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# Pre-Feasibility Study (Fast Food Restaurant)



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## 1 DISCLAIMER

This information memorandum is to introduce the subject matter and provide a general idea and information on the said matter. Although, the material included in this document is based on data/information gathered from various reliable sources; however, it is based upon certain assumptions, which may differ from case to case. The information has been provided on as is where is basis without any warranties or assertions as to the correctness or soundness thereof. Although, due care and diligence has been taken to compile this document, the contained information may vary due to any change in any of the concerned factors, and the actual results may differ substantially from the presented information. SMEDA, its employees or agents do not assume any liability for any financial or other loss resulting from this memorandum in consequence of undertaking this activity. The contained information does not preclude any further professional advice. The prospective user of this memorandum is encouraged to carry out additional diligence and gather any information which is necessary for making an informed decision, including taking professional advice from a qualified consultant/technical expert before taking any decision to act upon the information.

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## Document Control

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## 2 EXECUTIVE SUMMARY

The fast food restaurant is proposed to be established at a location that has a continuous stream of traffic, convenient parking, and is in proximity to other businesses, preferably near densely populated middle income areas or apartments. Major cities like Karachi, Hyderabad, Sukkur, Larkana, Multan, Lahore, Gujranwala, Faisalabad, Sialkot, Gujrat, Rawalpindi, Peshawar, Hub and Quetta etc. are suitable to house the project.

In addition to disclaimer, project cost can vary depending on a number of factors including monthly rental payments, cost of assets (kitchen, furniture and crockery) and hence will also reflect on menu prices.

Proposed Product Mix include: Broast, Burgers, Sandwiches, Chinese, French Fries, Cole Slaw and Soft drinks.

Restaurant capacity is for **72 persons** and initial capacity utilization is **42 %**.

Total Cost Estimates is **Rs.6.1 million** with fixed investment **Rs.4.6 million** and working capital **Rs.1.5 million**.

Given the cost assumptions IRR and payback are **39 %** and **2.55 years** respectively

The most critical considerations or factors for success of the project are:

- Choosing the right location for the fast food outlet
- Creating the right menu and menu pricing
- Hiring of experienced cooks and staff
- Knowing the competition

### 3 INTRODUCTION TO SMEDA

The Small and Medium Enterprises Development Authority (SMEDA) was established in October 1998 with an objective to provide fresh impetus to the economy through development of Small and Medium Enterprises (SMEs).

With a mission "to assist in employment generation and value addition to the national income, through development of the SME sector, by helping increase the number, scale and competitiveness of SMEs", SMEDA has carried out 'sectoral research' to identify policy, access to finance, business development services, strategic initiatives and institutional collaboration and networking initiatives.

Preparation and dissemination of prefeasibility studies in key areas of investment has been a successful hallmark of SME facilitation by SMEDA.

Concurrent to the prefeasibility studies, a broad spectrum of business development services is also offered to the SMEs by SMEDA. These services include identification of experts and consultants and delivery of need based capacity building programs of different types in addition to business guidance through help desk services.

### 4 PURPOSE OF THE DOCUMENT

The objective of the pre-feasibility study is primarily to facilitate potential entrepreneurs in project identification for investment. The project pre-feasibility may form the basis of an important investment decision and in order to serve this objective, the document/study covers various aspects of project concept development, start-up, and production, marketing, finance and business management.

The purpose of this document is to facilitate potential investors in **Fast Food Restaurant** by providing them with a general understanding of the business with the intention of supporting potential investors in crucial investment decisions.

The need to come up with pre-feasibility reports for undocumented or minimally documented sectors attains greater imminence as the research that precedes such reports reveal certain thumb rules; best practices developed by existing enterprises by trial and error, and certain industrial norms that become a guiding source regarding various aspects of business set-up and it's successful management.

Apart from carefully studying the whole document one must consider critical aspects provided later on, which form basis of any Investment Decision.

## 5 PROJECT PROFILE

### 5.1 Project Brief

Fast food is a food which is prepared and served quickly at outlets called fast-food restaurants. It is a multi-billion dollar industry which continues to grow rapidly in many countries. A fast-food restaurant is a restaurant characterized both by food which is supplied quickly after ordering, and by minimal service. Many fast-food restaurants are part of restaurant chains or franchise operations, and standardized foodstuffs are shipped to each restaurant from central locations. There are also simpler fast-food outlets, such as stand or kiosks, which may or may not provide shelter or chairs for customers. Because the capital requirement to start a fast-food restaurant is relatively small, particularly in areas with medium income population, small fast-food restaurants are growing throughout Pakistan.

### 5.2 Opportunity Rationale

The Fast Food Restaurant Market is a growing business in Pakistan relying heavily on the changing lifestyle patterns, population growth of the target age group and also related to increase in employment of women. With today's hectic lifestyles, time-saving products are increasingly in demand like the fast food restaurant.

Demand for convenience has driven expenditures where people want quick and convenient meals; they do not want to spend a lot of time preparing meals, traveling to pick up meals, or waiting for meals in restaurants. As a result, consumers rely on fast food. Knowing this, fast food providers are coming up with new ways to market their products that save time for consumers.

Consumers want to combine meal-time with time engaged in other activities, such as shopping, work, or travel, therefore allocating less time for food, hence the growing need for fast food.

### 5.3 The Fast Food Industry

The fast-food industry is popular in Pakistan. The presence of multinational fast food chains like McDonalds, KFC, Pizza Express, Pizza Hut, Subway etc. have somewhat catered to the high income segment. Multinational corporations such as these typically modify their menus to cater local Pakistani tastes and most overseas outlets are owned by native franchisees to ensure that cultural, ethnic, and community values are taken care of.

Additionally, multinational fast-food restaurants are not the only source of fast food in most cities of Pakistan. Many local restaurants have developed around the main cities of Pakistan (for example: Kolachi, Kababjees, Mirage, Bundu Khan, Usmania in Karachi) to compete with international restaurants and provide menu items that appeal to the unique regional tastes.

However much of the middle-income segment prefers visiting local outlets that offer low cost fast food, hence more frequent visits.

To start the fast food business following options can be considered according to current market trend (sorted with respect to investment size):

- Take away only kiosks are least expensive option available in which only counter and kitchen area are required to fulfill the take away orders. Example: Food Break at Bahadurabad in Karachi.
- Outdoor or without shelter open seating arrangement comes after take away only setup. It also include plastic chairs and tables to cater the orders. Example: Tipu Burger, Flamingo, Roll Inn and Chicks & Chips at Boat Basin in Karachi.
- Mix setup is the setup which includes partial outdoor and partial indoor setup. The quality of indoor furniture is better than the outdoor one. Example: Jan Broast, Nihari Inn, New Handi Inn, Café Peshawari at Boat Basin in Karachi.
- In Indoor setup there are two options:
  - Without air-condition restaurants are cheaper in capital cost which includes quality of furniture and interior décor, this cost also reflects in the menu. Example: Mr. Burger at Boat Basin. Golden Apple at Bahadurabad. Hyder's, Royal at Sindhi Muslim Co-operative Housing Society (S.M.C.H.S.) in Karachi.
  - Air-condition restaurants include good to high quality furniture and décor depending on the tier of the restaurant and investment size. Example: Sizzlez, Burger Lab, The Sauce, Food's Inn at S.M.C.H.S. in Karachi.

### 5.3.1 Increasing Number of Fast Food Outlets

The rapid rate at which the fast food industry continues to add outlets is as much a reflection of consumer demand for convenience as it is a reflection of demand for fast food itself. Expanding the number of outlets increases accessibility, thus making it more convenient for consumers to purchase fast food. Especially in recent years, much of the expansion has been in the form of "satellite" outlets. These tend to be smaller in size, with little or no seating capacity, and are often in nontraditional locations, such as office buildings, department stores, airports, and gasoline stations. Location should be chosen specifically to maximize convenience and accessibility of consumer.



### 5.3.2 Consumer Appeal

Fast-food outlets have become popular with consumers for several reasons. One is that through economies of scale in purchasing and producing food, these companies can deliver food to consumers at a very low cost.

Multinational Fast food chains like McDonald's rapidly gained a reputation for their cleanliness, fast service and a child-friendly atmosphere where families on the road could grab a quick meal, or seek a break from the routine of home cooking. Prior to the rise of the fast food chain restaurants, people generally had a choice between greasy-spoon diners (kiosk) where the quality of the food was often questionable and lacked quality service.

Fast food restaurants have rapidly become the eatery "everyone can agree on", with many featuring child-size menu combos, play areas and whimsical branding campaigns, designed to appeal to younger customers. Parents can have a few minutes of peace while children played or amused themselves with the toys included in the premises.

Many consumers see multinational fast food restaurants as symbols of the wealth, progress and well-ordered openness of Western society and therefore become trendy attractions in many cities around Pakistan, particularly among younger people with more varied tastes.

### 5.3.3 Focusing on Consumer Convenience

Fast Food outlets tend to focus on the "work while you eat" philosophy similar to the International chains at Airports and Railway stations wherein seating space is also available for passengers in transition or the outlets in large shopping malls in Karachi, Lahore, Islamabad and in other cities promoting the concept of "Shop While You Eat."

### 5.3.4 Increasing Market for Fast Food – The Population Boom

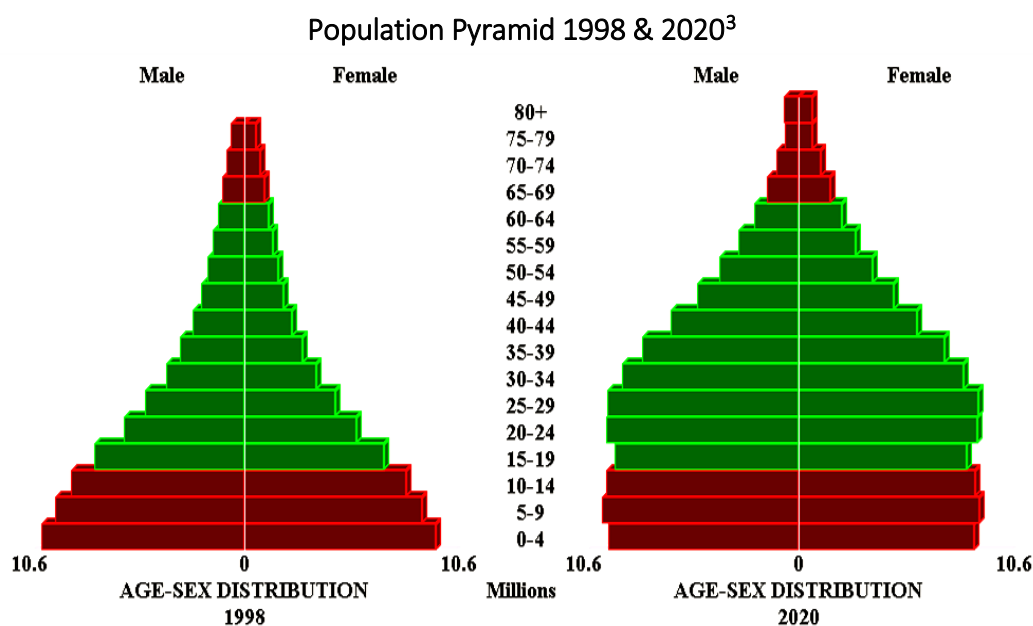
Pakistan, currently ranked as 6th in terms of total population, is characterized by a growth rate of 1.92% (Pakistan Economic Survey 2014-15) and is set to take 5th position in world in 2050 in terms of total population with already 191.71 Million people registered in 2014-15<sup>1</sup>. With this, the per capita income has increased to US\$ 1368 while the productive age group (15 to 59) years is said to take the major chunk of population (67% of total population) by 2020<sup>2</sup>.

The growth rate in food-service business is also augmented by the rapid increase in the employment rate for males / female population aging between 20 to 29 years hence the greater income contribution to the overall income is expected to be higher.

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<sup>1</sup> Economic Survey 2014-15

<sup>2</sup> Population Projections 1998-2023, Planning Commission; NIPS



### 5.3.5 The Future of the Industry

The Pakistani economy is becoming increasingly service-oriented, and over the past several decades, the food service industries that offer the highest levels of convenience have been rewarded with strong sales growth. In the face of rising population, incomes and increasingly hectic work schedules, a nearly insatiable demand for convenience will continue to drive fast food sales. Fast Food Outlets will strive to find ways to make their products even more accessible.

Even if incomes stagnate or attitudes change, consumers are unlikely to return to meal preparation at home on a large scale. This suggests that even if consumers choose to spend more time at home, for family or other reasons, much of the meal preparation will still occur elsewhere.

Many more table service restaurants, which traditionally focus on full-service in house dining, will likely try to capture part of this market by offering take-out, and possibly experimenting with home delivery.

The value of consumer time, as well as the demand for consistent, high-quality food products, will continue to shape the fast food industry. Fast food, once considered a novelty, has become an increasingly significant part of the young generation's diet. The role of convenience in this dietary shift cannot be over-emphasized, and the future growth of the rest of the food service industry will be driven in large part by its ability to find new ways to save consumers time.

<sup>3</sup> Population Projections 1998-2023, Planning Commission; NIPS

## 5.4 Key Success Factors / Practical Tips for Success

The three main critical success factors that affect the decision to invest in the proposed business setup are:

### i. Conceive the “Winning” Concept

A well-defined concept stands a much better chance of long term success than some vague notion. To start, it is wise to first set specific goals and decide on the ways you will measure your restaurants success.

### ii. Longevity

This can be described as the art of being able to maintain success over time while adjusting to meet the changing demands and buying habits of the customer. To open a restaurant successfully and become profitable is one thing, but to maintain that success over a long period of time is “winning.”

### iii. Consistency

To not simply open a restaurant, but to truly develop a winning concept requires implementing systems and procedures to ensure consistency of your operation.

### iv. Market Appeal

All restaurants want to be busy but winning concepts seem to have a broad appeal and well developed “points of difference” that enable them to dominate their market niche. To be the first place the customer thinks of going when choosing to dine out is the goal of the winning concept.

### v. Expandability

Consistency of quality and service, and operating systems and management procedures established in the first unit can result in more expandable opportunities where all systems are already developed and waiting to be implemented.

### vi. Menu Pricing

One of the most important factors in the strategic planning of a restaurant is in the development of the menu. It involves designing an appealing selection of menu items that are competitively priced in the marketplace. Menu pricing is a very tricky task

because you need to price items so that you can operate profitably and, just as important, offer your targeted guests a good price/value relationship.

### **vii. Selecting Prime Location**

The specific location within your target area is also critical. If you are situated in an infrequently traveled area nowhere near complimentary businesses or at the back of a mall, you limit your earning potential. Even if you are the only outlet in town you must gauge the likelihood of outsiders visiting your restaurant. If the restaurant is right off of a major freeway heavily traveled by truckers and road trippers you may be highly successful despite a remote location.

### **viii. Market Research**

This is probably the most critical factor for running a successful fast food restaurant. You need to visit fast food outlets, franchises and other chains to see how your 'concept' would fit into the neighborhood you are planning to target. Talk to customers to know their preferences, some detailed meetings with restaurant managers / owners over dinner would do the trick in obtaining best practices and critical information that otherwise could have been overlooked.

Keep in mind that because a concept works in one area does not mean it will be well-received by customers in your location. Tastes are subject to location preference and more often target market. In high scale urban areas (like PECHS, DHA, Clifton, Boat Basin, Bahadurabad, S.M.C.H.S, Gulshan-e-Iqbal, Gulistan-e-Johar etc.) you are more likely to be successful with a niche concept. Another thing to consider is competition. If your market is saturated with similar restaurants and the population may not be large enough to support more restaurants, you may want to rethink your concept.

## **5.5 Proposed Business Legal Status**

Although the legal status of business tends to play an important role in any setup, the proposed fast food restaurant business is assumed to operate on a sole proprietorship.

## **6 OPENING A SUCCESSFUL RESTAURANT**

From burger stands to barbeque steakhouses more and more restaurants are popping up in cities every day. Since restaurants are such a common business venture, people must enjoy running them. However, all of those advantages come at a price - building a restaurant from scratch is not an easy task. It is a hard and expensive process, and the reality is that many restaurants fail in their first year of business due to improper planning. But rest assured, there

are ways to reduce the risk of becoming another statistic. Following are some of the handy tips that can help run a successful fast food establishment.

## 6.1 How to Start a Restaurant?

### 6.1.1 Work in a Restaurant

One of the best ways to reduce the risk of owning a failed restaurant is to have some restaurant experience before you start. Many successful restaurateurs have said that the best way to prepare for owning a restaurant is by working in one, hopefully in an eatery similar to one you'd like to open. You'll learn more than just how to serve food with a smile; you can learn restaurant marketing, menu development, payroll, and other significant components of the restaurant world. Working in the restaurant industry and learning the basics is an important first step to becoming an owner.

### 6.1.2 Know Your Target Market

Who do you see eating at your restaurant? Are you targeting the family crowd, teenagers or seniors? Knowing your target market before you start planning will not only help you solidify your menu; it will help determine your location, décor and the overall atmosphere of your restaurant. A family-style restaurant, which caters to parents and their kids, may not appeal to seniors. On the other hand, an upscale, quiet restaurant offering a two-hour dining experience wouldn't be appealing to teenagers or families with small children.

### 6.1.3 Select a Service Style & Food Concept

What type of restaurant do you see yourself owning? Typically, your service style will either be fast-food, which offers food types that range from burgers, fries, soups and sandwiches; mid-scale, which has full course meals at value prices; or upscale, offering full service meals with high-class ambiance and, in turn, higher prices.

After narrowing your establishment to one of these three options, you can narrow your style of food choices. Is there a particular type of cuisine that you see yourself serving? Do you prefer pizza or soup? Sandwiches or Chinese? Choosing your food concept goes hand-in-hand with your choice in service style.

### 6.1.4 Develop a Business Plan

Like any other type of company, a restaurant will need a concise business plan. This plan should include but is not limited to: the overall concept and goal of the restaurant; specific financial information and projections; a description of the target market; the menu and pricing; equipment and employee details; advertising and marketing plan; and a potential exit strategy.

### 6.1.5 Create ‘the Menu’ and not ‘a menu’

The menu can make or break a restaurant, and should be in accordance with the overall concept of the restaurant. Revisit the business plan to make sure the menu is attractive to the target market, is affordable within specified budget, and complements the restaurant's design concept. For example, if the restaurant is family-friendly, you will need a kids menu. If it is supposed to be an upscale establishment, a lot of thought will have to go into the dessert list.

### 6.1.6 Choose a Location & Layout

It is important to find a location that has a continuous stream of traffic, convenient parking, and is in proximity to other businesses (especially if you're catering to the lunch crowd). It is necessary to revisit the business plan to make sure you are close to your target market. If you are opening a fast food restaurant, it may not be the best idea to open it in the vicinity of upscale homes but preferably near flats. In addition, make sure that the monthly rent is in-line with the business plan's projected profit so that you do not become building-poor.

Once you find your location, the layout and design of the interior should be taken into account. You should already have a concept of your restaurant in your business plan; bring this concept into the design of the dining room. When designing your kitchen area, think about what's on your menu in order to determine what is needed for the food preparation area.

### 6.1.7 Getting the Appropriate Funding

The business plan will help you recognize how much money you will need to start your restaurant. If you are unsure about how much money you will need upfront, talking to other restaurant owners can help you project your expected start-up costs. There are numerous ways restaurateurs raise capital to start their business, including taking advantage of government programs that cater to upstart small business owners; liquidating assets or using them as collateral for a loan; or encouraging a family or friend to become the creditor.

### 6.1.8 Be Familiar with Safety Regulations

Restaurants are regulated and subject to inspection, and failing to be up to speed with these regulations could be detrimental to the fast food outlet. Therefore it is necessary to consult with old restaurateurs to become familiar with what one must do to meet the necessary legal requirements.

### 6.1.9 Hiring Employees

One of the biggest challenges restaurants face is a lack of qualified labor. In order to get and retain qualified employees, make sure your pay scales relate clearly to the job's duties and responsibilities. In addition, find out what other restaurants are paying their employees so that you can be competitive in the job market, without spending too much on payroll. However try

linking your payroll with the bottom line and see how much money can be squeezed out for the employees.

### 6.1.10 Advertise & Market

Every business needs a comprehensive marketing plan, and restaurants are no exception. After determining your marketing budget, price out billboard advertising, flyers in newspapers, and local cable TV advertising. Ask your customers how they found out about you, so that you can record where your advertising and marketing money are best spent. Opening up food stalls and setting up tasting booths at local neighborhood events or having an event at the restaurant benefiting can be an inexpensive way to achieve positive word-of-mouth.

## 6.2 Choosing a Location

Not every food-service operation needs to be in a retail location, but for those that do depend on retail traffic like fast food outlets, here are some factors to consider when deciding on a location:

- **Anticipated sales volume:** How will the location contribute to your sales volume?
- **Accessibility to potential customers:** Consider how easy it will be for customers to get into your outlet. If you are relying on strong pedestrian traffic, consider whether or not nearby businesses will generate foot traffic for you.
- **The rent-paying capacity of your business:** If you've done a sales-and-profit projection for your first year of operation, you will know approximately how much revenue you can expect to generate, and you can use that information to decide how much rent you can afford to pay.
- **Traffic density:** With careful examination of food traffic, you can determine the approximate sales potential of each pedestrian passing a given location. Two factors are especially important in this analysis: total pedestrian traffic during business hours and the percentage of it that is likely to patronize your food service business.
- **Visibility is a location's ability to be seen and recognized:** Good visibility can create opportunities for the impulse eating decision that is critical for fast food operators, and it allows the exposure full-service restaurants require.
- **Customer parking facilities:** In case you allow for parking the site should provide convenient, adequate parking as well as easy access for customers.

- **Proximity to other businesses:** Neighboring businesses may influence your store's volume, and their presence can work for you or against you.
- **History of the site:** Find out the recent history of each site under consideration before you make a final selection. Who were the previous tenants, and why are they no longer there?
- **Terms of the lease:** Be sure you understand all the details of the lease, because it's possible that an excellent site may have unacceptable leasing terms.
- **Future development:** Check with the local planning board to see if anything is planned for the future that could affect your business, such as additional buildings nearby or road construction.

### 6.3 Deciding on the Layout

Layout and design are major factors in your restaurant's success. You'll need to take into account the size and layout of the dining room, kitchen space, storage space and counter. Typically, restaurants allot 40 to 60 percent of their space to the dining area, approximately 30 percent to the kitchen and prep area, and the remainder to storage and office space.

- **Dining area:** This is where you'll be making the bulk of your money, so don't cut corners when designing your dining room. Visit restaurants in your area and analyze the décor. Watch the diners; do they react positively to the décor? Is it comfortable or are people shifting in their seats throughout their meals? Note what works well and what doesn't.

Much of your dining room design will depend on your concept. It will help you to know that 40 to 50 percent of all sit-down customers arrive in pairs; 30 percent come alone or in parties of three; and 20 percent come in groups of four or more.

To accommodate the different groups of customers, use tables for four that can be pushed together in areas where there is ample floor space. This gives you flexibility in accommodating both small and large parties. Place booths for four to six people along the walls.

- **Production area:** Too often, the production area in a restaurant is inefficiently designed—the result is a poorly organized kitchen and less than top-notch service. Keep your menu in mind as you determine each element in the production area. You'll need to include space for receiving, storage, food preparation, cooking, baking, dishwashing, production aisles, trash storage, employee facilities and an area for a small office where you can perform daily management duties.



Arrange your food production area so that everything is just a few steps away from the cook. Your design should also allow for two or more cooks to be able to work side by side during your busiest hours.

## 6.4 Designing & Decor

Since customers ultimately drive restaurant design trends, many of your restaurant design ideas will come from your clientele. Successful restaurant design ideas are bred with an understanding of the types of experiences your customers are looking for and the promise your brand has made to them. You may know what types of menu items they crave, but do you know what kinds of restaurant design ideas create an atmosphere that will welcome them time and time again?

- **Step One:** The restaurant designer's process begins with a thorough understanding of the eatery's menu, location, customers, architectural preferences and lighting concerns. More than just a design power, the restaurant designer's process includes budget considerations, timelines and coordination with city officials to secure necessary building permits.
- **Step Two:** The most effective restaurant design considers the flow of waiter staff from the kitchen to the dining area or from the dining area to the restrooms. The restaurant designer's process contemplates the overall circulation within the restaurant for maximum efficiency
- **Step Three:** With the floor plan in hand and a concept in mind, the next stage in the restaurant designer's process is interior design. Sketches may depict color schemes, furniture placement, window treatments, artistic lighting and other aspects of the ambiance. This is also the part of the restaurant designer's process where we consider paints, wallpapers, foliage and artwork.

## 6.5 Creating a Menu

Though menu variety has increased over the years, menus themselves are growing shorter. Busy consumers don't want to read a lengthy menu before dinner; dining out is a recreational activity, so they're in the restaurant to relax. Keep your number of items in check and menu descriptions simple and straightforward, providing customers with a variety of choices in a concise format. Your menu should also indicate what dishes can be prepared to meet special dietary requirements. Items low in fat, sodium and cholesterol should also be marked as such.

## 6.6 Restaurant Size

That depends to some extent on how you answered the fundamental question mentioned above. For the sake of discussion, a restaurant can be understood in two parts; the front-house component and the back-house component, which we will call the engine. The back-house areas include, the cook-line, the food preparation areas, refrigerated and dry storage areas, office and the dishwashing area. The front-house functions are typically dining areas (interior and exterior), waiting area, to-go area, restroom, and private dining areas. The speed of product delivery; the size of the engine, a casual or formal atmosphere, and numbers of patrons you want to accommodate will all factor in to the amount of space you need for your restaurant. The goal is trying to maximize the number of patrons one can serve, out of the smallest most efficient back-house possible.

## 6.7 Hiring the Right Employees

Choosing employees who will do a good job is not only important to the success of your business, but will also contribute to the image of your establishment, provided they are properly trained.

There are several categories of personnel in the restaurant business: manager, cooks, servers, busboys, dishwashers and cleaners. When your restaurant is still new, some employees' duties may cross over from one category to another. For example, your servers may double as the cleaners. Be sure to hire people who are willing to be flexible in their duties.

- **Manager / Owner:** The most important employee in most restaurants is the manager. The best candidate is you or a person who has already managed a restaurant or restaurants in the area and will be familiar with local buying sources, suppliers and methods. The manager should have leadership skills and the ability to supervise personnel while reflecting the style and character of the restaurant.
- **Chefs and cooks:** When you start out, you'll need three cooks. But one lead cook may need to arrive early in the morning to begin preparing soups, bread and other items to be served that day. One cook should work days, and the other evenings. The third cook and one helper will help during peak hours, such as weekend rushes, and can work as a line cook during slower periods, doing simple preparation. Cooking schools can usually provide you with leads to the best in the business, but look around and place newspaper ads before you hire. Customers will become regulars only if they can expect the best every time they dine at your restaurant. To provide that, you'll need top-notch cooks and chefs.

- **Servers:** The servers will have the most interaction with customers, so they need to make a favorable impression and work well under pressure, meeting the demands of customers at several tables while maintaining a pleasant demeanor. There are two times of day for wait staff: very slow and very busy. Schedule your employees accordingly. The lunch rush, for example, starts around 12:00 a.m. and continues until 1:30 or 2 p.m. Restaurants are often slow again until the dinner crowd arrives around 6:30 to 7 p.m.

## 6.8 A Good Fast Food Restaurant Experience

Based on some surveys conducted with fast food goers following are some of the factors that contribute to a good fast food experience:

- Location
- Characteristics
- Welcome
- Food server
- Food.
- Environment (parking, restrooms, lighting).
- Dessert Variety
- Smile factor.
- Time factor.
- Profit factor (beverages offered, dessert menus presented).

Measuring good service is subjective, but generally what is expected from a server when reviewing restaurants.

- The server should greet diners within 3 minutes of their being seated.
- The server should neat and clean.
- The server should not be too chatty or familiar.
- The server should know the menu and be able to answer questions.
- The server should bring drinks within 3 minutes of being ordered.
- The appetizer (if any) should be served within 5 minutes of ordering.
- Entrees should be served within 20 minutes of ordering.
- Water or beverage glasses should be refilled regularly.
- The server should silently survey the table and assess our needs without constantly interrupting to ask, "Do you need anything else?"
- The bill should be brought promptly when requested, and change should be returned promptly.

- Plates should be removed at the proper time, and the table should be cleared of bread and butter before dessert is served.

## 6.9 Legal Requirements

The Pakistan Hotels and Restaurant Acts Act 1976 is the law which requires the owners of all types of restaurants to register and obtain a license with the government. The restaurant owner is required to apply to the controller for registration of the restaurant.

Application for registration and determination of fair rates shall be made to the controller in Form "G" together with a certificate of medical fitness in Form "I" from a registered medical officer of the civil hospital in respect of the staff of the restaurant.

For registration of a restaurant, the owner of the restaurant is required to conform to the standard of health, hygiene and comfort which standards have been set out in Schedule II of the act.

On receipt of application, the controller will carry out inspection of the aforementioned premises and once satisfied will initiate the registration process. Once registered the owner of the restaurant will apply to the controller for license as per the Act which needs to be renewed on a yearly basis for the prescribed fee.

## 6.10 Project Investment

This section will provide the total cost of the project.

| DESCRIPTION                    | AMOUNT<br>(Rs.)  |
|--------------------------------|------------------|
| <b>Capital Cost</b>            |                  |
| Renovation                     | 1,500,000        |
| Machinery & Equipment          | 1,312,500        |
| Furniture & Fixtures           | 970,000          |
| Office Equipment               | 135,000          |
| Pre-operating Costs            | 665,000          |
| <b>Total Capital Cost</b>      | <b>4,582,500</b> |
| <b>Working Capital</b>         |                  |
| Equipment Spare Part Inventory | 43,546           |
| Raw Material Inventory         | 174,182          |
| Upfront Building Rent          | 1,260,000        |
| Cash                           | 50,000           |
| <b>Total Working Capital</b>   | <b>1,527,728</b> |
| <b>TOTAL PROJECT COST</b>      | <b>6,110,228</b> |

## 6.11 Proposed Product Mix

The entrepreneur must have the requisite skills to decide on whether to introduce product mix or single product for example burger or Bar B. Q. or Biryani only restaurant. This approach can limit the number of person visit daily and helps to reduce the kitchen appliances required based on the particular product.

The proposed project is assumed to provide customers with a variety of fast food items as outlined in the following menu:

| <b>Broast</b>         | <b>Price</b> | <b>Chinese</b>                 | <b>Price</b> |
|-----------------------|--------------|--------------------------------|--------------|
| Chicken Broast (Qtr.) | 200          | Hot & Sour Soup (2 Servings)   | 300          |
| Chicken Broast (Half) | 400          | Hot & Sour Soup (4 Servings)   | 600          |
| Chicken Broast (Full) | 800          | Chicken Corn Soup (2 Servings) | 250          |
|                       |              | Chicken Corn Soup (4 Servings) | 500          |
| <b>Burgers</b>        | <b>Price</b> | Plain Rice                     | 100          |
| Chicken Burger        | 180          | Chicken Fried Rice             | 200          |
| Chicken Cheese Burger | 200          | Vegetable Fried Rice           | 120          |
| Beef Burger           | 180          | Egg Fried Rice                 | 150          |
| Beef Cheese Burger    | 200          | Beef Fried Rice                | 200          |
| Zinger Burger         | 220          | Beef Chilli (w/o rice)         | 300          |
|                       |              | Chicken Chilli (w/o rice)      | 300          |
| <b>Sandwiches</b>     | <b>Price</b> | <b>Price</b>                   |              |
| Chicken Sandwich      | 200          | French Fries (per plate)       | 100          |
| Egg Sandwich          | 150          | Cole Slaw                      | 100          |
| Beef Sandwich         | 200          | Soft Drinks (Large)            | 100          |
| Club Sandwich         | 250          | Soft Drinks (Regular)          | 30           |

*\*Note: Prices can be increased or decreased depending on the quality and location.*

It is desirable to have a vast variety of food items to capture a larger target audience but initially the entrepreneur needs to be careful in choosing the right product mix that has the greatest acceptability such that the sales volume generated are able to cover the initial setup costs and desired profit margins. Once the fast food restaurant achieves a steady sales pattern further food items like Barbeque can be added and similarly for desserts, ice cream would be the best potential. In case circumstances demand items other than the proposed menu the entrepreneur should make immediate changes to the menu before he starts losing out customers.

One important factor to consider here is that the entrepreneur must have the requisite skills to decide on whether to introduce a new product line like Barbeque, Pizza, Biryani, Desert, Shakes, fresh Juices, Ice cream, etc. or add a new item to the existing product line both of which might require the purchase of additional kitchen equipment. Hence the experience of the entrepreneur will play an important role in determining the course of action.

The current price trend of different food items differ due to the factors of popularity of the restaurant, quality of food, quality of service and the location of the restaurant. Few of the examples of price range are as follows:<sup>4</sup>

- Price range of normal chicken burger is from Rs.175-300.
- Price range of Broast is from Rs.200-300.
- Price range of Chicken Sandwich is from Rs.150-250
- Price range of Club Sandwich is from Rs.200-300

## 6.12 Recommended Project Parameters

| Capacity              | Initial Capacity Utilization | Human Resource | Equipment      | Location                         |
|-----------------------|------------------------------|----------------|----------------|----------------------------------|
| 288 Customers per day | 42 %                         | 16             | New            | Middle to High Income Level Area |
| Financial Summary     |                              |                |                |                                  |
| Project Cost          | IRR                          | NPV            | Payback Period | Cost of Capital (WACC)           |
| 6,110,228             | 39 %                         | 2,781,902      | 2.55           | 25 %                             |

## 6.13 Proposed Location

The fast food restaurant is proposed to be established at a location that has a continuous stream of traffic, convenient parking, and is in proximity to other businesses, preferably near densely populated middle income areas or flat complexes. Major cities like Karachi, Hyderabad, Sukkur, Larkana, Multan, Lahore, Gujranwala, Faisalabad, Sialkot, Gujrat, Rawalpindi, Peshawar, Hub and Quetta etc. are suitable to house the project.

<sup>4</sup> Prices are based on market research of selected areas and restaurants

## 7 MACHINERY & EQUIPMENT

Understanding the customer's individual needs and the capability to satisfy these completely is a vital part of the restaurant's success. This is in turn dependent on the machinery and equipment used to produce good quality fast food. Fast Food Machines are easily available in the market wherein the owner has to choose between expensive brands and cheaper ones depending on how much he can afford to give quality to his customers. Secondhand equipment of world leading brands such as SPINZER, FRYMASTER, HENNY PENNY, LINCOLN, AYRKING, KEATING, MIRROR, CARPIGANI, LINCAT, MORRETTI, ILSA, ROUND-UP, SANYO, ELETTROBAR are available while cheaper Chinese brands have gained popularity over the years. The machines can be ordered through international vendors with a minimum delivery period of 3 months while refurbished / reconditioned machines are also available. Some outlets closing their business also tend to sell their machinery at low prices but the durability and reliability factor must be taken into consideration while buying such machines.

The typical fast food restaurant as outlined above would require the following machine / equipment for its operations:

| ITEM DETAILS  | QUANTITY | UNIT PRICE (RS.) | TOTAL PRICE(RS) |
|---|----------|------------------|-----------------|
| Freezers (12 cf)  | 03       | 45,000           | 135,000         |
| New Broast Machine (15 Pound Capacity)*                 | 01       | 200,000          | 200,000         |
| Deep Well Frier (Single Valve With 2 Baskets)           | 02       | 80,000           | 160,000         |
| Hot Plate for Burgers, Kebab, Sandwiches<br>(30" x 22") | 01       | 50,000           | 50,000          |
| Bin Marry Soup Container (2 Valve With Steel Cabinet)   | 01       | 120,000          | 120,000         |
| Potato Cutter (8mm)                                     | 01       | 5,000            | 5,000           |

|   |     |         |                  |
|---|-----|---------|------------------|
| Pillar (4.5 Kg Potato Peeling Capacity) | 01  | 30,000  | 30,000           |
| Microwave                               | 01  | 15,000  | 15,000           |
| Working Tables                          | 02  | 25,000  | 50,000           |
| Keg Racks & Shelves                     | 02  | 20,000  | 40,000           |
| Crockery / Cutlery                      | 108 | 1,000   | 150,000          |
| Generator 15 KVA                        | 01  | 322,500 | 322,500          |
| Water Geyser                            | 01  | 35,000  | 35,000           |
| <b>Total</b>                            |     |         | <b>1,312,500</b> |

*\*Cutlery to be 1.5 times the maximum capacity (i.e. 72 customers)*

## 7.1 Machinery Maintenance

All machines require routine cleaning and maintenance after every three months and an annual service which costs around 01% to 05% of the total cost depending upon the use of the machine and operator's skill. We have assumed 01% of the product quantity sold as the annual maintenance cost.

## 7.2 Furniture & Fixtures

The restaurant is expected to entertain a minimum of 288 customers at 04 table rotation in a day, which requires a good seating layout to avoid any confusion and problems during rush hours. The following table gives the details of the dining tables and chairs that would serve approximately 72 customers (maximum capacity) at a time:

| ITEM DETAILS                          | QUANTITY | UNIT PRICE (RS.) | TOTAL PRICE (RS.) |
|---------------------------------------|----------|------------------|-------------------|
| Dining Table – Square plus 04 chairs. | 18       | 36,000           | 648,000           |
| Lights                                | 50       | 800              | 40,000            |



|                                      |    |        |                |
|--------------------------------------|----|--------|----------------|
| Counter Chairs                       | 02 | 6,000  | 12,000         |
| Office Table and Chair               | 01 | 25,000 | 25,000         |
| Waiting Area for Take Away Customers | 05 | 4,000  | 20,000         |
| Air Conditioner Split Units (02 Ton) | 05 | 45,000 | 225,000        |
| <b>Total</b>                         |    |        | <b>970,000</b> |

### 7.3 Office Equipment

| ITEM DETAILS  | QUANTITY | UNIT PRICE (RS.) | TOTAL PRICE (RS.) |
|---------------|----------|------------------|-------------------|
| Laptop        | 01       | 45,000           | 45,000            |
| Printer       | 01       | 25,000           | 25,000            |
| Telephones    | 02       | 2,500            | 5,000             |
| Cash Register | 01       | 60,000           | 60,000            |
| <b>Total</b>  |          |                  | <b>135,000</b>    |

## 8 LAND & BUILDING REQUIREMENT

### 8.1 Land Requirement

The land requirement is around 1,500 sq.ft. in densely populated area where all utilities and facilities are properly available. It is recommended that the fast food outlet be opened on the ground floor of flats or in the shopping mall where the consumer traffic will be maximum.

## 8.2 Dedicated Area Requirement

The floor space needs to be carefully allocated to allow for maximum dining space for customers in rush hours. The allocation of space between different sections would be as follows:

| DETAILS               | %<br>(SQ. FEET) | SIZE<br>(SQ. FEET) |
|-----------------------|-----------------|--------------------|
| Dining                | 60 %            | 900                |
| Waiting               | 5 %             | 80                 |
| Kitchen & Preparation | 30 %            | 450                |
| Stores                | 5%              | 70                 |

| DETAILS      | SIZE<br>(SQ. FEET) | CIVIL WORKS & DÉCOR*<br>(COST IN RS. / SQUARE<br>FEET) | TOTAL RENOVATION COST<br>(RS.) |
|--------------|--------------------|--|--------------------------------|
| <b>Total</b> | <b>1,500</b>       | <b>1000</b>  | <b>1,500,000</b>               |

\* Includes interior decoration.

## 8.3 Recommended Mode

The proposed premises will be acquired on a rental basis with 6 month deposit and 6 months advance rent after which rent will be payable on a monthly basis. For this Pre-feasibility the monthly rent is assumed to be approximately Rs. 70/ Sq Feet for the ground floor which would amount to Rs. 105,000 per month for the proposed fast food outlet (1,500 Sq Ft.)

## 9 HUMAN RESOURCE REQUIREMENT

The human resource requirement for the general and management staff are as follows:

| DESIGNATION / TYPE              | NUMBER    | MONTHLY SALARY<br>(RS.) | TOTAL MONTHLY SALARY<br>(RS.) |
|---------------------------------|-----------|-------------------------|-------------------------------|
| Manager*                        | 01        | 25,000                  | 25,000                        |
| Chef / Kitchen Supervisor       | 01        | 25,000                  | 25,000                        |
| Supervisor (including reliever) | 01        | 15,000                  | 15,000                        |
| Cook                            | 03        | 15,000                  | 45,000                        |
| Helper                          | 01        | 13,000                  | 13,000                        |
| Dishwasher                      | 01        | 13,000                  | 13,000                        |
| Waiters / Servers               | 06        | 13,000                  | 78,000                        |
| Cleaner                         | 01        | 13,000                  | 13,000                        |
| Guard                           | 01        | 13,000                  | 13,000                        |
| <b>Total</b>                    | <b>16</b> |                         | <b>240,000</b>                |

*\*Manager can be owner him/herself*

Considering the size of the proposed establishment it is assumed that the owner would be managing the overall affairs of the fast food setup. He will be required to process and check bills, invoices, receivables management, maintain accounts, etc. for record. The owner will also ensure safe custody of store keys and it is important to note that many food outlets tend to lose out due to inadequate cash control by the owners especially during rush hours where the counter staff can easily slip out one or two payments.

## 10 FINANCIAL ANALYSIS & KEY ASSUMPTIONS

The project cost estimates for the proposed fast food outlet have been formulated on the basis of discussions with relevant stakeholders and experts. The cost projections cover the cost of land, building, inventory, equipment including office furniture etc. The specific assumptions relating to individual cost components are given as under:

### 10.1 Revenue & Cost Projections

The Sales are expected to increase by 07% every year while the cost of raw materials is assumed to increase by 05%. The 02% annual increase in revenue is expected to result from a part increase in population increase and part increase in product price.

The prices used to calculate the gross revenue earned are based on the billing rate at which the entrepreneur will charge the customer. The prices are also inclusive of the General Sales Tax.

Furthermore it is assumed that the following sales breakup will form the revenue streams for the fast food outlet

| REVENUE STREAM | % OF TOTAL SALES |
|----------------|------------------|
| Dine In        | 70%              |
| Take Away      | 30%              |

The minimum order size is assumed to be Rs. 300/- per order. For Take Away another 1% of sales added cost due to packing is assumed.

### 10.2 Rent Cost

The rent for the assumed premises will be Rs. 105,000/- per month. It is assumed that Rs. 1,260,000 will be given in advance before possession of premises. This will include 6 months deposit and 6 month advance rent. The rent would be payable on a monthly basis and is expected to increase at the rate of 10% per annum for the projected period.

### 10.3 Utilities Requirement

The following table presents the assumed breakup of utilities on a monthly basis:

| UTILITY                         | MONTHLY CHARGES (RS.) |
|---------------------------------|-----------------------|
| Electricity (Direct & Indirect) | 77,443                |
| Water                           | 4,355                 |
| Gas                             | 21,773                |
| Telephone                       | 1,520                 |
| <b>Total</b>                    | <b>105,091</b>        |

As depicted above the most of the fast food machines require considerable gas during the preparation process. The preheating procedure of the equipment before commencement of preparation also consumes considerable gas. It is assumed that utilities expenses will be increased by 10% every year.

#### 10.4 Depreciation on Building & Equipment

Depreciation on Shop, Equipment, Machinery and Fixtures is assumed to be at the rate of 10% per annum based on the diminishing balance method for the projected period.

#### 10.5 Account Receivables

All sales will be made strictly on cash basis. It is not advisable to operate a fast food restaurant on credit basis.

#### 10.6 Miscellaneous Outlet Expenses

A yearly figure of Rs. 100,000 is assumed to be incurred for miscellaneous expenses which are expected to increase at the rate of 10% per annum for the projected period.

#### 10.7 Taxation

The tax rate applicable to sole proprietorship is the same as that of the salaried individual. Therefore, we are assuming that the tax rate would be the same for the proposed fast food setup.

## 10.8 Source of Capital

The source of capital is explained in the following table:

| Particulars | Rate  |
|-------------|-------|
| Debt        | 0 %   |
| Equity      | 100 % |

## 10.9 Owner's Withdrawal

It is assumed that the owner will withdraw from the business once the desired profitability is reached from the start of operations. The amount would depend on business sustainability and availability of funds for future growth.

## 11 USEFUL WEB LINKS

|   | <b>Websites</b>  |
|---|--|
| <b>Small &amp; Medium Enterprises Development Authority (SMEDA)</b>             | <a href="http://www.smeda.org.pk">www.smeda.org.pk</a>                         |
| <b>Government of Pakistan</b>   | <a href="http://www.pakistan.gov.pk">www.pakistan.gov.pk</a>                   |
| <b>Ministry of Industries &amp; Production</b>                                  | <a href="http://www.moip.gov.pk">www.moip.gov.pk</a>                           |
| <b>Ministry of Education, Training &amp; Standards in Higher Education</b>      | <a href="http://moptt.gov.pk">http://moptt.gov.pk</a>                          |
| <b>Government of Punjab</b>   | <a href="http://www.punjab.gov.pk">www.punjab.gov.pk</a>                       |
| <b>Government of Sindh</b>  | <a href="http://www.sindh.gov.pk">www.sindh.gov.pk</a>                         |
| <b>Government of Khyber Pakhtunkhwa</b>   | <a href="http://www.khyberpakhtunkhwa.gov.pk">www.khyberpakhtunkhwa.gov.pk</a> |
| <b>Government of Balochistan</b>  | <a href="http://www.balochistan.gov.pk">www.balochistan.gov.pk</a>             |
| <b>Government of Gilgit Baltistan</b>   | <a href="http://www.gilgitbaltistan.gov.pk">www.gilgitbaltistan.gov.pk</a>     |
| <b>Government of Azad Jamu Kashmir</b>  | <a href="http://www.ajk.gov.pk">www.ajk.gov.pk</a>                             |
| <b>Trade Development Authority of Pakistan (TDAP)</b>                           | <a href="http://www.tdap.gov.pk">www.tdap.gov.pk</a>                           |
| <b>Security Commission of Pakistan (SECP)</b>                                   | <a href="http://www.secp.gov.pk">www.secp.gov.pk</a>                           |
| <b>Federation of Pakistan Chambers of Commerce and Industry (FPCCI)</b>         | <a href="http://www.fpcci.com.pk">www.fpcci.com.pk</a>                         |
| <b>State Bank of Pakistan (SBP)</b>   | <a href="http://www.sbp.org.pk">www.sbp.org.pk</a>                             |
| <b>Punjab Small Industries Corporation</b>                                      | <a href="http://www.psic.gop.pk">www.psic.gop.pk</a>                           |
| <b>Sindh Small Industries Corporation</b>                                       | <a href="http://www.ssic.gos.pk">www.ssic.gos.pk</a>                           |
| <b>Pakistan Horticulture Development and Export Company (PHDEC)</b>             | <a href="http://www.phdec.org.pk">www.phdec.org.pk</a>                         |
| <b>Punjab Vocational Training Council (PVTC)</b>                                | <a href="http://www.pvtc.gop.pk">www.pvtc.gop.pk</a>                           |
| <b>Technical Education and Vocational Training Authority (TEVTA)</b>            | <a href="http://www.tevta.org">www.tevta.org</a>                               |
| <b>Pakistan Readymade Garment Technical Training Institute</b>                  | <a href="http://www.prgmea.org/prgtti/">www.prgmea.org/prgtti/</a>             |
| <b>Livestock &amp; Dairy Development Department, Government of Punjab.</b>      | <a href="http://www.livestockpunjab.gov.pk">www.livestockpunjab.gov.pk</a>     |
| <b>Punjab Industrial Estates (PIE)</b>  | <a href="http://www.pie.com.pk">www.pie.com.pk</a>                             |
| <b>Faisalabad Industrial Estate Development and Management Company (FIEDMC)</b> | <a href="http://www.fiedmc.com.pk">www.fiedmc.com.pk</a>                       |

## 12 ANNEXURES

## 12.1 Income Statement

| <b>Calculations</b>   | <b>SMEDA</b>     |                  |                  |                  |                  |                  |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Income Statement</b>   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
|   | Year 1           | Year 2           | Year 3           | Year 4           | Year 5           | Year 6           | Year 7           | Year 8           | Year 9           | Year 10          |
| Revenue   | 13,063,680       | 14,257,700       | 15,560,854       | 16,983,116       | 18,535,373       | 20,229,506       | 21,645,572       | 23,160,762       | 24,782,015       | 26,516,756       |
| <i>Cost of sales</i>  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Cost of goods sold  | 4,180,378        | 4,598,415        | 5,058,257        | 5,564,083        | 6,120,491        | 6,732,540        | 7,405,794        | 8,146,373        | 8,961,011        | 9,857,112        |
| Operation costs 1 (direct labor)                                      | 1,968,000        | 2,164,800        | 2,381,280        | 2,619,408        | 2,881,349        | 3,169,484        | 3,486,432        | 3,835,075        | 4,218,583        | 4,640,441        |
| Operating costs 2 (machinery maintenance)                             | 43,546           | 47,526           | 50,900           | 54,514           | 58,384           | 62,530           | 65,656           | 68,939           | 72,386           | 76,005           |
| Operating costs 3 (direct electricity)                                | 65,318           | 73,287           | 82,228           | 92,260           | 103,516          | 116,145          | 127,759          | 140,535          | 154,589          | 170,048          |
| Operating costs 4 (direct water)                                      | 52,255           | 58,630           | 65,783           | 73,808           | 82,813           | 92,916           | 102,207          | 112,428          | 123,671          | 136,038          |
| Operating costs 5 (direct gas)  | 261,274          | 293,149          | 328,913          | 369,041          | 414,064          | 464,579          | 511,037          | 562,141          | 618,355          | 680,190          |
| Total cost of sales   | 6,570,770        | 7,235,807        | 7,967,361        | 8,773,113        | 9,660,616        | 10,638,193       | 11,698,886       | 12,865,492       | 14,148,594       | 15,559,834       |
| Gross Profit  | 6,492,910        | 7,021,893        | 7,593,493        | 8,210,003        | 8,874,757        | 9,591,313        | 9,946,686        | 10,295,270       | 10,633,421       | 10,956,922       |
| <i>General administration &amp; selling expenses</i>                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Administration expense  | 912,000          | 1,003,200        | 1,103,520        | 1,213,872        | 1,335,259        | 1,468,785        | 1,615,664        | 1,777,230        | 1,954,953        | 2,150,448        |
| Administration benefits expense                                       | 136,800          | 150,480          | 165,528          | 182,081          | 200,289          | 220,318          | 242,350          | 266,584          | 293,243          | 322,567          |
| Building rental expense   | 1,260,000        | 1,386,000        | 1,524,600        | 1,677,060        | 1,844,766        | 2,029,243        | 2,232,167        | 2,455,384        | 2,700,922        | 2,971,014        |
| Electricity expense   | 864,000          | 950,400          | 1,045,440        | 1,149,984        | 1,264,982        | 1,391,481        | 1,530,629        | 1,683,692        | 1,852,061        | 2,037,267        |
| Travelling expense  | 36,480           | 40,128           | 44,141           | 48,555           | 53,410           | 58,751           | 64,627           | 71,089           | 78,198           | 86,018           |
| Communications expense (phone, fax, mail, internet, etc.)             | 18,240           | 20,064           | 22,070           | 24,277           | 26,705           | 29,376           | 32,313           | 35,545           | 39,099           | 43,009           |
| Office expenses (stationary, entertainment, janitorial services, etc) | 22,800           | 25,080           | 27,588           | 30,347           | 33,381           | 36,720           | 40,392           | 44,431           | 48,874           | 53,761           |
| Professional fees (legal, audit, consultants, etc.)                   | 130,637          | 142,577          | 155,609          | 169,831          | 185,354          | 202,295          | 216,456          | 231,608          | 247,820          | 265,168          |
| Depreciation expense  | 316,750          | 316,750          | 316,750          | 316,750          | 316,750          | 316,750          | 316,750          | 316,750          | 316,750          | 316,750          |
| Amortization of pre-operating costs                                   | 133,000          | 133,000          | 133,000          | 133,000          | 133,000          | -                | -                | -                | -                | -                |
| Promotional expense   | 195,955          | 215,551          | 237,106          | 260,816          | 286,898          | 315,588          | 347,147          | 381,861          | 420,047          | 462,052          |
| Bad debt expense  | 130,637          | 142,577          | 155,609          | 169,831          | 185,354          | 202,295          | 216,456          | 231,608          | 247,820          | 265,168          |
| Miscellaneous expense & Wastage                                       | 100,000          | 110,000          | 121,000          | 133,100          | 146,410          | 161,051          | 177,156          | 194,872          | 214,359          | 235,795          |
| Subtotal  | 4,257,299        | 4,635,807        | 5,051,960        | 5,509,505        | 6,012,559        | 6,432,652        | 7,032,104        | 7,690,652        | 8,414,146        | 9,209,017        |
| Operating Income  | 2,235,611        | 2,386,087        | 2,541,533        | 2,700,498        | 2,862,198        | 3,158,661        | 2,914,581        | 2,604,617        | 2,219,275        | 1,747,905        |
| Earnings Before Interest & Taxes                                      | 2,235,611        | 2,386,087        | 2,541,533        | 2,700,498        | 2,862,198        | 3,158,661        | 2,914,581        | 2,604,617        | 2,219,275        | 1,747,905        |
| Earnings Before Tax   | 2,235,611        | 2,386,087        | 2,541,533        | 2,700,498        | 2,862,198        | 3,158,661        | 2,914,581        | 2,604,617        | 2,219,275        | 1,747,905        |
| Tax   | 447,122          | 477,217          | 508,307          | 540,100          | 572,440          | 631,732          | 582,916          | 520,923          | 443,855          | 349,581          |
| <b>NET PROFIT/(LOSS) AFTER TAX</b>                                    | <b>1,788,489</b> | <b>1,908,869</b> | <b>2,033,227</b> | <b>2,160,399</b> | <b>2,289,758</b> | <b>2,526,929</b> | <b>2,331,665</b> | <b>2,083,694</b> | <b>1,775,420</b> | <b>1,398,324</b> |
| Balance brought forward   | 894,245          | 1,401,557        | 1,401,557        | 1,717,392        | 1,938,895        | 2,114,327        | 2,320,628        | 2,326,146        | 2,204,920        | 3,980,340        |
| Total profit available for appropriation                              | 1,788,489        | 2,803,114        | 3,434,783        | 3,877,790        | 4,228,654        | 4,641,256        | 4,652,293        | 4,409,840        | 3,980,340        | 5,378,664        |
| Dividend  | 894,245          | 1,401,557        | 1,717,392        | 1,938,895        | 2,114,327        | 2,320,628        | 2,326,146        | 2,204,920        | -                | -                |
| Balance carried forward   | 894,245          | 1,401,557        | 1,717,392        | 1,938,895        | 2,114,327        | 2,320,628        | 2,326,146        | 2,204,920        | 3,980,340        | 5,378,664        |



## 12.2 Balance Sheet

| Calculations                                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   | SMEDA             |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
| Balance Sheet                                 |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |                   |
|   | Year 0           | Year 1           | Year 2           | Year 3           | Year 4           | Year 5           | Year 6           | Year 7           | Year 8           | Year 9            | Year 10           |
| <b>Assets</b>                                 |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |                   |
| <i>Current assets</i>                         |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |                   |
| Cash & Bank                                   | 1,205,000        | 2,748,712        | 3,672,435        | 4,396,271        | 5,019,592        | 5,589,729        | 6,024,991        | 6,251,574        | 6,342,403        | 8,318,339         | 11,006,558        |
| Accounts receivable                           |                  | 71,582           | 74,853           | 81,695           | 89,162           | 97,311           | 106,205          | 114,726          | 122,757          | 131,350           | 140,545           |
| Equipment spare part inventory                | 43,546           | 49,902           | 56,117           | 63,107           | 70,967           | 79,805           | 87,986           | 97,004           | 106,947          | 117,909           | -                 |
| Raw material inventory                        | 174,182          | 201,181          | 232,364          | 268,380          | 309,979          | 358,026          | 413,520          | 477,615          | 551,646          | 637,151           | -                 |
| Pre-paid building rent                        | 105,000          | 115,500          | 127,050          | 139,755          | 153,731          | 169,104          | 186,014          | 204,615          | 225,077          | 247,585           | -                 |
| <b>Total Current Assets</b>                   | <b>1,527,728</b> | <b>3,186,877</b> | <b>4,162,819</b> | <b>4,949,208</b> | <b>5,643,430</b> | <b>6,293,974</b> | <b>6,818,715</b> | <b>7,145,535</b> | <b>7,348,829</b> | <b>9,452,333</b>  | <b>11,147,102</b> |
| <i>Fixed assets</i>                           |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |                   |
| Building/Infrastructure                       | 1,500,000        | 1,425,000        | 1,350,000        | 1,275,000        | 1,200,000        | 1,125,000        | 1,050,000        | 975,000          | 900,000          | 825,000           | 750,000           |
| Machinery & equipment                         | 1,312,500        | 1,181,250        | 1,050,000        | 918,750          | 787,500          | 656,250          | 525,000          | 393,750          | 262,500          | 131,250           | -                 |
| Furniture & fixtures                          | 970,000          | 873,000          | 776,000          | 679,000          | 582,000          | 485,000          | 388,000          | 291,000          | 194,000          | 97,000            | -                 |
| Office equipment                              | 135,000          | 121,500          | 108,000          | 94,500           | 81,000           | 67,500           | 54,000           | 40,500           | 27,000           | 13,500            | -                 |
| <b>Total Fixed Assets</b>                     | <b>3,917,500</b> | <b>3,600,750</b> | <b>3,284,000</b> | <b>2,967,250</b> | <b>2,650,500</b> | <b>2,333,750</b> | <b>2,017,000</b> | <b>1,700,250</b> | <b>1,383,500</b> | <b>1,066,750</b>  | <b>750,000</b>    |
| <i>Intangible assets</i>                      |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |                   |
| Pre-operation costs                           | 665,000          | 532,000          | 399,000          | 266,000          | 133,000          | -                | -                | -                | -                | -                 | -                 |
| <b>Total Intangible Assets</b>                | <b>665,000</b>   | <b>532,000</b>   | <b>399,000</b>   | <b>266,000</b>   | <b>133,000</b>   | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>          | <b>-</b>          |
| <b>TOTAL ASSETS</b>                           | <b>6,110,228</b> | <b>7,319,627</b> | <b>7,845,819</b> | <b>8,182,458</b> | <b>8,426,930</b> | <b>8,627,724</b> | <b>8,835,715</b> | <b>8,845,785</b> | <b>8,732,329</b> | <b>10,519,083</b> | <b>11,897,102</b> |
| <b>Liabilities &amp; Shareholders' Equity</b> |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |                   |
| <i>Current liabilities</i>                    |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |                   |
| Accounts payable                              |                  | 183,904          | 202,784          | 223,588          | 246,557          | 271,919          | 299,859          | 330,660          | 364,681          | 402,265           | 408,210           |
| <b>Total Current Liabilities</b>              | <b>-</b>         | <b>183,904</b>   | <b>202,784</b>   | <b>223,588</b>   | <b>246,557</b>   | <b>271,919</b>   | <b>299,859</b>   | <b>330,660</b>   | <b>364,681</b>   | <b>402,265</b>    | <b>408,210</b>    |
| <i>Other liabilities</i>                      |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |                   |
| Deferred tax                                  |                  | 131,250          | 131,250          | 131,250          | 131,250          | 131,250          | 105,000          | 78,750           | 52,500           | 26,250            | -                 |
| <b>Total Long Term Liabilities</b>            | <b>-</b>         | <b>131,250</b>   | <b>131,250</b>   | <b>131,250</b>   | <b>131,250</b>   | <b>131,250</b>   | <b>105,000</b>   | <b>78,750</b>    | <b>52,500</b>    | <b>26,250</b>     | <b>-</b>          |
| <i>Shareholders' equity</i>                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |                   |
| Paid-up capital                               | 6,110,228        | 6,110,228        | 6,110,228        | 6,110,228        | 6,110,228        | 6,110,228        | 6,110,228        | 6,110,228        | 6,110,228        | 6,110,228         | 6,110,228         |
| Retained earnings                             |                  | 894,245          | 1,401,557        | 1,717,392        | 1,938,895        | 2,114,327        | 2,320,628        | 2,326,146        | 2,204,920        | 3,980,340         | 5,378,664         |
| <b>Total Equity</b>                           | <b>6,110,228</b> | <b>7,004,473</b> | <b>7,511,785</b> | <b>7,827,620</b> | <b>8,049,123</b> | <b>8,224,555</b> | <b>8,430,856</b> | <b>8,436,374</b> | <b>8,315,148</b> | <b>10,090,568</b> | <b>11,488,892</b> |
| <b>TOTAL CAPITAL AND LIABILITIES</b>          | <b>6,110,228</b> | <b>7,319,627</b> | <b>7,845,819</b> | <b>8,182,458</b> | <b>8,426,930</b> | <b>8,627,724</b> | <b>8,835,715</b> | <b>8,845,785</b> | <b>8,732,329</b> | <b>10,519,083</b> | <b>11,897,102</b> |

## 12.3 Cash Flow Statement

| Calculations                                       |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  | SMEDA            |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Cash Flow Statement                                |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
|  | Year 0           | Year 1           | Year 2           | Year 3           | Year 4           | Year 5           | Year 6           | Year 7           | Year 8           | Year 9           | Year 10          |
| <i>Operating activities</i>                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Net profit   |                  | 1,788,489        | 1,908,869        | 2,033,227        | 2,160,399        | 2,289,758        | 2,526,929        | 2,331,665        | 2,083,694        | 1,775,420        | 1,398,324        |
| Add: depreciation expense                          |                  | 316,750          | 316,750          | 316,750          | 316,750          | 316,750          | 316,750          | 316,750          | 316,750          | 316,750          | 316,750          |
| amortization of pre-operating costs                |                  | 133,000          | 133,000          | 133,000          | 133,000          | 133,000          | -                | -                | -                | -                | -                |
| Deferred income tax                                |                  | 131,250          | -                | -                | -                | -                | (26,250)         | (26,250)         | (26,250)         | (26,250)         | (26,250)         |
| Accounts receivable                                |                  | (71,582)         | (3,271)          | (6,842)          | (7,467)          | (8,149)          | (8,894)          | (8,521)          | (8,031)          | (8,593)          | (9,195)          |
| Equipment inventory                                | (43,546)         | (6,356)          | (6,215)          | (6,989)          | (7,860)          | (8,839)          | (8,180)          | (9,019)          | (9,943)          | (10,962)         | 117,909          |
| Raw material inventory                             | (174,182)        | (26,998)         | (31,183)         | (36,016)         | (41,599)         | (48,047)         | (55,494)         | (64,096)         | (74,030)         | (85,505)         | 637,151          |
| Pre-paid building rent                             | (105,000)        | (10,500)         | (11,550)         | (12,705)         | (13,976)         | (15,373)         | (16,910)         | (18,601)         | (20,462)         | (22,508)         | 247,585          |
| Accounts payable                                   |                  | 183,904          | 18,880           | 20,804           | 22,968           | 25,363           | 27,940           | 30,801           | 34,021           | 37,584           | 5,945            |
| Cash provided by operations                        | (322,728)        | 2,437,957        | 2,325,280        | 2,441,228        | 2,562,216        | 2,684,463        | 2,755,890        | 2,552,730        | 2,295,749        | 1,975,936        | 2,688,219        |
| <i>Financing activities</i>                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Issuance of shares                                 | 6,110,228        | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Cash provided by / (used for) financing activities | 6,110,228        | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| <i>Investing activities</i>                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Capital expenditure                                | (4,582,500)      | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Cash (used for) / provided by investing activities | (4,582,500)      | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| <b>NET CASH</b>                                    | <b>1,205,000</b> | <b>2,437,957</b> | <b>2,325,280</b> | <b>2,441,228</b> | <b>2,562,216</b> | <b>2,684,463</b> | <b>2,755,890</b> | <b>2,552,730</b> | <b>2,295,749</b> | <b>1,975,936</b> | <b>2,688,219</b> |
| Cash balance brought forward                       |                  | 1,205,000        | 2,748,712        | 3,672,435        | 4,396,271        | 5,019,592        | 5,589,729        | 6,024,991        | 6,251,574        | 6,342,403        | 8,318,339        |
| Cash available for appropriation                   | 1,205,000        | 3,642,957        | 5,073,992        | 6,113,663        | 6,958,487        | 7,704,055        | 8,345,619        | 8,577,720        | 8,547,323        | 8,318,339        | 11,006,558       |
| Dividend   |                  | 894,245          | 1,401,557        | 1,717,392        | 1,938,895        | 2,114,327        | 2,320,628        | 2,326,146        | 2,204,920        | -                | -                |
| Cash balance                                       | 1,205,000        | 2,748,712        | 3,672,435        | 4,396,271        | 5,019,592        | 5,589,729        | 6,024,991        | 6,251,574        | 6,342,403        | 8,318,339        | 11,006,558       |
| Cash carried forward                               | 1,205,000        | 2,748,712        | 3,672,435        | 4,396,271        | 5,019,592        | 5,589,729        | 6,024,991        | 6,251,574        | 6,342,403        | 8,318,339        | 11,006,558       |

### 13 KEY ASSUMPTIONS

| Item  | Assumption(s)                        |
|---|--------------------------------------|
| Revenue Increase                                  | 02 % per year                        |
| Sales Increase                                    | 07 % per year                        |
| Increase in Cost of Raw Materials                 | 05 % per year                        |
| Increase in Staff Salaries                        | 10 % per year                        |
| Increase in Utilities (Electricity / Water / Gas) | 10 % per year                        |
| Increase in Rent                                  | 10 % per year                        |
| Increase in Office Expenses                       | 10 % per year                        |
| Debt / Equity Ratio                               | 0 : 100                              |
| Depreciation                                      |                                      |
| o Shop Building & Fixtures                        | 10 % per annum (Diminishing Balance) |
| o Kitchenware & Machinery                         | 10 % per annum (Diminishing Balance) |
| o Furniture                                       | 10 % per annum (Diminishing Balance) |
| Equipment Annual Maintenance Cost                 | 01% of Production quantity sold      |
| Raw Material Inventory                            | 15 Days                              |
| Tax Rate  | Income Tax on Salaried Individuals   |

## 14 ANNEXURE: (LISCENCING AND REGULATORY REQUIREMENTS)

# LICENSING & OTHER REQUIREMENTS FOR MANUFACTURING, STORAGE AND SALE OF FOOD GOODS



PREPARED BY:  
LEGAL SERVICES CELL, BDS

June 30, 2008

**Small and Medium Enterprise Development Authority  
Government of Pakistan**

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## INTRODUCTION OF SMEDA

The Small and Medium Enterprise Development Authority (SMEDA) was established with the objective to provide fresh impetus to the economy through the launch of an aggressive SME development strategy. Since its inception in October 1998, SMEDA had adopted a sectoral SME development approach. A few priority sectors were selected on the criterion of SME presence. In depth research was conducted and comprehensive development plans were formulated after identification of impediments and retardants. The all-encompassing sectoral development strategy involved overhauling of the regulatory environment by taking into consideration other important aspects including finance, marketing, technology and human resource development.

After successfully qualifying in the first phase of sector development SMEDA reorganized its operations in January 2001 with the task of SME development at a broader scale and enhanced outreach in terms of SMEDA's areas of operation. Currently, SMEDA along with sectoral focus offers a range of services to SMEs including over the counter support systems, exclusive business development facilities, training and development and information dissemination through a wide range of publications. SMEDA's activities can now be classified into the three following broad areas:

1. Creating a Conducive Environment; includes collaboration with policy makers to devise facilitating mechanisms for SMEs by removing regulatory impediments across numerous policy areas
2. Cluster/Sector Development; comprises formulation and implementation of projects for SME clusters/sectors in collaboration with industry/trade associations and chambers
3. Enhancing Access to Business Development Services; development and provision of services to meet the business management, strategic and operational requirements of SMEs.

SMEDA has so far successfully formulated strategies for sectors, including fruits and vegetables, marble and granite, gems and jewellery, marine fisheries, leather and footwear, textiles, surgical instruments, transport and dairy. Whereas the task of SME development at a broader scale still requires more coverage and enhanced reach in terms of SMEDA's areas of operation.

Along with the sectoral focus a broad spectrum of services are now being offered to the SMEs by SMEDA, which are driven by factors like enhanced interaction amongst the stakeholders, need based sectoral research, over the counter support systems, exclusive business development facilities, training and development for SMEs and information dissemination through wide range of publications.

## ROLE OF SMEDA LEGAL SERVICES CELL

The Legal Services Cell (LSC) is a part of Business Development Division of SMEDA and plays a key role in providing an overall facilitation and support to SMEs. The LSC provides guidance based on field realities pertaining to SMEs in Pakistan and other parts of the world.

LSC believes that information dissemination among the SMEs on the existing regulatory environment is of paramount importance and it can play a pivotal role in their sustainable development.

In order to facilitate SMEs at the Micro Level LSC has developed user-friendly systems, which provide them detail description of the Laws, and Regulations including the process and steps required for compliance.

The purpose of this document is to provide SMEs either individuals or companies with information pertaining to food law which a business entity has to comply with. Entrepreneurs interested in enhancing their understanding about the procedures and rights can also use the document. For convenience of the reader's sample of various forms, instructions how fill up the forms and important addresses are also included.

## DISCLAIMER

Information in this document is provided only for general information purpose and on an "as is" basis without any warranties of any kind. Use of this information is at the user's sole risk. SMEDA assume no responsibility for the accuracy or completeness of this information and shall not be liable for any damages arising from its uses."

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## 1- Applicable Food Laws

Pure Food Ordinance, 1960 (hereinafter referred as “the Ordinance”) and Pure Food Rules, 1965 (hereinafter referred as “the Rules”) are the basic laws which govern the preparation and sale of foods in the Pakistan.

Before going further it will be better to ascertain what does food mean under the Ordinance? As per section 2 sub section 9 “food” means any article used as food or drink for human consumption other than drugs, and includes:

- i. any substance which is intended for use in the composition or preparation of food;
- ii. any flavoring matter or condiment;
- iii. any coloring matter intended for use in food;
- iv. chewing gum and other products of the like nature; and
- v. water in any form, including ice, intended for human consumption or for use in the composition or preparation of food.

## 2- Licensing requirements

Section 11 of the ordinance deals with the license for manufacturing, storage and sale of food goods. Under the said section, license is required for any place to use:

- i. for the preparation, or the manufacturing, processing, blending, preserving, refrigerating, canning or bottling of any food;
- ii. for the business of a wholesale dealer in banaspati, charbi, ghee, margarine, fish-oil, mustard-oil, cotton-seed oil, or other edible oils and such food as may be prescribed.
- iii. as a creamy, dairy or bakery;
- iv. as a hotel, restaurant or eating house

To obtain license applicant shall apply in writing to the Licensing Authority (in most cases concerned District Health Officer) stating the purpose for which the place is intended to be used and shall submit block plans in triplicate showing: --

- i. the actual area so intended to be used;
- ii. the location at which the various operation connected therewith are to be carried on.

Application for the grant of license should be accompanied by a fee of rupees ten for the premises falls under the below categories:

- i. Premises for the business of whole-sale dealers in Margarine, Vanaspati, Charbini, Ghee Fish oil, Edible oils, Spices, Confectionary, Cereal Products, Soft Drinks, Aerated Water and Cold Storage.
- ii. Creamerics, Dairies, Dairy Farms, Bakeries, Hotels, Eating Houses and other small scale food manufacturing concerns.

And rupees twenty five for the premises falls under the below categories:

- i. Pasteurized milk, milk powder, condensed and evaporated milk, cheese and any other milk products
- ii. Edible oils, margarine and vanaspati
- iii. Biscuits
- iv. Canned foods
- v. Alcoholic drinks and beverages
- vi. Bottling factories
- vii. Sugar factories
- viii. Cereal products

On receipt of such applications and plans the Public Analyst concerned or the District Health Officer /Municipal Medical Officer of Health, as the case may be, shall inspect the said place and recommend the issue of the necessary license in Form 8 (attached herewith) which should be displayed in a prominent place within the licensed premises. License will only be issued if the said place conforms to the following requirements for sale or manufacture of food:

- i. The application should be accompanied by a site plan and a plan showing the building and structure;
- ii. The building for housing the plant has: -
  - a) floors constructed of concrete or other impervious material, smooth, provided with trapped drains, clean and in good repairs;
  - b) walls and ceilings have a smooth, washable light colored surface, clean and in good repair;
  - c) doors and windows provided with effective means to prevent the access of flies and to screen the outer-air, the doors shall be self-closing;
  - d) lighting on all working surfaces shall be adequate;

- e) ventilation sufficient to avoid smoke and odors condensing on structures and on equipment;
- f) effective means for protection from contamination from insects and rodents;
- g) toilet rooms wherever provided shall bear a sign and self-closing doors, not opening into any rooms used for handling or storing of food;
- h) water-supply easily accessible, adequate and of a safe sanitary quality;
- i) convenient hand-washing facilities with running water, soap and towels; and
- j) cold storage facilities for perishable articles.

Licensing authority may reject the application upon non-satisfaction from the application. In such a case applicant may file appeal to the concerned government. Each such appeal shall be accompanied by a fee of Rs. 100.

### 3- Special Condition for Butter or Ghee factory

After getting license as specified in above paras, there are some special conditions for butter or ghee factory which have to be followed by licensee. These conditions are provided below:

- i. The licensee shall not keep Ghee or permit to be kept outside premises or on the public road or street.
- ii. No oil, margarine, vegetable products, paraffin, fat, Vasa or Charbi or other substance capable of being used for the adulteration or Ghee shall be kept on the premises.
- iii. No essences or Glouring matters likely to give resemblance to Ghee shall be kept on the premises.
- iv. The premises shall not form part of or communicate otherwise than by a Public Street with any other premises upon which is kept any of the substances provided in sub condition (ii) above.
- v. All butter brought to the premises for being manufactured into ghee shall, until actually required for such manufacture, be stored in room separate from the room or rooms in which the process of manufacturing, packing, pressing, cleaning or preparation are carried on.
- vi. All stored butter shall be kept in properly covered metal or glass or glazed ware receptacles.
- vii. The process of melting shall be carried out in properly constructed fire-place provided with a suitable flue.

- viii. The labels used for skimming the refuse matters from the surface of the melted butter must at all times be kept in a clean state and must not be placed on the floor but on a suitable shelf or table provided for the purpose in close proximity to the fire place and such shelf or table must be maintained in a clean condition.
- ix. The licensee shall not keep, handle or sell any butter under any condition which renders the said butter liable to contamination.
- x. All coal, coke or firewood or liquid fuel to be used in the process of melting butter shall be kept in suitable receptacles and not loose.

4- Special Condition for Vanaspati, Margarine and Charbini

There are some special conditions for butter or ghee factory which have to be followed by licensee. These conditions are provided below:

- i. No substances capable of being used for the adulteration of Margarine, Vanaspati, or Charbi shall be kept in the premises.
- ii. Margarine, Vanaspati, or Charbi kept on the premises shall be conspicuously labeled marked.
- iii. The premises shall not form a part of or communicate, otherwise than by a public street, with any premises upon which is kept any of the substances capable of being used for the adulteration.

5- Special Condition for condensed milk or dried milk etc.

There are some special conditions for condensed milk or dried milk which have to be followed by licensee. These conditions are provided below:

- i. The licensee shall not keep or store on the premises any condensed or dried milk or dried skimmed milk or any preservative or any other substances capable of being used as an adulterant.
- ii. The following substances used as adulterants shall be prohibited to store in premises in which butter, ghee, etc., are made: --

| Substance | Adulterants   |
|-----------|---|
| Milk      | Skimmed milk any preservative, condensed milk, dried milk   |
| Ghee      | Vegetable products of all kinds and edible oils, hydrogenated fish oil, coconut oil any other vegetable oil, fat, white oil or paraffin, any mixture made of two or more of the above articles. |
| Butter    | Animal, fat, margarine, edible oil, vegetable oils  |
| Tea       | Artificial tea, Phutri, Fine chaffing of wheat or bran, tea sweeping  |

|               |   |
|---------------|---|
| Edible oil    | Ghee, Butter  |
| Fats          | Ghee, Butter  |
| Coffee        | Chicory, Acetic Acid, Glacial Acid all coloring matter except   |
| Vinegar       | Caramel Preservative or any mineral acids   |
| Lime juice    | Tartaric, Phosphoric or other foreign acids   |
| Lime juice    | Other than Citric Acid  |
| Aerated Water | Preservatives other than those allowed under the ordinance. All coloring matters except those permitted under the rules |
| Syrup         | Saccharine, Preservatives other than those allowed under the Rules.   |

**6- Conditions for approval of a Plant for Pasteurization / Sterilization**

No plant shall be approved for the purpose of Pasteurization / Sterilization, unless it complies with the following conditions:

- I. All type of Pasteurize / Sterilizer shall hold; -
  - a) Indicating thermometer of approved accuracy
  - b) Recording thermometer pf approved temperature and time accuracy
  - c) Phosphotase test kit for determine pasteurization efficiency in field and plant laboratory
  - d) Air space thermometer
  - e) Leak-protector inlet/outlet and diversion valves
  - f) Bottle washers
  - g) Plant sanitization equipment
  
- II. All continuance pasteurizers / sterilizers shall have: -
  - a) Indicating thermometers on pipelines
  - b) Milk flow stop, controllers and Diversion Lines
  - c) Automatic holder heaters
  - d) Recorder controllers
  - e) Automatic vat or pocket holders
  - f) Continuous flow holders
  - g) Back flow prevention devices
  - h) Automatic time/temperature/holding recorder
  
- III. All type of Pasteurization/Sterilization plants shall: --
  - a) Use “Sanitary Milk Piping” for conducting milk. The piping shall be easy to clean
  - b) Use multi-use containers and equipments made of non-corrodible, non-tox material and so located as to be easily cleaned
  - c) Preserve recordings of automatic equipment for at least six months



- d) Maintain vehicles for the transportation of milk
- e) Maintain well equipped and adequately staffed laboratories for the daily examination of milk
- f) Undertake to exclude the milk supply in respect of which reasonable cause exists to suspect the possibility of infection contamination

#### 7- Special Conditions for the manufacturing of Pasteurized / Sterilized milk

According to the rule 22 (1) no person shall designate milk or milk products as “pasteurized” unless he complies with the following conditions: -

- i. The milk has been retained at a temperature of not less than 143°F for at least 15 seconds continuously and has been cooled immediately to a temperature of not more than 40°F in a plant approved for the purpose
- ii. The milk has been retained at such temperature for such period as specified by the Director General of health, Pakistan
- iii. The milk shows efficient pasteurization as evidenced by satisfactory negative phosphatase test
- iv. The milk does not show a coliform count exceeding 10 per milliliter, at any time after pasteurization and before delivery to the consumer

According to the rule 22 (2), no person shall designate milk as “Sterilized” unless he complies with the following conditions: -

- i. The milk has been filtered or clarified and homogenized
- ii. The milk has been heated to and maintained at such a temperature, not less than 212°F for such a period as to ensure that it will comply with prescribed Turbidity Test.
- iii. The milk has been treated as above in such a manner that on completion of the treatment, the receptacle was sealed with an air tight seal.
- iv. The processing has been done in a plant approved for the purpose in a licensed premise.
- v. The milk shows efficient sterilization at any processing and before delivery to the consumer as evidenced by a satisfactory Turbidity Test.

## 8- Special Conditions for Milk & Dairy Products

No person shall offer or keep in possession for sale or deliver for sale or supply to an person: -

- i. Impure or unwholesome milk or milk drawn from animals affected with any disease of livestock whether contagious, infectious or otherwise capable of causing the milk to become unwholesome.
- ii. Milk drawn from animals within thirty days before or ten days after pasteurization, or for butter, curd or cheese making.

## 9- Labeling and Packaging requirements of Pre-Packed Food

Under the ordinance and rules, there are also some requirements / conditions for labeling and packaging of pre-packed food which have to be followed. According to rule 13 (1) no person shall sell by retail or display for sale by retail , any pre-packed food, unless there appears on a label marked on or securely attended to the wrapper or container a true statement which:

- i. shall be clearly legible and shall appear conspicuously and in a prominent position on the label and if the food is pre-packed in more than one wrapper or container, the label shall be marked on or attached to the innermost wrapper or container and if it is not clearly legible through the outermost wrapper or container a label bearing a like statement shall be marked on or securely attached to or be clearly legible through, the outermost wrapper or container. For the purpose of this clause a plain immediate wrapping which under ordinary conditions of use would not be moved from the next outer wrapper or container shall not be counted as a wrapper or container.
- ii. shall specify the name of either the packer or the labeler of the food and an address at which such person carries on business.
- iii. shall also specify;
  - in he case of food consisting of one ingredients, the appropriate designation of the ingredients;
  - in the case of food made of two or more ingredients, the common or usual name (if any) of the food and the appropriate designation of each ingredient and unless the quality or proportion of each ingredient is specified, the ingredients shall be specified in the order of the proportion in which they were used, the ingredients used in the greatest proportion (by weight) being specified first.

Provided that: -

- it shall not be necessary to state that the food contains water
- where a food contains an ingredient which is made from two or more constituents, the appropriate designation of these constituents shall be so specified that it shall not be necessary to specify the appropriate designation of that ingredient. For the purpose of this clause “appropriate designation” means a name or description, which shall indicate to a prospective purchaser the true nature of the ingredient or constituent to which it is applied.
- shall specify the minimum quantity of the food in the wrapper or container expressed in terms either of net weight or of measure:

Provided that in any case where the weight of wrapper or container is usually permitted to be in the weight purported to be sold, it shall be sufficient compliance with this paragraph if the statement specifies the minimum weight of the food with its wrapper or container.

#### 10- Provisions regarding Unsound Food and Food Injurious to Health

According to the ordinance and rules there under, no person shall, directly or indirectly, himself or by any other person: --

- i. prepare, manufacture, keep or store for sale, sell or offer to sell any food which is unsound, unwholesome injurious to health or unfit for human consumption; or
- ii. import or export any food in such manner or in such condition as renders it or is likely to render it injurious to health.

For the purpose of determining the unsound and food injurious to health, any article of food shall be considered as injurious to health and unfit for human consumption, if;

- i. it is putrefied or decayed or emits a bad smell; or
- ii. it is infested with insects; or
- iii. it has evidence of filth or of rodent excretion or hair; or
- iv. it contains chemical known to be toxic; or
- v. contains bacteria which are likely to cause food poisoning; or
- vi. it contains the following metals and metalloids in excess of the tolerance shown against each: --



|                |                                  |
|----------------|----------------------------------|
| Aluminum       | -- Maximum 250 parts per Million |
| Antimony       | -- Maximum 2.0 parts per Million |
| Arsenic Liquid | -- Maximum 0.1 parts per Million |
| Arsenic Solid  | -- Maximum 2 parts per Million   |
| Boron          | -- Maximum 80 parts per Million  |
| Cadmium        | -- Maximum 6 parts per Million   |
| Zinc           | -- Maximum 100 parts per Million |
| Copper         | -- Maximum 10 parts per Million  |
| Tin            | -- Maximum 100 parts per Million |
| Flouring       | -- Maximum 1.5 parts per Million |
| Silver         | -- Maximum 1 parts per Million   |
| Lead Liquid    | -- Maximum 2 parts per Million   |
| Lead Solid     | -- Maximum 20 parts per Million  |

- vii. it contains in acidity in excess of the limit prescribed in appendix II to the rules when not conforming to the standards shown against it.

#### 11- Provisions regarding Coloring matter in Food

According to the rules, color should not be used in the food in contravention to the following provisions:

- i. No coaltar dyes or mixtures thereof except the following shall be used in the preparation of any food: --

| Color Index No. | Color Index name | Common Name                | Chemical Class  |
|-----------------|------------------|----------------------------|-----------------|
| (a) 730.5       | Food Blue        | 1 Indigo Carmine           | Indigoid        |
| (b) 42090       | Food Blue        | 2 Brilliant Blue FCS       | Triarylmethance |
| (c) 69800       | Food Blue        | 4 Indianthron              | Anthraquinone   |
| (d) 42051       | Food Blue        | 5 Patent Blue V            | Triarylmethance |
| (e) 42640       | Food Violet      | 2 Violet 6B                | Ditto           |
| (f) 42580       | Food Violet      | 3 Violet BNP               | Ditto           |
| (g) 42085       | Food Green       | 1 Sulpho Green 2BA         | Ditto           |
| (h) 42095       | Food Green       | 2 Acid Brilliant Green ASF | Ditto           |
| (i) 15985       | Food Green       | 3 A.F. Green No.3          | Ditto           |
| (j) 15985       | Food Yellow      | 3 Sunet Yellow F.C.F.      | Monoazo         |
| (k) 19140       | Food Yellow      | 4 Tartrazine               | Ditto           |
| (L) --          | Food Brown       | 1 Brown F.K.               | Disazo          |
| (m) --          | Food Brown       | 2 Chocolate                | Monoazo         |

|           |            |                           |          |
|-----------|------------|---------------------------|----------|
|           |            | Brown F.B.                |          |
| (n) 2285  | Food Brown | 3 Chocolate<br>Brown H.T. | Disazo   |
| (o) 14700 | Food Red   | 1 Ponceau SX              | Monoazo  |
| (p) 16185 | Food Red   | 9 Amarnath                | Ditto    |
| (q) 45430 | Food Red   | 14 Erythrosine B.S.       | Xarthere |
| (r) 28440 | Food Black | 1 Black P.N.              | Disazo   |

- ii. The maximum limit of permissible color which may be added to any food shall be one grain per pound of food as consumed.
- iii. The following natural coloring matters may be used in or upon any article of food: --

|             |    |             |
|-------------|----|-------------|
| Annatto     | -- | Caramel     |
| Carmin      | -- | Cartotenes  |
| Chlorophyll | -- | Cochineal   |
| Curcumin    | -- | Lactoflavin |
| Ratanjot    | -- | Saffron     |

- iv. Inorganic coloring matters or pigments shall not be added to any article of food.
- v. The use of artificial or synthetic coloring matters in raw food stuffs which are consumed after cooking in the usual way is prohibited.
- vi. No person shall sell a coal tar color or a mixture of coal tar colors unless the label on the package carries: --
- The common and the color index names of the coal tar color(s)
  - The lot number of coal tar color
  - The words "Food Color"
- vii. Use of permitted coal tar dyes in or upon any food other than those shown below is prohibited: --
- Ice-cream
  - Dairy products except milk, dahi, butter ghee, chana, condensed milk, cream and baby food
  - Smoked fish
  - Egg preparation
  - Sweets including pastry and confectionary
  - Fruit products
  - Non-alcoholic beverages except tea, cocoa and coffee
  - Custard powder
  - Jelly Crystals

- Soup powder
- Luncheon meat
- Processed or preserved vegetables
- Flavoring agents

12- Register for manufacture and wholesale business

As per section 12 of the ordinance, every occupier of a place used for the preparation or manufacture for purposes of trade of any article of food and every wholesale dealer or his agent who stores any such article shall keep and maintain a register and such register shall be open to inspection by the inspector. The said register shall be kept and maintained in the Form shown below: -

- (i) Front Page ... Name and address of applicant  
 Address of premises  
 Number and date of license  
 Operation carried on

- (ii) Subsequent page: -- Disposal  
 .....

| Serial No. | Quantity manufactured, prepared, purchased or | Date of manufacture, preparation, purchase or receipt | Nature of substance | Descriptive marks | Name and address of party to whom sold or from whom received | Quantity sold or received | Date of sale or receipt | Brand of article | Remarks |
|------------|---|---|---------------------|-------------------|--|---------------------------|-------------------------|------------------|---------|
| 1          | 2   | 3   | 4                   | 5                 | 6  | 7                         | 8                       | 9                | 10      |

1) There any many food articles provided in appendix II of the rules which articles when not conforming to the standards shown against it shall be deemed to be not of the nature substance of quality. So all the persons dealing in food articles are advised to go through appendix II of the rules.



FORM 8  
(FORM OF LICENSE UNDER SECTION (11)  
(THIS LICENSE IS NOT TRANSFERABLE)

Fee is not refundable

No.....of 19

License for using premises for carrying on the business of .....

Pursuant to the provisions of section 11 of the West Pakistan Pure Food Ordinance, 1960, Mr. .... is hereby licensed for the period from ..... To 31<sup>st</sup> December, 19 ..... To use a place for the purpose of ..... being the room or shop or place measuring ..... square feet being part of the premises No..... subject to the restrictions laid down in the rules and the conditions stated below: --

1. This license is valid only for the premises above specified, that is, for the number of rooms, godowns, or space mentioned therein and as shown in the block plan attached with the license, and if the licensee at anytime during the period of this license desires to use any additional room or godown or space for the purpose aforesaid, he must obtain previous sanction from the Food Authority for doing so.
2. If the licensee vacates or gives up the possession of the premises during the period of this license, he shall forthwith inform, in writing, the Licensing Authority that he is about to do so.
3. The Licensee shall cause the built up portion of premises to have the following: --
  - a) Floors constructed of concrete or other imperious material, smooth, properly drained and drains provided with traps clean and in good repairs.
  - b) Walls and ceilings having smooth, washable light colored surface, clean and good repair.
  - c) Doors and windows provided with effective means to prevent the access of files and to screen the outer air, the doors shall be self-closing.
  - d) Lighting on all working surfaces shall be adequate.
  - e) Ventilation sufficient to avoid smoke off odours accumulating in structures and on equipment.
  - f) Effective means for protection and contamination from insects and rodents.



- g) Toilet rooms wherever provided shall bear a sign and self-closing doors not opening into any room used for handling or storing of food.
  - h) Water supply which is easily accessible adequate, and of a safe sanitary quality.
  - i) Convenient hand washing facilities with water, soap and clean towels
4. The licensee shall cause the open and un-built portion of the premises and their surroundings to be kept at all times in a clean and sanitary condition and shall not permit construction of any latrine, cesspool, cow shed, stable, manure heap or other unsanitary heap or other unsanitary place within the premises which in the opinion of the Food Authority renders it undesirable that the premises should be used for business aforesaid.
  5. The licensee shall not use or permit to be used any portion of the premises for dwelling or cooking purposes.
  6. The licensee shall keep and maintain a Register required by section 12 of the Ordinance in the Form prescribed in rule 32 and shall keep it all times for inspection of the officers authorized.
  7. The licensee shall at all times adopt and cause to be maintained in good order and efficient action upon the said premises all such appliances or means as the local authority may from time to time require for the purpose of minimizing danger to life and property or preventing, abating or minimizing any nuisance annoyance or inconvenience to the neighborhood or to the public from the use of which the premises are put.
  8. The licensee shall provide on the premises and maintain in good repair and use metal sanitary dust bins of approved pattern and size for the deposit of all trade refuse and sweepings and make proper arrangements for the disposal of their contents daily.

.....

