

PAK DATACOM LIMITED ANNUAL REPORT 2004

BOARD OF DIRECTORS

1. Mr. Perwaiz Chairman
2. Mr. Mohammad Aslam Chief Executive
3. Syed Mahmood Ahmad
4. Mr. Zafar Ali Chaudhry
5. Mr. Mehboob Ali
6. Mr. Mohammad Azeem
7. Mr. Amjad Hussain Qureshi

SECRETARY

Syed Sajjad Hasan

AUDIT COMMITTEE

1. Mr. Mohammad Aslam
2. Syed Mahmood Ahmed
3. Mr. Amjad Hussain Qureshi

REGISTERED OFFICE

190, Industrial Area, 1-9/2, Islamabad

HEAD OFFICE

3rd, Floor, Umar Plaza, Blue Area, Islamabad.
Tel # (051) 2823677,2823504 - Fax # (051) 2823270

SHARES DEPARTMENT

7-G, Mushtaq Ahmad Gormani Road, Gulberg II, Lahore
Tel # (042) 5761661-2, Fax # (042) 5760521

AUDITORS

Khalid Majid Rehman,

Chartered Accountants,

3rd Floor, Al-Malik Centre, Jinnah Avenue, Islamabad

LEGAL ADVISOR

Khokhar Law Chambers,

1-Wasil Plaza # 105, Blue Area, Islamabad

Note

2004

2003

	Rupees	Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period before taxation	28,893,987	18,981,416
Adjustment for non-cash and other items:		
Depreciation	18,870,794	18,020,026
Financial charges	350,582	449,924
Exchange (gain) /loss	154,130	96,667
Book value of assets charged to consumption	6,636,789	
Bad debts written off	6,365,816	
Return / Interest on bank deposits	-1,058,637	-676,141
Provision of gratuity	2,337,661	8,008,866
Provision of earned leave	730,807	.
	34,387,942	25,899,342
Operating profit before working capital changes	63,281,929	44,880,758
(Increase)/decrease in current assets		
Trade debtors	3,429,909	1,189,403
Advances, deposits, prepayments and other receivables	-6,669,402	6,726,862
Increase/ (decrease) in current liabilities	-3,239,493	7,916,265
Due to associated undertakings	-45,469	-715,008
Creditors, accrued and other liabilities	16,032,885	20,119,896
	15,987,416	19,404,888
	76,029,852	72,201,911
Cash generated from operations		
Taxes paid	-11,596,725	-9,850,850
Gratuity paid	-6,592,576	-1,819,442
Exchange (gain) /loss	-154,130	-96,667
Return / Interest on bank deposits and secured loans to employees	1,058,637	676,141
Financial charges paid	-350,582	-449,924
	-17,635,376	-11,540,742
CASH FLOWS FROM INVESTING ACTIVITIES	58,394,476	60,661,169
Fixed capital expenditure	-32,089,578	-47,415,422
Long term deposits	-100,000	
Sale proceeds of fixed assets		628,895
Net cash flows in investing activities	-32,189,578	-46,786,527
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-8,764,342	-6,975,263
Long term customers' deposits	12,180,005	4,147,427
Net cash flows from financing activities	3,415,663	-2,827,836
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	29,620,561	11,046,806
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	62,773,876	51,727,070
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	92,394,437	62,773,876

1 LEGAL STATUS AND OPERATIONS

1.1 Pak Datacom Limited "the Company", a subsidiary of Telecom Foundation, was incorporated in Pakistan on July 13, 1992 as private limited Company under the Companies Ordinance, 1984 and was converted into a public limited Company on June 26, 1994. The Company started its commercial activities on July 1, 1994. The Company is listed on all stock exchanges of Pakistan. The registered office of the Company is located at 190, Industrial Area, 1-9/2, Islamabad.

1.2 The objective of the Company is to set up, operate and maintain a network of data communication and to serve the needs of the subscribers against approved tariff charges. The Company is also engaged in establishing, operating and maintaining data communication network in Bangladesh.

2 STATEMENT OF COMPLIANCE

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

directives take precedence.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting convention

These financial statements have been prepared under the historical cost convention.

3.2 Employees' retirement benefits

3.2.1 Gratuity

The Company has established an approved gratuity fund under defined contribution plan covering all its employees who have completed the minimum qualifying period of six months of the service. The fund Operates under a trust administered by the Board of Trustees. The amount of gratuity admissible, shall be a sum equal to last salary drawn immediately preceding the date of his service of the Company, for each completed years of service in the Company.

3.2.2 Leave encashment

The Company provides a facility to its employee's for accumulating their annual earned leave. Unutilized earned leave can be used at any time subject to the Company's approval. Upto 100 days of accumulated leaves can be encashed on retirement.

Change in accounting policy

During the year the Company changed its accounting policy relating to Leave encashment from cash to accrual basis. The adjustment of Rs 4.470 million relating to previous periods has been adjusted against the opening balance of retained earnings. Comparative figures have not been restated as it is impracticable to do so. Had the Company not changed the accounting policy the profit for the year would have increased by Rs.730,807.00

	Pak Rupees
Profit for the year before taxation	28,893,987
Provision for taxation	8,719,638
Profit after taxation	20,174,349
Unappropriated profit brought forward	6,077,975
Provision for earned leave encashment for previous period	-4,470,258
	1,607,717
Unappropriated profit as restated before appropriations	21,782,066
APPROPRIATIONS	
Transfer to Genera	-
Proposed Cash Dividend @ 20 %	14,256,000
Unappropriated profit carried forward Total	7,526,066
Earning per Share (EPS)	21,782,066
	2.83

Auditors

The retiring auditors, being eligible, offer themselves for re-appointment for the year ending June 30,2005.

Compliance of Code of Corporate Governance

Compliance statement of code of Corporate Governance formulated by Securities and Exchange Commission of Pakistan is annexed with this report.

Shareholding Pattern

Statement showing the pattern of shareholding is annexed with this report.

Acknowledgement

We would like to convey our wholehearted thanks to the customers of the Company for their continued support and confidence reposed in us. We also express our thanks to the employees of the Company for their commitment, hard work, dedication & concerted efforts for continuous improvement of the performance of the Company.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2004

Financial assets mainly comprise long term deposits, trade debts, advances, deposits and other receivables and bank balances. Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant liabilities are creditors, employees retirement benefits, and other liabilities.

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortised cost or cost, as the case may be.

A financial asset and financial liability are offset and the net amount reported in the balance sheet if the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the assets and settle the liability simultaneously.

Creditors, accrued and other liabilities

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Segment Reporting

A geographical segment is a distinguishable component of the Company that is engaged in providing services within a different geographical area, which is subject to risk and rewards that are different from those of other segments. The Company is currently operating in two geographical segments, Pakistan and Bangladesh.

Related party transactions

Transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes as admissible.

Provisions

Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, and it is probable that 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. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

Impairment

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognised in the profit and loss account.

	Note	2004 Rupees	2003 Rupees
CREDITORS, ACCRUED AND OTHER LIABILITIES			
Advances from customers		24,783,615	21,617,376

Creditors			
Trade		52,904,513	44,661,487
Machinery		8,820,348	4,062,922
		61,724,861	48,724,409
Royalty payable		—	950,913
License fee payable		1,774,272	2,286,016
Less: Written back		-	-1,744,161
		1,774,272	1,492,768
Accrued liabilities		5,933,126	6,348,436
Gratuity payable	9.1	4,949,810	9,204,725
Un-claimed dividend		970,017	824,359
		100,135,701	88,212,073
Gratuity payable			
Opening balance		9,204,725	3,015,301
Add: Provision for the year		2,337,661	8,008,866
Less: Payments		-	-318,442
		11,542,386	10,705,725
Less: Contribution to Gratuity Fund		-6,592,576	-1,501,000
		4,949,810	9,204,725

10 CONTINGENCIES AND COMMITMENTS

10.1 Guarantees issued by the Bank on behalf of the Company amounted to Rs. 4.213 million (2003: Rs. 0.850 million). These guarantees were issued in favour of customers of the Company.

10.2 During the year 2003 the Company entered into an agreement to provide VSAT services to a customer for a minimum term of two years. The agreement was terminated by the customer on June 30, 2003 after six months of service on the ground of non-compliance with the agreement claiming Rs. 1 million, while the Company's equipment valued at Rs. 1.294 (2003: 2.987 million) has been retained as a security against the claim. The Company has, however made a counter claim of Rs. 1.357 million (2003: 1.357 million). Pending outcome of this case, neither any provision is made for customer's claim nor any booking is made for Company's claim.

10.3 The Company has contested the demand of Rs. 82.184 million along with 2% additional duty by the Collectorate of Sales Tax and Central Excise Rawalpindi for not charging excise duty u/s 3 of the Central Excise Act, 1944 upto August 31, 2000 and u/s 3 of Sales Tax Act 1990 from September 01, 2000 to June 30, 2003 in respect of data communication services. Management believes that data communication services are neither subjected to Central Excise duty nor subjected to Sales Tax and does not anticipate any liability towards such payments. Accordingly no liability is accounted for in these accounts.

10.4 Capital commitments in respect of purchase of equipment outstanding at June 30, 2004 is Rs. 5.43 million (2003: Rs. 2.00 million)

	Note	2004 Rupees	2003 Rupees
12 TRADE DEBTS-Unsecured			
Considered good		49,803,671	59,599,396
Considered bad		6,365,816	2,953,030
		56,169,487	62,552,426
Less: Bad debts written off		-6,365,816	-2,953,030
		49,803,671	59,599,396

13 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Advances - considered good to

Suppliers			
- secured		2,136,224	2,100,366
- unsecured		5,184,600	942,350
		7,320,824	3,042,716
Due from holding Company-Telecom Foundation	13.1	628,026	-
Employees - unsecured	13.2	3,216,347	2,870,201
		11,165,197	5,912,917

Trade deposits			
Margin against bank guarantee		4,213,043	850,000
Others		7,631,525	7,306,701
		11,844,568	8,156,701
Prepayments		3,530,493	5,757,214
Other receivables		244,000	244,000
Interest receivable		126,212	170,236
Advance Income tax		28,239,676	17,557,423
		55,150,146	37,798,491
Advances to employees		1,921,364	1,413,496
Due from Executives		1,294,983	1,456,705
Due from employees		3,216,347	2,870,201

CASH & BANK BALANCES

Cash in hand			
Cash at Bank in:			
Current accounts	14.1	21,102,217	13,605,147
Deposit accounts	14.2	70,321,232	48,343,400
Dividend account		970,988	825,329
		92,394,437	62,773,876

	Note	2004 Rupees	2003 Rupees
Revenue	15	217,095,584	182,894,477
Operating Expenses	16	-188,755,522	-165,824,787
Operating Profit		28,340,062	17,069,690
Other Income	17	904,507	2,361,650
		29,244,569	19,431,340
Financial Charges		-350,582	-449,924
Profit before taxation		28,893,987	18,981,416
Provision for taxation	18	-8,719,638	-8,665,163
Profit after taxation		20,174,349	10,316,253
Unappropriated profit brought forward		6,077,975	4,659,324
Transferred from General Reserves		-	15,000,000
Adjustment due to change in accounting policy relating to deferred taxation		-	-14,987,602
Provision for earned leave encashment for previous period	3.2.2	-4,470,258	-
		1,607,717	4,671,722
Unappropriated profit as restated before appropriations		21,782,066	14,987,975
Appropriations:			
Proposed dividend @ 20% (2003: 12.5%)		-14,256,000	-8,910,000
Unappropriated profit carried forward		7,526,066	6,077,975
Basic earning per share	20	2.83	1.45

	Note	2004 Rupees	2003 Rupees
18 PROVISION FOR TAXATION			
Current Year		9,641,783	914,472
Deferred		-922,145	7,750,691
	18.1	8,719,638	8,665,163
18.1 Reconciliation of tax charge for the year Accounting Profit		28,893,987	
Tax on accounting profit at 35%		10,112,895	
Tax effect of expenses that are inadmissible for tax purposes		9,194,174	
Tax effect of expenses that are admissible for tax purposes		-9,665,286	

	9,641,783	-
Due to tax loss in 2003, provision was made @ 0.5% of gross revenue	-	914,472
Tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting	-922,145	7,750,691
	8,719,638	8,665,163

18.2 The Taxation Officer has not yet framed re-assessments for the years from 1997-98 to 1999-00 raising tax demand of Rs 5.187 million invoking the provision of section 80C of the Income Tax Ordinance, 1979 (Repealed), which were set aside by the Income Tax Appellate Tribunal (ITAT) for fresh assessment. The Income Tax department is in appeal against ITAT orders before the Honourable High Court.

18.3 The Company was assessed under section 169 of the Income Tax Ordinance, 2001 (section 80C of Repealed Income Tax Ordinance, 1979) for the assessment years 2000-01 to 2002-03 and tax year 2003 by the Taxation Officer, which resulted in additional tax liability of Rs. 20.845 million. Appeals of the Company are pending at various levels against these assessments.

No provision has been made in these financial statements in respect of aforesaid excess amount, as management is of the opinion that the issues will ultimately be resolved in favour of the Company.

	Note	2004 Rupees	2003 Rupees
ISSUED, SUBSCRIBED AND PAID UP CAPITAL			
5,400,000 (2003: 5,400,000) ordinary shares of Rs. 10/- each fully paid in cash			
RESERVES			
Capital		54,000,000	54,000,000
Share premium		17,280,000	17,280,000
Revenue		71,280,000	71,280,000
General		19,170,000	19,170,000
Opening balance		81,500,000	96,500,000
Transfer to profit and loss account		-	-15,000,000
Closing balance		81,500,000	81,500,000
		100,670,000	100,670,000
DEFERRED LIABILITIES			
Taxation	6.1	25,316,148	26,238,293
Leave encashment		5,201,065 -	
		30,517,213	26,238,293
Taxation			
Credit/ (debit) balances arising on account of: Accelerated depreciation		27,136,521	26,238,293
Provision for leave encashment		-1,820,373 -	
		25,316,148	26,238,293
Telecom Foundation. T F Technologies		96,000	96,000
		96,000	141,469

TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of subsidiary, holding and associated companies, directors, companies with common directorship, key management staff and staff retirement benefits fund.

Following is the related party with whom transactions were undertaken during the year

	2004 Rupees	2003 Rupees
Telecom Foundation (Holding Company)		
Dividend paid	4,907,595	3,926,27
Purchase of fixed assets	2,400,000	
Rentals	100,200	1,218,33

Transfer of fixed assets	-	371,66
	7,407,795	5,516,27

	2004 Chief Executive Rupees	Executive Chief	2004 Executive Chief Rupees	Executive
Managerial remuneration	390,096	8,626,433	348,676	5,057,3
House rent and utilities	214,560	4,739,010	191,784	2,785,9
Other allowances and benefits	39,012	2,390,251	86,513	3,098,0
Retirement benefits	89,397	1,938,717	82,401	1,710,6
Reimbursable expenses	1,113	638,950	-	457,2
Meeting fees	20,000	-	-	
Honorarium/ Bonus	58,638	1,742,219	53,638	941,9
No. of persons	812,816	20,075,580	763,012	14,051,2
	1	44	1	28

REMUNERATION TO CHIEF EXECUTIVE AND EXECUTIVES

	2004 Rupees	2003 Rupees
24 NUMBER OF EMPLOYEES		
Total number of employees at the end of the year	166	149

25 DATE OF AUTHORIZATION FOR ISSUE

The financial statements were approved by the Board of Directors in their meeting held on October 5, 2004.

26 CORRESPONDING FIGURES

Corresponding figures have been rearranged and regrouped wherever necessary for the purpose of comparison.

Previous year figure relating to credit balance of advances to suppliers amounting Rs. 1,097,578 has been reclassified and transferred from Advances, deposits and prepayments to accrued liabilities.

27 GENERAL

Figure have been rounded off to the nearest Rupee, unless otherwise stated.

NUMBER OF SHAREHOLDERS	SHARES HELD	PERCENTAGE(%)
Associated Companies		
Telecom Foundation	3,926,076	55.08
NIT & ICP		
Investment Corporation of Pakistan	8,912	0.125
National Bank of Pakistan Trustee Deptt.	264,132	3.706
Chairman Director, Chief Executive & their Spouse /Children		
Mr. Perwaiz	0	
Chief Executive		
Mohammad Aslam	0	
Directors		
Zafar All Chaudhry	0	
Mehboob Ali	0	
Mohammad Azeem	0	
Amjad Hussain Qureshi	0	
Syed Mahmood Ahmad	0	
Insurance Companies		
State Life Insurance Corp. of Pakistan	550,656	7.725
Other Companies		
A. Sattar Motwala Securities (Pvt) Ltd.	370	0.005
A.H.K.D. Securities (Pvt) Ltd.	45,000	0.631

Al-Nakhal Securities (Private) Limited	220	0.003
Aqeel Karim Dhedhi Securities (Pvt) Ltd.	46,000	0.645
Bajwa Securities (Pvt) Ltd	14	0
Capital One Equities Limited	10	0
Continental Capital Management (Pvt) Ltd.	500	0.007
Darson Securities (Private) Limited	31,420	0.441
Dosslan's Securities (Pvt) Limited	8	0
Fair Edge Securities (Pvt) Limited	100	0.001
Fortune Securities Limited	33,500	0.47
Intermarkct Securities (Private) Limited	18,000	0.253
Jamshaid & Hasan Securities (Pvt) Ltd.	1,500	0.021
Live Securities (Private) Limited	100	0.001
M.S. Securities (Private) Limited	224	0.003
Millennium Securities & Invest (Pvt) Ltd.	130	0.002
Moosa Noor Muhammad Shahzada & co (Pvt) Ltd	1,760	0.025
Salim Chandio Securities (Pvt) Limited	14,500	0.203
Salman Services (Pvt) Limited	708	0.01
Taurus Securities Limited	240	0.003
Y.S. Securities & Services (Pvt) Ltd	1,220	0.017
Zahid Latif Khan Securities (Pvt) Ltd	2,576	0.036
Crescent steel and Allied Products Ltd	5,700	0.08
Pakistan Emerging Venture Ltd.	36,580	0.513
Sarfraz Mahmood (Pvt) Ltd.	24	0
Zillion Capital Securities (Pvt) Ltd.	2,500	0.035
Non Resident		
CMB (1) As Trustee For GT	320	0.004
Dester Management Limited	3,420	0.048
Lehman Brother Securities	9,528	0.134
Spiner Nominees Securities	4,920	0.069
Morgan Stanley Bank Luxemroug	4,644	0.065
PICTET & CIB	2,800	0.039
General Public	2,109,688	29.597
TOTAL	7,128,000	100

SHARE-HOLDER	SHARE HELD	PERCENTAGE %
Telecom Foundation	3,926,076	55.08
Aqeel Karim Dhedhi	878,460	12.324
TOTAL	4,804,536	67.404

PATTERN OF HOLDING OF THE SHARES HELD BY THE
SHAREHOLDERS OF PAK DATACOM LIMITED AS AT JUNE 30, 2004

NUMBER OF SHAREHOLDERS	SHAREHOLDING FROM	TO	TOTAL SHARE HOLD
1220	1	100	36,418
651	101	500	171,802
87	501	1000	71,740
118	1001	5000	305,496
31	5001	10000	231,364
10	10001	16000	121,992
8	15001	20000	148,460
7	35001	40000	228,904
2	40001	45000	85,500
1	45001	50000	46,000
1	60001	65000	61,000
1	260001	265000	264,132
1	550001	555000	550,656
1	875001	880000	878,460
1	3925001	3930000	3,926,076

2140

7,128,000

SHAREHOLDERS	NUMBER	SHARES HELD	PERCENTAGE %
Associated Companies	1	3,926,076	55.08
Financial Institution	2	273,044	3.831
Joint Stock Companies	27	242,904	3.408
Foreign Companies	1	550,656	7.725
Individual	6	25,632	0.359
	2,103	2,109,688	29.597
TOTAL	2,140	7,128,000	100