,908
Provision for staff retirement and other long term benefits		20,107	12,395
Provision for trade deposits and short term prepayments		-	495
Provision for doubtful deposits		-	381
Finance cost		117,758	190,050
Impairment on investment in associate		4,293	-
Impairment on goodwill		24,000	-
Amortization of deferred grant		(6,595)	-
Mark-up on term deposit receipts		(11,581)	(13,703)
		369,590	312,617
Operating profit before working capital changes		636,636	427,149
<u>Working capital changes</u>			
<i>(Increase) / decrease in current assets:</i>			
Stores, spare parts and loose tools		(4,898)	3,313
Stock-in-trade		(168,189)	(175,122)
Trade debts - unsecured		(231,784)	382,146
Loans and advances		(89,512)	(57,262)
Trade deposits and short term prepayments		2,362	6,673
Other receivables		(87,955)	(79,340)
		(579,976)	80,408
<i>Decrease / (increase) in current liabilities:</i>			
Trade and other payables		692,006	(289,925)
Cash generated from operations		748,666	217,632
Finance cost paid		(125,589)	(194,309)
Taxes paid - net		(82,478)	(2,782)
Staff retirement and other long term benefits paid		(92,217)	(24,919)
Long term loans - net		(19,524)	20,654
Long term deposits - net		(878)	2,949
		(320,686)	(198,407)
Net cash generated from operating activities		427,980	19,225
<u>Cash flows from investing activities</u>			
Capital expenditure incurred		(133,349)	(93,471)
Proceeds from disposal of property, plant and equipment		8,585	17,349
Mark-up received on term deposit and long term loan		9,748	13,889
Short term investments - net		2,195	-
Net cash used in investing activities		(112,821)	(62,233)
<u>Cash flows from financing activities</u>			
Long term financing - net		(87,676)	179,967
Dividend paid		(19,596)	(19,753)
Short term borrowings - net		(81,276)	41,976
Net cash (used in) / generated from financing activities		(188,548)	202,190
Net increase in cash and cash equivalents		126,611	159,182
Cash and cash equivalents at beginning of the year		(868,940)	(1,028,122)
Cash and cash equivalents at end of the year	38	(742,329)	(868,940)

The annexed notes 1 to 52 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive

Director

Statement of Changes in Equity

For the year ended 30 June 2021

Rupees in thousand

	Reserves							Total
	Capital			Revenue				
	Issued, subscribed and paid-up capital	Share premium	Surplus on revaluation on property, plant and machinery	Fair value reserve	General reserve	Accumulated Profits	Total reserves	
Balance as at 01 July 2019	204,597	34,086	472,012	8,924	285,000	575,650	1,375,672	1,580,269
<u>Total comprehensive income for the year ended 30 June 2020</u>								
Profit for the year	-	-	-	-	-	74,308	74,308	74,308
Other comprehensive income for the year								
- Fair value loss on <i>Investment classified as FVOCI</i>	-	-	-	(2,467)	-	-	(2,467)	(2,467)
- Revaluation surplus on property, plant and machinery	-	-	472,492	-	-	-	472,492	472,492
- Related deferred tax liability on revaluation surplus	-	-	(52,117)	-	-	-	(52,117)	(52,117)
- Actuarial gain on staff retirement benefits	-	-	-	-	-	2,998	2,998	2,998
Total comprehensive income for the year	-	-	420,375	(2,467)	-	77,306	495,214	495,214
Transfer of incremental depreciation from revaluation surplus on property, plant and machinery - <i>net of tax</i>	-	-	(15,127)	-	-	15,127	-	-
Transfer of revaluation surplus due to disposal of revalued assets	-	-	(160)	-	-	160	-	-
Transactions with the owners of the Company								
Final cash dividend at the rate of 10% (i.e. Re. 1 per share) for the year ended 30 June 2019	-	-	-	-	-	(20,460)	(20,460)	(20,460)
	-	-	(15,287)	-	-	(5,173)	(20,460)	(20,460)
Balance as at 30 June 2020	204,597	34,086	877,100	6,457	285,000	647,783	1,850,426	2,055,023
<u>Total comprehensive income for the year ended 30 June 2021</u>								
Profit for the year	-	-	-	-	-	195,221	195,221	195,221
Other comprehensive income for the year								
- Fair value gain on <i>investment classified as FVOCI</i>	-	-	-	4,761	-	-	4,761	4,761
- Actuarial loss on staff retirement benefits	-	-	-	-	-	(9,172)	(9,172)	(9,172)
Total comprehensive income for the year	-	-	-	4,761	-	186,049	190,810	190,810
Transfer of incremental depreciation from revaluation surplus on property, plant and machinery - <i>net of tax</i>	-	-	(28,044)	-	-	28,044	-	-
Transactions with the owners of the Company								
Final cash dividend at the rate of 10% (i.e. Re. 1 per share) for the year ended 30 June 2020	-	-	-	-	-	(20,460)	(20,460)	(20,460)
	-	-	(28,044)	-	-	7,584	(20,460)	(20,460)
Balance as at 30 June 2021	204,597	34,086	849,056	11,218	285,000	841,416	2,020,776	2,225,373

The annexed notes 1 to 52 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive

Director