

## **GENERTECH PAKISTAN LIMITED**

### **ANNUAL REPORT 2004**

CHAIRMAN / CHIEF EXECUTIVE   Jahangir Elahi

DIRECTORS                            Jahangir Elahi  
  Tanvir Elahi

BOARD AUDIT COMMITTEE        Amir Jahangir  
  Shahrukh Elahi  
  Sheikh Muhammad Ashraf  
  Tariq Latif

CHIEF FINANCIAL OFFICER        Muhammad Ashfaq Nadeem  
CORPORATE SECRETARY            Secretary - Tariq Latif  
AUDITORS                            M/s Zahid Jamil & Co.  
  Chartered Accountants  
  (Member of IGAF Worldwide)

LEGAL ADVISOR                    M/s. Rizvi & Company  
BANKERS                             Faysal Bank Limited

REGISTERED OFFICE                Muslim Commercial Bank Limited  
PLANT                                The Bank of Punjab  
  United Bank Limited  
  31/C-1, Ghalib Road, Gulberg III,  
  Lahore - Pakistan.

Tel: (042) 5710216-20 / 5751811-14  
Fax: (042) 5712881 / 5756686

49th Kilometer, Lahore Multan Road,  
Near Bhai Pheru, Tehsil Chunian,  
District Kasur.

#### **DIRECTOR'S REPORT**

The directors of your company welcome you to the 14th Annual General Meeting of the company and present their report together with the audited financial statement of the company for the year ended June 30, 2004.

#### **OPERATING RESULTS**

During the year under review, your company registered a turnover of Rs. 663.854 million, with a Gross Profit of Rs. 68.010 million and a Net Profit of Rs. 15.009 million. During the period the company generated 174,463 M WH of electricity while last year it was 165,855 MWH.

In contrast with last, year, the HFO prices remained at an acceptable level most of the year but in the last quarter prices surged to an all time high. At present petroleum prices are still

increasing touching new heights. On the other hand, WAPDA Tariff brought electricity rates downward and affects almost seven months of the year under review. During the period, your company performed well and increase in generation and effective cost management contributed towards profits, however, reduction in WAPDA Tariff and last quarter increase in HFO prices curtailed profit for the year.

As reported last year our efforts with our banks has resulted in massive reduction in financial expenses and hope to reduce further in the coming years.

Inspite of a volatile petroleum market your company has made a turn around in the financial results in shape of a net profit, before tax, amounting to Rs. 15.009 million. We assure our members that the management will continue our efforts to bring all cost to favorable levels.

As far as the operational activity of the plant is concerned, it is reported with satisfaction that the optimum efficiency levels were maintained during the year. The overall plant operation is well under control and plant management efficiently met all routine operational activities. In addition to that, efficient and timely monitoring and maintenance activities also contributed to overall operation and smooth customer relationship.

#### **EARNINGS PER SHARE**

These financial results brought Earnings Per Share from Rs. (2.77)toRs. 0.75.

#### **FUTURE PROSPECTS**

If the trend of rising HFO prices as witnessed in the last quarter and if there is no corresponding increase in the WAPDA Tariff we foresee difficult times ahead. Since both HFO and Tariff are beyond the control of the management we will have to wait for any further comment on the future.

#### **CORPORATE AND FINANCIAL REPORTING FRAMEWORK**

The management of the company is fully cognizant of its responsibilities as recognized by the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan (SECP). The following comments are acknowledgment of Company's commitment to high standards of Corporate Governance:

- a) The financial statements, prepared by the management of the company, present fairly the company's state of affairs, the result of its operations, cash flows and changes in equity.
- b) Proper books of accounts have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Accounting Standards, as applicable in Pakistan have been followed in preparation of financial statements and departure, if any, has been adequately

disclosed.

e) The system of internal control is sound in design and has been effectively implemented and is being monitored in the company. The review will continue in future for the improvement in internal controls.

f) There are no significant doubts upon the company's ability to continue as a going concern.

g) There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations of Stock Exchanges in Pakistan wherever applicable to the company for the year ended June 30, 2004.

h) There are no outstanding statutory payments on account of taxes, duties, levies and charges except of a normal and routine nature.

i) The retirement benefits of the employees of the company are covered with funded Provident Fund. Independent auditors audited the fund at regular intervals. According to Audited Accounts as on June 30, 2004, the value of fund stands at Rs. 9.93 million.

j) During the year, there was no trade reported in the shares of the company, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children.

a) Mr. Tanvir Elahi (Chairman)

b) Mr. Jahangir Elahi (Member)

c) Sheikh Muhammad Ashraf (Member)

2. The Board is elected for a term of three years.

3. No casual vacancy occurred in the Board of Director during the year.

4. None of the Director is serving as director in more than ten listed companies, including Generatech Pakistan Limited.

5. The company has prepared a Statement of Ethics and Business Practices, which have been signed by directors and relevant employees of the company.

6. The Board has developed a mission / vision statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved has been maintained.

7. During the year, there is no trade reported in the shares of the company, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children.

8. All the director of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DPI or an NBFIs or, being a member of stock

exchange, has been declared as a defaulter by that stock exchange.

9. The Board of Directors of the company meets at least once in every quarter of the financial year. Chairman presided these meetings. Written notices (including agenda) of meetings were circulated in time. The minutes of the meetings were appropriately recorded and circulated in stipulated time.

10 All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

11. The CEO with the approval of the Board determines the appointment and terms and conditions of employment of the Chief Financial Officer (CFO), the Company Secretary and the Head of Internal Audit of the company.

12. Company does not circulate and presents the financial statements unless the CEO and the CFO endorse their respective signatures, for consideration and approval of the Board of Directors and the Board after consideration and approval, authorize the financial statements for issuance and circulation.

13. The Audit Committee of the company meets at least once every quarter of the financial year. These meetings are held prior to the approval of interim results of the company by Board of Directors and before and after completion of external audit. The terms of reference of the committee have been formed and advised to the committee for compliance.

14. The Board has set up an effective Internal Audit function.

15. According to list provided by Institute of Chartered Accountants of Pakistan(ICAP), External Auditors of the company has been given a satisfactory rating under the Quality Control Review program of the ICAP. IFAC Guidelines on code of ethics as adopted by ICAP.

16. Company appoints its external auditors to provide audit services and external auditors do not perform management functions or make management decisions, responsibility for which remains with the Board and management of the company.

17. The Board of Directors of the company has recommended appointment of external auditors for the financial year ending on June 30,2005, as suggested by the Audit Committee.

18. There has been no material departure form the best practices of corporate governance, as detailed in the listing regulations of relevant Stock Exchanges in Pakistan wherever applicable to the company for the year ended June 30,2004.

19. We confirm that all other material principles contained in the Code have been complied with.

## **REVIEW REPORT TO THE MEMBERS ON STATEMENT OF**

## **COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended June 30,2004, prepared by the Board of Directors of Genertech Pakistan Limited to comply with the Listing Regulation No. 37 of Karachi Stock Exchange, chapter XIII of Lahore Stock Exchange and Chapter XI of Islamabad Stock Exchanges where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company personnel and review of various documents prepared by the company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended June 30,2004.

We have audited the annexed balance sheet of Genertech Pakistan Limited as at June 30, 2004 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) In our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion:

i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

ii) the expenditure incurred during the year was for the purpose of the company's business; and

iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2004 and of the profit, cash flows and changes in equity for the year then ended; and

d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980, (XVIII of 1980).

	<b>NOTE</b>	<b>2004 Rupees</b>	<b>2003 Rupees</b>
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised share capital	3	200,000,000	200,000,000
		198,000,000	198,000,000
Reserves	4	68,355,500	53,511,511
		266,355,500	251,511,511
<b>NON CURRENT LIABILITIES</b>			
LONG TERM LOANS-SECURED	5	216,930,998	204,379,903
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE	6	40,068,346	58,198,651
CURRENT LIABILITIES Current portion of long term liabili	7		
		119,417,675	96,493,657
Short term bank borrowings - secured	8	155,655,502	219,932,031
Creditors accrued and other liabilities		60 395 682	6141205
Unclaimed dividend CONTINGENCIES AND COMMITME	10	2,247,697	2,302,166
		337,716,556	380,139,907
		861,071,400	894,229,972
<b>NON CURRENT ASSETS</b>			
OPERATING FIXED ASSETS	11		593,664,095
LONG TERM DEPOSITS CURRENT ASSETS Stocks, s	12		342,294
			58,185,199
Trade debts - unsecured	14		160,581,676
Advances, prepayments and other receivables	15		79,979,550
Cash and bank balances	16		1,477,158

300,223,583  
894,229,972

	<b>NOTE</b>		
SALES - Net			
COST OF SALES	17	591,487,257	
GROSS PROFIT		277,294	
OPERATING EXPENSES Administrative expenses	18	60,816,553	
OPERATING PROFIT		168,749,150	
Other income	19	34,693,244	
<b>OTHER CHARGES</b>		5,047,902	
Financial charges	20	269,306,849	
Workers profit participation fund		861,071,400	
<b>NET PROFIT/ (LOSS) BEFORE TAXATION</b>	<b>NOTE</b>	<b>2004</b>	<b>2003</b>
TAXATION - Prior years	21	663,853,669	626,198,173
NET PROFIT/ (LOSS) AFTER TAXATION		595,843,278	592,417,694
UNAPPROPRIATED LOSS BROUGHT FORWA		68,010,391	33,780,479
UNAPPROPRIATED LOSS CARRIED		15,134,061	11,508,081
FORWARD	4	52,876,330	22,272,398
Earnings per share	22	1,736,002	6,250,818
		54,612,332	16,021,580
		38,813,437	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		789,945	
Cash generated from operations	23	39,603,382	70,913,812
Income tax paid		15,008,950	-54,892,232
Financial charges paid		164,961	
Net cash generated from operating activities		14,843,989	54,892,232
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		-226,434,239	-171,542,007
Fixed capital expenditures			-31,885,713
Long term deposits		-211,590,250	-226,434,239
Sale proceeds of fixed assets		0.75	12,100,000
Net cash used in investing activities			-19,635,713
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>2004</b>	<b>2003</b>
Repayment of long term loans			
Repayment of lease liabilities		123,566,153	104,260,217
Dividend paid		-164,961	
Net cash used in financing activities		-71,632,830	-32,324,860
Net Increase / (decrease) in cash and cash equivalents		64,109,103	-27,250
Cash and cash equivalents at the beginning of the year			1,504,408
Cash and cash equivalents at the end of the year		-9,199,980	1,477,158

## 1 COMPANY STATUS AND OPERATIONS

Genertech Pakistan Limited was incorporated on May 24, 1990 as a Public Limited Company under the Companies Ordinance, 1984. Its shares are listed on all three Stock Exchanges of Pakistan. The company is engaged in generation and supply of electricity.

**Rupees**  
114,945,750

## 2 PRINCIPAL ACCOUNTING POLICIES

-

114,945,750

## 2.1 Accounting Convention

-

114,945,750

These financial statements have been prepared under the historical cost convention modified by capitalization of exchange differences as given in Note No. 2.7.

## 2.2 Basis of Preparation of Financial Statements

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards (IASs) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

## 2.3 Retirement Benefits

The company operates a funded contributory Provident Fund scheme for all permanent employees. Equal monthly contributions at the rate of 8.33 percent of basic pay are made both by the company and employees.

## 2.4 Fixed Capital Expenditures

Operating fixed assets are stated at cost less accumulated depreciation except land, which is stated at cost.

Depreciation on the operating fixed assets are charged to profit and loss account applying the reducing balance method at the annual rates mentioned in Note No. 11. Full year's depreciation is charged on assets acquired during the year, except standby generating facilities and major additions or extensions to generating facilities which are depreciated on pro-rata basis for the period of use during the year. No depreciation is charged on assets deleted/disposed of during the year.

Maintenance and normal repairs of assets are charged to income as and when incurred, major renewals and replacements are capitalized. Gain or loss on disposal of fixed assets is taken to profit and loss account.

## 2.5 Lease Hold Assets and Obligation under Finance Lease

The company accounts for assets under finance lease by recording the assets and the related liability. The amounts are determined on the basis of the lower of fair value of the assets and the present value of minimum lease payments.

Finance charges are charged to profit and loss account using the internal rate of return method.

Depreciation is charged at the rates specified in Note No. 11 so as to write off the assets over their estimated useful lives in view of certainty of ownership of the assets at the end of lease term. The security deposit paid against lease arrangements will be



adjusted at the end of the lease term.

## **2.6 Capital Work in Progress**

Capital work in progress is shown at cost. These costs are transferred to fixed assets as and when assets are available for intended use.

## **2.7 Foreign Currency Translation**

Assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rates approximating those prevailing on the balance sheet date except where forward exchange contracts have been entered into for repayment of liabilities. Exchange differences and/or exchange risk fee in respect of foreign currency loans obtained for acquisition of fixed assets are incorporated in the cost of the relevant assets. All other exchange differences are taken to Profit and Loss Account.

## **2.8 Deferred Cost**

These are being amortized over a period of five years from the year of incurrence.

## **2.9 Stocks, Stores, Spares and Loose Tools**

Stocks are valued at lower of cost and net realizable value using the moving average method.

Stores, Spares and Loose Tools are valued at moving average cost.

Items in transit are valued at invoice price plus other charges incurred thereon.

## **2.10 Trade Debts**

Known bad debts, if any, are written off and provision is made against debts considered doubtful.

## **2.11 Revenue Recognition**

Revenue from sale of electricity to consumers is recognized on supply of electricity based on monthly meter readings.

## **2.12 Taxation**

By virtue of clause 132 of Part I of Second Schedule to the Income Tax Ordinance, 2001 profits and gains of the company are exempt from levy of income tax and minimum tax.

## **2.13 Provision**

A provision is recognized in the financial statements when company has legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

## 2.14 Receivables

Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on review of the outstanding amounts at year-end. Bad debts are written off when identified.

## 2.15 Financial Instruments

All other financial assets and liabilities are recognized at cost, which is fair value of the consideration given or received at the time when the company becomes party to the contractual provisions of the instrument by the following trade date accounting. Any gain or loss on subsequent measurement and de-recognition is charged to income.

## 2.16 Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash in hand and in transit and balances with banks.

## 2.17 Related Party Transactions

Transactions with related parties are stated at arm's length prices determined in accordance with the non-related party method.

			<b>2003</b>
			<b>Rupees</b>
LONG TERM LOANS-SECI Lender Banking Companies Faysal B3nk Limited			54,276,286
	Monthly Feb.06	9%	17,388,889
Union Bank Limited	Monthly Nov.09	8%	98,499,343
The Bank of Punjab	Monthly Nov.08	Nil	56,298,610
Muslim Commercial Bank Ltd.	Monthly Mar.09	Nil	7,809,000
Muslim Commercial Bank Ltd.	Monthly Nov.10	8%	19,041,667
Trust Commercial Bank Ltd.	Monthly Nov.05	Nil	5,800,000
Trust Commercial Bank Ltd.			
Non Banking Companies	Monthly Dec.05	14%	
Escorts Investment Bank Limited	Monthly Nov.03	18%	
Orix Investment Bank Limited			
			<b>2004</b>
			<b>Rupees</b>
			42,452,579
Less: Current portion			40,068,346
			14,388,889
			91,000,443
			42,452,579
Minimum lease payments for the period			40,068,346
- not later than one year			82,520,925
Less: Financial charges allocated to the future periods			7,809,575
Less: Security deposits adjustable on expiry of the lease terms			60,000,000
Net lease obligation			99,958,416
Less: Current portion			41,759,765
			58,198,651
			293,896,094

Rrpak-im nf nAt IPSQO nhlinatiAn	41,759,765	76,965,096
- not later than one year	58,198,651	216,930,998
- later than one year but not later than five years	99,958,416	54,978,799
		82,604,848

		<b>2004</b>
Finance charge payable against lease liability	3,361,278	76 965 096
Accrued liabilities	1,187,474	42,452,579
Sales tax payable	9,403,206	119,417,675
Electricity duty payable	6,544,515	155,655,502
Other liabilities	4,512,349	5,096,650
	61,412,053	1,553,719

Depreciation for the year has been allocated as follows		<b>2004</b>
Cost of sales		57,728,747
Administrative & general expenses		1,184,302
		58,913,049

#### ADMINISTRATIVE AND GENERAL EXPENSES

Directors' remuneration	2,200,982	150,000
Salaries and benefits	3,316,580	28,294
Communication	930,855	164,000
Printing and stationery	349,781	342,294
Rent, rates and taxes	24,391	30,333,905
Traveling and conveyance	135,402	23,856,410
Legal and professional	354,452	106,141
Auditor's remuneration	174,500	58,185,199
Electricity, water and gas	1,695,445	1,965,338
Vehicles running expenses	1,050,989	3,042,695
Fee and subscription	2,186,583	780,429
Advertisement	115,682,	488,057
Other administrative expenses	1,414,117	989,101
Depreciation	1,184,302	1,477,158
	339,242	
	23,193	504,727,815

	<b>Note</b>	<b>2004</b>	<b>2003</b>
		<b>Rupees</b>	<b>Rupees</b>
<b>ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Considered good Advances to: Suppliers		5,002,058	63,632,108
Employees		5,047,902	1,120,997
			64,753,105
Advance Income tax		497,922,072	12,358,840
Other receivables	15.1	11,209,519	2,867,605
		8,206,663	79,979,550

18.1 Salaries and benefits includes Rs. 0.215 million (2003: Rs. 0.1 and R  
18.2 Amount includes Rs. 1.85 million paid to NEPRA as distribution licenc

98 million) for provide  
**2004**

<b>19. OTHER INCOME</b>	<b>Rupees</b>	
Profit / (loss) on sale of fixed assets	89,521	17,804,138
Other Income	1,646,481	1,319,109
	1,736,002	19,123,247

19.1 Previous year's figure of other income has been restated as it was not shown separately. 13,394,668

<b>20. FINANCIAL AND OTHER CHARGES</b>		2,175,329
Interest/mark-up on: Long term loans	18,644,524	34,693,244
Short term bank borrowings	10,257,545	
Financial charges against lease liability	2003	
Bank charges and commission	369,141	
	38,813,437	

<b>EARNINGS PER SHARE</b>		-9,188,459
Net profit / (loss) after taxation	14,843,989	2,937,641
Average ordinary shares Earnings per share	19,800,000	-6,250,818
	0.75	

<b>23. CASH GENERATED FROM OPERATIONS</b>		30,006,534
Profit / (loss) for the year	15,008,950	27,723,512
Add / (less) non-cash and non-operating Adjustments Depreciation		12,775,202
	58,913,049	408,564
Financial charges	38,813,437	70,913,812
(Profit) / loss on sale of fixed assets Cash flows	-89,521	-54,892,232
	97,636,965	
	112,645,915	

	<b>2004</b>	
	<b>Rupees</b>	
Changes in working capital (Increase)/decrease in current assets	-2,631,354	-54,892,232
Trade debts - unsecured	-8,167,474	61,441,365
Advances, prepayments and other receivables Increase	45,286,306	70,913,812
	34,487,478	9,188,459
Creditors, accrued and other liabilities	-4,276,529	141,543,636
	6,403,353	86,651,404

<b>REASON FOR LOW POWER GENERATION</b>	<b>2004</b>	<b>2003</b>
Actual power generation in comparison to plant capacity is low due to periodical, scheduled and un-scheduled, maintenance of generators.		<b>MWH</b>
		208,926
<b>28. NUMBER OF EMPLOYEES</b>		165,855
The total average numbers of employees during the year were	107	

These accounts have been approved and authorized for issue by the board of directors on October 04, 2004.

**30. GENERAL**

- Figures have been rounded off to the nearest rupee.

