# Annual Report 2012

prosperity based on growth

THE STRENGTH KOHAT CEMENT

Kohat Cement Company Limited

بسم الله الرحمن الرحيم

*In the Name of Allah Most Gracious, Most Merciful*

# About the Company

Kohat Cement Company Limited was incorporated in 1980 and is one of the leading cement manufacturing company of Pakistan. It is an ISO 9001-2008 certified company, with an annual capacity of 2.8 Million tons of Grey Cement and 148.5 thousand tons of White Cement. The Registered office and the Factory are located at Kohat, whereas the Head Office is located in Lahore.

# Contents



## VISION

Be the best in the eyes of all stakeholders

## OUR MISSION IS TO PROVIDE

Our Customers with quality cement at competitive pricing
Our Shareholders with good returns and sustainable growth
Our Employees with care and career development opportunities

## CORPORATE STRATEGY

Stay ahead of competition by adopting latest technology with efficient and progressive teamwork in an environment of good governance and professionalism

# Corporate Information

### Board of Directors

Chief Executive
Mr. Aizaz Mansoor Sheikh

Executive Directors
Mr. Nadeem Atta Sheikh
Mr. Omer Aizaz Sheikh

Non-Executive Directors
Mrs. Ghazala Amjad
Mrs. Hafsa Nadeem
Mr. Ibrahim Tanseer Sheikh
Mr. M. Atta Tanseer Sheikh

### Audit Committee

Mr. Ibrahim Tanseer Sheikh
Chairman
Mr. Omer Aizaz Sheikh
Mr. M. Atta Tanseer Sheikh

### HR&R Committee

Mr. M. Atta Tanseer Sheikh
Chairman
Mr. Aizaz Mansoor Sheikh
Mr. Ibrahim Tanseer Sheikh

### Company Secretary

Mr. Usman Khalil

### Legal Advisor

Qazi Waheed-ud-Din

### Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

### Share Registrar

AZM Computers (Pvt.) Limited
24- Ferozepur Road,
Mozang Chungi, Lahore.
Tel: (042) 37500131
Fax: (042) 37500030

### Registered Office and Works

Kohat Cement Company Limited
Rawalpindi Road, Kohat.
Tel: (0922) 560990
Fax: (0922) 560405
Email: finance@kohatcement.com

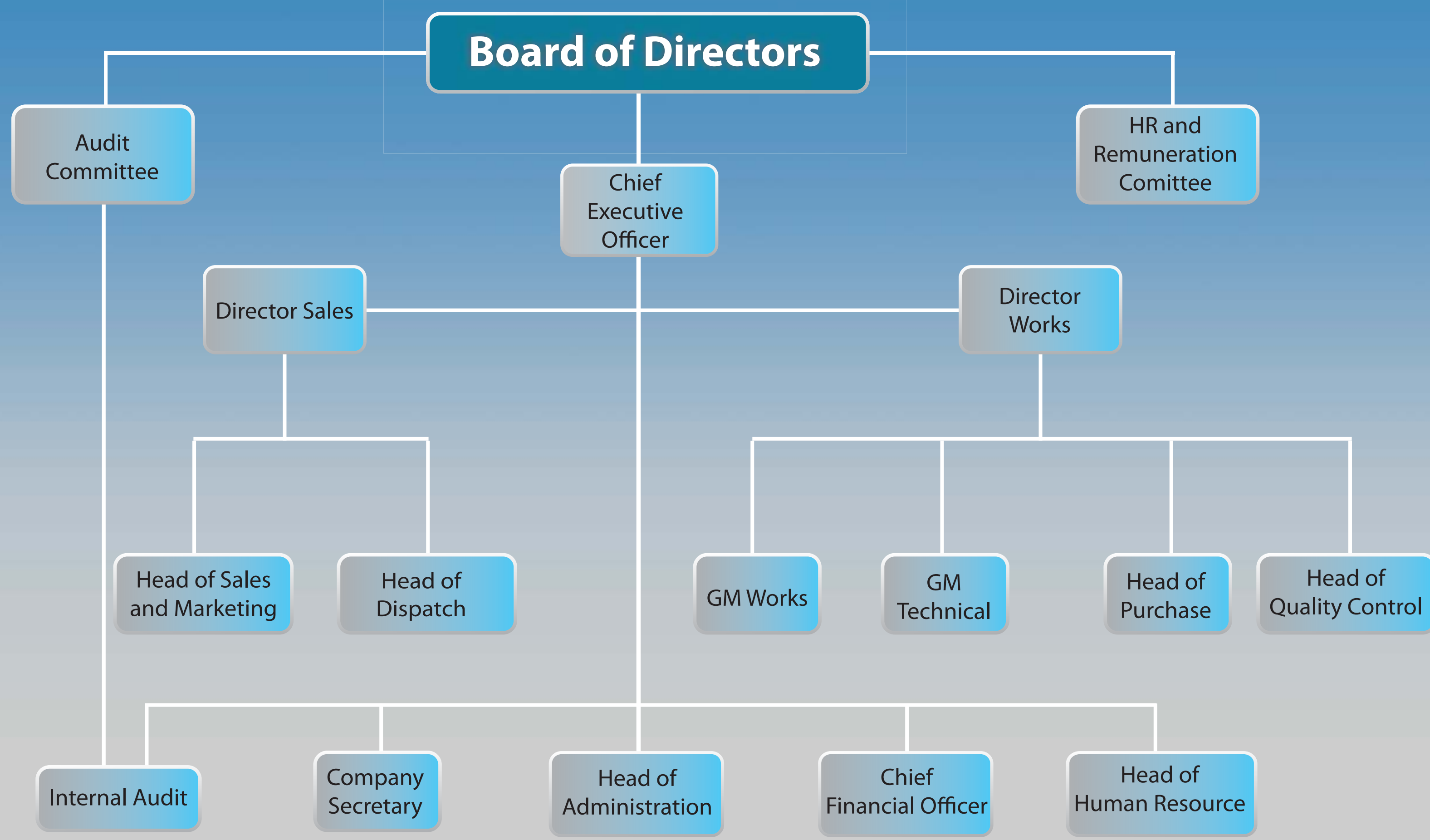
### Head Office

37- P Gulberg - II, Lahore.
Tel: (042) 11 111 5225
Fax: (042) 3575 4990
Email: mis@kohatcement.com

### Bankers of the Company

Standard Charted Bank (Pak) Ltd
The Bank of Khyber
Askari Bank Limited
Soneri Bank Limited
National Bank of Pakistan
KASB Bank Limited
The Bank of Punjab
Bank Alfalah Limited
MCB Bank Limited
Allied Bank Limited
United Bank Limited

KCCL Head Office Lahore



Board of Directors
Audit Committee
Chief Executive Officer
HR and Remuneration Comittee
Director Sales
Director Works
Head of Sales and Marketing
Head of Dispatch
GM Works
GM Technical
Head of Purchase
Head of Quality Control
Internal Audit
Company Secretary
Head of Administration
Chief Financial Officer
Head of Human Resource

# 20 Years History At A Glance

## 1992

Acquisition of Kohat Cement Company Limited (KCCL) by present management from Privatization Commission of Pakistan. (Capacity 1,000 tpd ranking 14th in the industry).

## 1994

Listed on stock exchanges of Pakistan.
BMR of Grey Cement Line to 1,800 tpd.

## 2002

Entry into Export market.

## 2003

Conversion from Furnace Oil to Coal firing.

## 2005

New White Cement Line of 450 tpd.

# 2006 to 2008

New Grey Cement Line of 6,700 tpd.

# 2009

Standby power plant of 22.4 MW.

# Today

Grey Cement Line of 1,800 tpd.
Grey Cement Line of 6,700 tpd.
White Cement Line of 450 tpd.
Power Plant of 22.4 MW.
6th largest Cement manufacturer in the industry.

# Notice of annual general meeting

NOTICE is hereby given that 33rd Annual General Meeting of the shareholders of Kohat Cement Company Limited will be held on Saturday, October 20, 2012 at 11:00 A.M., at its registered office, Kohat Cement Factory, Rawalpindi Road, Kohat, to transact the following business:

**ORDINARY BUSINESS**

**1.** To receive, consider and adopt the audited accounts of the Company for the year ended June 30, 2012 together with Auditors' and Directors' Reports thereon.

**2.** To approve final cash dividend @ 30% i.e. Rs.3/- per ordinary share for the year ended June 30, 2012 as recommended by the Board of Directors.

**3.** To appoint Auditors for the year 2012-2013 and to fix their remuneration.

(By Order of the Board)

**(USMAN KHALIL)**
COMPANY SECRETARY

**Lahore: September 29, 2012**

**Notes:**

**1.** The register of members and the share transfer books of the Company will be closed from Saturday, October 13, 2012 to Saturday, October 20, 2012 (both days inclusive). Physical transfers / CDS transactions IDs received in order at the share department of the Company, AZM Computer Services (Pvt.) Limited, 24-Ferozepur Road, Mozang Chungi, Lahore, upto the close of business on Friday, October 12, 2012 will be treated in time for the purpose of entitlement of aforesaid final cash dividend and to attend and vote at Annual General Meeting.

**2.** A member entitled to attend and vote at the Meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. Proxies, in order to be effective, must be received at the Registered Office of the Company 48 hours before the time of the holding of the Meeting. Form of proxy is enclosed herewith.

**3.** CDC shareholders are requested to bring their Computerized National Identity Card, Account and Participant's Number and will further have to follow the guidelines as laid down in the Securities & Exchange Commission of Pakistan's Circular No. 1 dated 26th January 2000 while attending the Meeting for identification.

**4.** The members should quote their folio number / CDS IDs in all correspondence with the Company and should bring at the time of attending the Annual General Meeting.

**5.** The members are requested to notify immediately changes, if any, in their registered addresses.

**6.** Members who have not yet submitted photocopies of their CNIC to the Company are requested to send the same at the earliest at the Company's Share Registrar office to mention the same on the dividend warrants.

# Directors' Report to the Shareholders

The Directors of your Company are pleased to present the Annual Report together with audited financial statements and Auditors' report thereon for the year ended June 30, 2012

**Overview**

The cement sector of Pakistan has registered an overall growth of 3% in terms of sales volumes during the FY 2011-12. Domestic consumption has increased by 9% to 23.95 million tons while exports have been reduced to 8.57 million tons registering a negative growth of 9%.

By the grace of Almighty Allah your company has shown an overall growth of 12.89% in sales volume by dispatching 1.69 million tons of cement.

**Production and Sale Volumes**

New grey cement line operated at 75% capacity utilization while the old grey cement line remained non operative due to over capacity in the cement sector. Below is the summary of production and sales of the company during the year:

| | FY 2012 | FY 2011 | Increase/ (decrease) | % age |
|---|---|---|---|---|
| | ..................................Tons | .................................. | | |
| Clinker Production | 1,518,029 | 1,363,820 | 154,209 | 11.31% |
| Cement Production | 1,679,122 | 1,472,479 | 206,643 | 14.03% |
| Local Sales | 1,411,565 | 1,105,167 | 306,398 | 27.72% |
| Export Sales | 276,117 | 389,788 | (113,671) | (29.16%) |
| Total Sales | 1,687,682 | 1,494,955 | 192,727 | 12.89% |

**Clinker Production ('000 Tons)**


**Cement Dispatches ('000 Tons)**

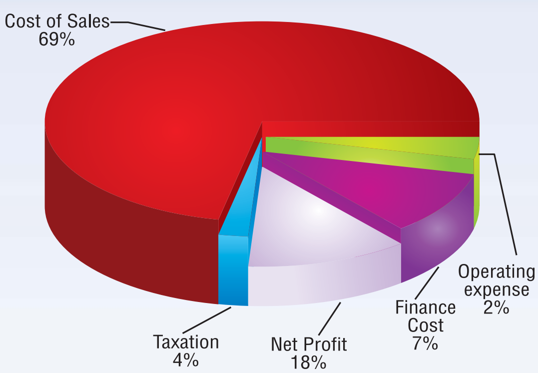

**Financial results**

Severe energy crises during the year restricted the output of your company due to which capacity utilization stayed below the desired level. Overall inflationary trend increased the input costs but lower financial costs helped the profitability of the company. Your company earned a pre-tax profit of Rs. 2.035 billion (2011: Rs. 125.780 million) after accounting for all charges inclusive of depreciation of Rs. 347.551 million (2011: Rs. 310.562 million).

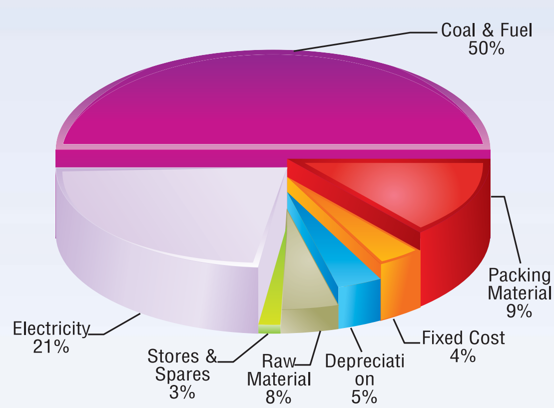
The operating performance of the company is summarized below:

| | FY 2012 | FY 2011 |
|---|---|---|
| | (Rupees in millions) | |
| Net Sales | 9,316 | 6,085 |
| Cost of Sales | 6,464 | 5,158 |
| Gross Profit | 2,852 | 927 |
| Operating Expenses | 221 | 106 |
| Other Income | 30 | 20 |
| Finance Cost | 626 | 715 |
| Profit before Taxation | 2,035 | 125 |
| Taxation | 375 | 62 |
| Profit after Taxation | 1,660 | 63 |
| Earnings per share (Rs./ share) | 12.90 | 0.49 |

**Revenue Distribution**




**Cost of Sales**



## Future prospects

The growth in demand of cement in local market is expected to continue because of increase in Government spending during the election year.
Profitability of the company is likely to grow during the current financial year due to reduced financial costs.

**Debt Obligations –** The Company is not only current with its debt obligations but has prepaid Rs. 1.1 billion of long term debt in addition to scheduled payments of Rs.822.6 million during the year under review.

## Appropriations

The Board of Directors of your company is pleased to propose a 30% final cash dividend of Rs.3/- per ordinary share for Financial Year ended June 30, 2012.
Appropriations approved by directors are as under:

| | Rs. In '000' |
|---|---|
| Profit after taxation | 1,660,511 |
| Un-appropriated profits from prior years | 685,835 |
| Available for appropriation | 2,346,346 |
| Subsequent effects: | |
| Proposed dividend for the year on ordinary shares @ Rs. 3/- | 386, 272 |
| Un-appropriated profit carried forward | 1,960,074 |

## Compliance with code of corporate governance

The management is fully aware of the Company's obligations for compliance with the Code of Corporate Governance as incorporated in the Listing Regulations of all Stock Exchanges of Pakistan and steps are being taken for its effective implementation within the allowed time frame. The various statements, as required by the Code, are given below:

- The financial statements prepared by the management present fairly the Company's state of affairs, the results of its operations, cash flows and changes in equity.
- The Company has maintained proper books of account.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements to ensure the true and fair view of the Company's financial position.
- The system of internal control is sound in design and has been effectively implemented and is being monitored continuously. The review will continue in future for the improvement in controls.
- There are no significant doubts upon the Company's ability to continue as a going concern.


- There has been no material departure from the Best Practices of Corporate Governance, as detailed in the Listing Regulations wherever applicable to the Company for the year ended June 30, 2012.

**Financial highlights**
Key operating & financial data of last eight years is included in this report.

**Outstanding statutory dues**
The outstanding statutory dues on account of taxes, duties, levies and charges are disclosed in note no. 10.

**Statement on value of staff retirement funds**
The value of investments of provident fund based on its unaudited accounts as at June 30, 2012 is Rs.55.184 million (2011: 42.801 million)

**Board & its committee meetings**
Attendance by each director at the Board of Directors (BOD) and Board Audit Committee (BAC) meetings are as under:

| | Meetings attended | |
|---|---|---|
| | **BOD** | **BAC** |
| **No. of meetings held** | **6** | **6** |
| Mr. Aizaz Mansoor Sheikh | 6 / 6 | - |
| Mr. Nadeem Atta Sheikh | 6 / 6 | - |
| Mrs. Ghazala Amjad | 3 / 6 | - |
| Mrs. Hafsa Nadeem | - / 6 | - |
| Mr. Omer Aizaz Sheikh | 6 / 6 | 5 / 6 |
| Mr. Ibrahim Tanseer | 6 / 6 | 6 / 6 |
| Mr. Muhammad Atta Tanseer Sheikh | 6 / 6 | 6 / 6 |

The Directors who could not attend the Board & Committee Meetings and requested for leave were duly granted leave of absence from the meeting by the Board/Committees in accordance with the law.

**Training program by Board of Directors**
The Board has arranged Board Development Series Certificate Program of Pakistan Institute of Corporate Governance ("PICG") for two of its directors who have completed the training successfully during the year.

**Trading In Company's shares**
Movement in Directors, CEO and their spouses and minor children's shareholding is given as under:


| | | | Shares Purchased /Gifted | Shares Sold/Gifted |
|---|---|---|---|---|
| i) | Mr. Aizaz Sheikh | CEO/Director | 1,142,787 | 733,891* |
| ii) | Mr. Nadeem Atta Sheikh | Director | 1,137,305 | - |
| iii) | Mrs. Ghazala Amjad | Director | - | - |
| iv) | Mrs. Hafsa Nadeem | Director | - | - |
| v) | Mr. Omer Aizaz Sheikh | Director | 403,483<br>36,517** | - |
| vi) | Mr. Ibrahim Tanseer | Director | - | - |
| vii) | Mr. Muhammad Atta Tanseer Sheikh | Director | - | - |
| viii) | Mrs. Shahnaz Aizaz | Mr. Aizaz Sheikh's Spouse | - | - |
| ix) | Mr. Sheikh Amjad Latif | Mrs. Ghazala Amjad's Spouse | - | 750,250 |
| x) | Mrs. Mahnum Omer Sheikh | Mr. Omer Aizaz Sheikh's Spouse | - | - |

* Gift to sons
** Gift from father

Above data is based on information as provided by the Directors.

**Pattern of shareholding**
The Pattern of Shareholding alongwith additional information as required by the Code of Corporate Governance is included in this report.

**External auditors**
The present auditors, M/s. KPMG Taseer Hadi and Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment. As suggested by the Audit Committee, the Board of Directors has recommended the re-appointment of present auditors of the Company for the ensuing year.

**Corporate Social Responsibility**
Disclosure as required by the Companies (Corporate Social Responsibility) General Order, 2009 is annexed.

**Management and employees relations**
The Board would like to record its appreciation for the valuable contribution made by all its employees. The management is quite confident that these cordial relations and cooperation will continue in the years to come.

For and on behalf of the Board

**Aizaz Sheikh**
Chief Executive

Lahore: September 12, 2012

# Corporate Social Responsibility

Being a socially responsible organisation, KCCL sponsors projects of education and medical assistance. We also support development of nearby communities and continuously strive to increase energy conservation and environment friendly business practices.

### Corporate philanthropy

The company plays its role in giving back to the society by sponsoring the Kohat Cement Education Trust, which operates a school within the factory premises for the children of the employees and local residents. In FY 2011-12, the student strength was 263 and faculty strength was 18.

### Energy conservation

Some measures taken for energy conservation during the financial year 2011-12 are as hereunder:

Replacement of Electric bulbs, energy savers and tube light with LED's.
Energy audit of the factory for replacing all conventional light fixtures with LED technology.
Switching off all air conditioners and lights during lunch hours.

### Community investment and welfare schemes

The company is continuously working for the welfare of the neighboring communities as well as the society at large.
KCCL operates a hospital within factory premises to provide medical treatment to staff and their family members.
KCCL has paid Rs. 2.8 million to Qaumi committee of local residents during the financial year under review. The Qaumi committee utilizes these funds for infrastructure projects in the nearby villages.

Mosque

Award ceremony at Hotel Sunfort

## Industrial relations

The company recognizes that a cordial relation between management and employees is one of the key factors for corporate success.

The company conducts a yearly Hajj ballot for those employees who have completed 3 years of service with the company. To date 79 employees have performed Hajj under this scheme.

## Lifetime Service award

Subsequent to the financial year end, an award ceremony was held at Hotel Sunfort Lahore, to honour the long and dedicated affiliation of some of the KCCL ex- employees with the company.

## Occupational safety and health

The Health and Safety team carries out monthly audits at the factory and consequently educates the employees regarding the fundamentals of a safe working environment.

## Business ethics and anti-corruption measures

The management is committed to conduct all business activities with integrity, honesty and in full compliance with the current laws and regulations. A code of conduct has been developed and approved by the Board, which is signed by all the employees.

## Contribution to national exchequer

To meet our legal and social obligation towards the development of the economy of the country, the company has contributed Rs. 2.2 billion in the FY 2011-12 into Government exchequer on account of taxes, levies, excise duty and sales tax. Moreover, foreign exchange of amount USD $15.2 million was also earned for the Country from export of cement during the financial year.

KCET School

Hospital

# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the Year ended June 30, 2012

This statement is being presented to comply with the Code of Corporate Governance (Code) contained in Listing Regulations of the Stock Exchanges of Karachi, Lahore and Islamabad for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

**The Company has applied the principles contained in the Code in the following manner:**

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes:

| Category | Names |
|---|---|
| Independent Directors | NIL |
| Executive Directors | 1 Aizaz Mansoor Sheikh<br>2 Nadeem Atta Sheikh<br>3 Omer Aizaz Sheikh |
| Non-Executive Directors | 1 Mrs. Ghazala Amjad<br>2 Mrs. Hafsa Nadeem<br>3 Mr. Ibrahim Tanseer Sheikh<br>4 Mr. Muhammad Atta Tanseer Sheikh |

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4 No casual vacancy occurred in the Board during the year.

5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company alongwith its supporting policies and procedures.

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

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

8. The meetings of the Board were presided over by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board has arranged Board Development Series Certificate Program of Pakistan Institute of Corporate Governance ("PICG") for two of its directors who have completed the training successfully during the year.

10. There were no new appointments of Chief Financial Officer (CFO), Company Secretary or Head of Internal Audit during the year. However, appointments of existing CFO, Company Secretary and Head of Internal Audit including their remuneration and terms & conditions were ratified by the Board as required by the Code.

11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by the CEO and the CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an audit committee. It comprises three members, of whom two are non-executive directors including the chairman of the committee.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. Subsequent to the year end, the Board has formed an HR and Remuneration Committee. It comprises three members, of whom two are non-executive directors including the chairman of the Committee.

18. The Board has set-up an effective internal audit function and personnel involved are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan. .

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. The 'close period', prior to the announcement of interim/ final results and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchanges.

22. Material/ price sensitive information has been disseminated among all market participants at once through stock exchanges.

23. We confirm that all other material principles enshrined in the Code have been complied.

AIZAZ MANSOOR SHEIKH
Chief Executive

Lahore: September 12, 2012

# 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 prepared by the Board of Directors of **Kohat Cement Company Limited ("the Company")** to comply with the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges.

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.

Further, Sub- Regulation (xiii a) of Listing Regulation No. 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee.

We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price.

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 as applicable to the Company for the year ended 30 June 2012.

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi &Co.
Chartered Accountants
(Bilal Ali)

Lahore: September 12, 2012

# AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Kohat Cement Company Limited ("the Company")** as at 30 June 2012 and the related profit and loss account, statement of comprehensive income, 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, statement of comprehensive income, 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 30 June 2012 and of the profit, its comprehensive income, 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).

KPMG Taseer Hadi & Co.

**KPMG Taseer Hadi & Co.**
**Chartered Accountants**
**(Bilal Ali)**

Lahore: September 12, 2012

# BALANCE SHEET
as at 30 June 2012

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Authorised share capital** | | | |
| 150,000,000 (2011: 150,000,000) ordinary shares of Rs. 10 each | | 1,500,000,000 | 1,500,000,000 |
| **Issued, subscribed and paid up capital** | 4 | 1,287,572,410 | 1,287,572,410 |
| **Reserves** | 5 | 122,536,851 | 129,409,009 |
| **Accumulated profit** | | 2,346,346,095 | 685,834,718 |
| | | 3,756,455,356 | 2,102,816,137 |
| **Non-current liabilities** | | | |
| Long term finances - secured | 6 | 1,162,700,000 | 3,536,870,000 |
| Long term security deposits and retention money | 7 | 165,735,153 | 163,656,829 |
| Deferred liabilities | 8 | 1,228,691,186 | 323,097,976 |
| Derivative financial liabilities | 9 | - | 187,420,429 |
| | | 2,557,126,339 | 4,211,045,234 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | 1,147,023,602 | 973,628,527 |
| Interest and markup accrued | 11 | 99,014,642 | 433,182,170 |
| Short term borrowings - secured | 12 | 1,160,957,469 | 1,363,678,773 |
| Current portion of non-current liabilities | 13 | 492,300,000 | 40,050,000 |
| | | 2,899,295,713 | 2,810,539,470 |
| **Contingencies and commitments** | 14 | | |
| | | 9,212,877,408 | 9,124,400,841 |

The annexed notes from 1 to 42 form an integral part of these financial statements.

# BALANCE SHEET

as at 30 June 2012

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **ASSETS** | | | |
| **Non Current Assets** | | | |
| **Property, plant and equipment** | | | |
| Operating fixed assets | 15 | 6,789,893,194 | 7,140,840,908 |
| Capital work-in-progress | 16 | 78,546,638 | - |
| | | 6,868,439,832 | 7,140,840,908 |
| **Intangible assets** | 17 | 2,042,765 | 2,355,963 |
| **Long term loans and advances** | 18 | 20,133,678 | 23,706,054 |
| **Long term deposits** | 19 | 3,879,440 | 3,879,440 |
| | | 6,894,495,715 | 7,170,782,365 |
| **Current assets** | | | |
| Stores, spares and loose tools | 20 | 1,191,004,172 | 850,571,198 |
| Stock in trade | 21 | 500,326,860 | 507,527,333 |
| Trade debts | 22 | 4,491,829 | 12,567,298 |
| Investments | 23 | 23,000,000 | 36,156,000 |
| Advances, deposits, prepayments and other receivables | 24 | 471,353,236 | 506,114,913 |
| Cash and bank balances | 25 | 128,205,596 | 40,681,734 |
| | | 2,318,381,693 | 1,953,618,476 |
| | | 9,212,877,408 | 9,124,400,841 |

CHIEF EXECUTIVE

DIRECTOR

# PROFIT AND LOSS ACCOUNT
for the year ended 30 June 2012

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| Sales - net | 26 | 9,316,380,873 | 6,085,434,517 |
| Cost of goods sold | 27 | 6,463,977,256 | 5,158,302,614 |
| **Gross profit** | | 2,852,403,617 | 927,131,903 |
| Selling and distribution expenses | 28 | 46,242,716 | 41,199,134 |
| Administrative and general expenses | 29 | 66,714,848 | 48,845,016 |
| | | 112,957,564 | 90,044,150 |
| **Operating profit** | | 2,739,446,053 | 837,087,753 |
| Other operating expenses | 30 | 108,164,737 | 16,484,515 |
| | | 2,631,281,316 | 820,603,238 |
| Other operating income | 31 | 30,763,468 | 20,424,475 |
| | | 2,662,044,784 | 841,027,713 |
| Finance cost | 32 | 626,060,398 | 715,246,906 |
| **Profit before taxation** | | 2,035,984,386 | 125,780,807 |
| Taxation | 33 | 375,473,009 | 62,064,836 |
| **Profit after taxation** | | 1,660,511,377 | 63,715,971 |
| **Earnings per share - basic and diluted** | 34 | 12.90 | 0.49 |

The annexed notes from 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2012

| | 2012 Rupees | 2011 Rupees |
|---|---|---|
| Profit after taxation | 1,660,511,377 | 63,715,971 |
| **Other comprehensive income** | | |
| **Available for sale financial assets** | | |
| Change in fair value | (13,156,000) | 15,987,900 |
| **Cash flow hedge** | | |
| Fair value adjustment of cash flow hedge | - | 14,603,618 |
| Re-pricing settlement received from cash flow hedge | - | 51,055,679 |
| Deferred taxation of hedging movements | - | (3,516,902) |
| | - | 62,142,395 |
| **Other comprehensive income for the year - net of taxes** | (13,156,000) | 78,130,295 |
| Total comprehensive income for the year | 1,647,355,377 | 141,846,266 |

The annexed notes from 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

KOHAT CEMENT

# CASH FLOW STATEMENT
## for the year ended 30 June 2012

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before taxation | | 2,035,984,386 | 125,780,807 |
| Adjustments for non cash expenses and other items: | | | |
| Depreciation on property, plant and equipment | | 347,551,645 | 310,562,802 |
| Amortization | | 825,244 | 687,984 |
| Profit on sale of property, plant and equipment | | (2,255,644) | (1,018,152) |
| Exchange (gain)/ loss - net | | (14,012,085) | 6,526,472 |
| Provision for staff retirement benefits | | 8,684,042 | 3,181,557 |
| Provision for compensated absences | | 4,172,196 | 677,954 |
| Profit/mark-up on bank deposits and advances | | (4,865,351) | (2,917,754) |
| Loss realized on winding up of financial derivative instrument | | 61,703,160 | - |
| Finance cost | | 564,357,238 | 715,246,906 |
| | | 966,160,445 | 1,032,947,769 |
| **Operating profit before working capital changes** | | 3,002,144,831 | 1,158,728,576 |
| **(Increase)/decrease in current assets** | | | |
| Stores, spares and loose tools | | (326,746,755) | (212,570,771) |
| Stock in trade | | 7,200,473 | (217,094,276) |
| Trade debts | | 8,075,469 | 7,442,835 |
| Advances, deposits, prepayments and other receivables | | 58,709,010 | (158,511,339) |
| **Increase in current liabilities** | | | |
| Trade and other payables | | 173,395,075 | 239,316,040 |
| | | (79,366,728) | (341,417,511) |
| **Cash generated from operations** | | 2,922,778,103 | 817,311,065 |
| Finance cost paid | | (321,164,701) | (574,832,364) |
| Contribution to staff retirement benefit - net | | (15,414,974) | (795,340) |
| Compensated absences paid | | (678,472) | (409,199) |
| Income tax paid | | (96,579,676) | (17,447,982) |
| | | (433,837,823) | (593,484,885) |
| **Net cash inflow from operating activities** | | 2,488,940,280 | 223,826,180 |
| **Cash flow from investing activities** | | | |
| Fixed capital expenditure | | (95,478,738) | (145,440,202) |
| Sale proceeds of property, plant and equipment | | 3,729,134 | 5,811,072 |
| Profit/mark-up on bank deposits | | 4,865,351 | 2,917,754 |
| Decrease in long term loans and advances | | 3,572,376 | 5,126,232 |
| (Increase) in short term investments | | - | (20,168,100) |
| (Increase)/ Decrease in long term deposits | | (1,113,676) | 1,518,000 |
| **Net cash used in investing activities** | | (84,425,553) | (150,235,244) |
| **Cash flow from financing activities** | | | |
| Repayment of import finance | | (202,822,355) | 136,435,362 |
| Proceeds from export refinance | | 200,000,000 | - |
| Repayments of long term finances | | (1,921,920,000) | (66,733,425) |
| Payment of finance lease liabilities | | - | (2,036,713) |
| Repayment of derivative financial instrument | | (247,193,600) | - |
| Proceeds from derivative financial instrument | | 54,844,039 | 51,055,679 |
| **Net cash (outflow)/ inflow from financing activities** | | (2,117,091,916) | 118,720,903 |
| **Net Increase in cash and cash equivalents** | | 287,422,811 | 192,311,839 |
| **Cash and cash equivalents at the beginning of the year** | | (722,174,684) | (914,486,523) |
| **Cash and cash equivalents at the end of the year** | 35 | (434,751,873) | (722,174,684) |

The annexed notes from 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

# STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2012

| | Share Capital | Share Premium | Fair value Reserve | Hedging Reserve | General Reserve | Accumulated Profit | Total |
|---|---|---|---|---|---|---|---|
| | (Rupees) | | | | | | |
| **Balance as at 30 June 2010** | 1,287,572,410 | 49,704,951 | - | (68,426,237) | 70,000,000 | 622,118,747 | 1,960,969,871 |
| Total comprehensive income for the year | - | - | 15,987,900 | 62,142,395 | - | 63,715,971 | 141,846,266 |
| **Balance as at 30 June 2011** | 1,287,572,410 | 49,704,951 | 15,987,900 | (6,283,842) | 70,000,000 | 685,834,718 | 2,102,816,137 |
| Loss realized on cash flow hedge | - | - | - | 6,283,842 | - | - | 6,283,842 |
| Total comprehensive income for the year | - | - | (13,156,000) | - | - | 1,660,511,377 | 1,647,355,377 |
| **Balance as at 30 June 2012** | 1,287,572,410 | 49,704,951 | 2,831,900 | - | 70,000,000 | 2,346,346,095 | 3,756,455,356 |

The annexed notes from 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

# NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

## 1 Status and nature of the business

Kohat Cement Company Limited ("the Company") is a public limited company incorporated in Pakistan under the Companies Act, 1913 (now Companies Ordinance, 1984) and is listed on Karachi, Lahore and Islamabad Stock Exchanges. The Company is engaged in the production and sale of cement. The registered office is situated at Rawalpindi Road, Kohat, Pakistan.

## 2 Basis of preparation

### 2.1 Statement of compliance

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 Financial Reporting Standards (IFRSs) issued by the International Accounting Standard Board and Islamic Financial Reporting Standards (IFAs) issued by the Institute of Chartered Accountants of Pakistan as are 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 differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives shall prevail.

### 2.2 New Standards and amendments to published approved accounting standards that are relevant but not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. Since the Company does not have any defined benefit plan, this change has no impact on the Company's financial statements.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.

Annual Improvements 2009–2011 (effective for annual periods beginning on or after 1 January 2013). The new cycle of improvements contains amendments to the following five standards, with consequential amendments to other standards and interpretations:

- IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the 'third statement of financial position', when required, is only required if the effect of restatement is material to statement of financial position.

- IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories.

- IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.

- IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Company.

## 3 Summary of significant accounting policies

### 3.1 Basis of measurement

These financial statements have been prepared on the basis of historical cost convention, except for revaluation of certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

### 3.2 Use of judgments and estimates

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to Company's financial statements or where judgments were exercised in application of accounting policies are:

| | |
|---|---|
| - Taxation | note 3.3 |
| - Staff retirement benefits | note 3.4 |
| - Derivative financial instruments | note 3.5 |
| - Depreciation method, residual values and useful lives of depreciable assets | note 3.8 |
| - Amortization method and useful life for intangible asset | note 3.10 |
| - Provisions and contingencies | note 3.20 |

### 3.3 Taxation

Income tax expense comprises current and deferred tax. Income tax is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

#### Current
Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted after taking into account tax credits, rebates and exemptions, if any. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

#### Deferred
Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

### 3.4 Employee benefits
#### Defined benefit plan
Upto 30 June 2011, the Company operated a funded gratuity scheme for all its permanent employees subject to completion of a prescribed qualifying period of service. Contribution to the fund was being made annually on the basis of actuarial recommendation to cover obligation under the scheme.

The gratuity scheme has been terminated w.e.f. 30 June 2011 and all amounts due to employees under the gratuity scheme has been paid off during the year.

#### Defined contribution plan
The Company operates a defined contributory provident fund scheme for all employees. Equal monthly contributions are made by the Company and the employees to the fund at the rate of 10% of basic salary.

#### Compensated absences
Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to profit.

### 3.5 Financial instruments
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 or cost, as the case may be. Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets are de-recognized when the Company loses control of contractual rights that comprise the financial asset. Whereas financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled, or expires.

#### *Derivative financial instruments and hedging activities*
These are initially recorded at fair value on the date a derivative contract is entered into and are subsequently re-measured to fair value at subsequent reporting dates. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as cash flow hedge. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are recorded in the profit and loss account for the year.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting. Such hedges are expected to be highly effective in achieving the task of offsetting changes in fair values or cash flows and are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting period for which they were designated.

For the purposes of hedge accounting, cash flow hedges refer to hedges against exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability, a firm commitment, or a forecast transaction. In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in equity and the ineffective portion is recognized in the profit and loss account immediately.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept in equity until the forecast transactions occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the profit and loss account for the year.

### 3.6 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

### 3.7 Trade and other payables

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

### 3.8 Property, plant and equipment

Property, plant and equipment except land and capital work in progress are stated at cost less accumulated depreciation. Land and capital work in progress are stated at cost. Cost of certain fixed assets consists of historical cost and directly attributable cost of bringing the assets to working condition.

Depreciation on property, plant and equipment except for items mentioned below is charged by applying reducing balance method.

- building of white cement and new grey cement line is charged by applying straight line method.
- plant and machinery of white and new grey cement line is charged by applying unit of production method.
- power plant building and machinery is charged by applying straight line method.

Depreciation rates are given in note 15.

Depreciation is charged from the month in which assets are put to use upto the month before the disposal of asset.

The depreciation method, assets residual values and useful lives are reviewed at each financial year end, and adjusted if impact on depreciation is significant.

The Company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where carrying value exceeds recoverable amount, assets are written down to the recoverable amount.

Normal repairs and maintenance are charged to profit & loss account as and when incurred. Major improvements and modifications are capitalized and the assets so replaced, if any, are retired.

Profit or loss on disposal of operating fixed assets represented by the difference between the sale proceeds and the carrying amount of the asset is included in profit & loss account.

### 3.9 Leases

Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets at the inception of the lease. The related rental obligations, net of finance cost, are included in liabilities against assets subject to finance lease. The liabilities are classified as current and long term depending upon the timing of the payment.

Assets acquired under a finance lease are depreciated over the estimated useful life of the assets on reducing balance method. Depreciation of leased assets is charged to profit & loss account.

Depreciation methods, residual values and the useful lives of the assets are reviewed at least at each financial year-end and adjusted if impact of depreciation is significant.

Depreciation on additions to leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off.

### 3.10 Intangible assets

Costs that are directly associated with identifiable and unique software products controlled by the Company and which will probably generate economic benefits beyond one year are recognized as intangible assets. Expenditures which enhance or extend the performance of computer software programs beyond their original specifications are capitalized and added to the original cost of the software.

Computer software costs recognized as intangible assets are amortized using the straight-line method over a period of five years.

Other costs associated with developing and maintaining computer software programs are recognized as an expense as incurred.

### 3.11 Stores, spares and loose tools

Usable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice plus other charges paid thereon.

### 3.12 Stock in trade

Stock in trade is valued at lower of weighted average cost and estimated NRV except for goods in transit which are stated at cost.

Cost signifies in relation to:

| | |
|---|---|
| Raw and packing material | Purchased cost on average basis |
| Finished goods and work in process | Cost of direct material, labor and proportion of manufacturing overheads. |
| Stock in transit | Invoice value plus other charges paid thereon |

Net realizable value signifies the estimated selling prices in the ordinary course of business less estimated costs of completion and the estimated cost necessary to make a sale.

### 3.13 Trade debts

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

### 3.14 Investments

***Available for sale***

Investments which are intended to be held for an indefinite period of time but may be sold in response to the need for liquidity are classified as available for sale. Available for sale investments are recognized initially at fair value plus any directly attributable transaction costs. After initial recognition, these are stated at fair values unless fair values can not be measured reliably, with any resulting gains and losses being taken directly to equity until the investment is disposed off or impaired. At each reporting date, these investments are remeasured at fair value, unless fair value cannot be reliably measured. At the time of disposal, the respective surplus or deficit is transferred to profit and loss account. Fair value of quoted investments is their bid price on Karachi Stock Exchange at the balance sheet date. Unquoted investments, where active market does not exist, are carried at cost as it is not possible to apply any other valuation methodology.

Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as non-current. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognized on the trade date which is the date that the company commits to purchase or sell the investment.

At subsequent reporting dates, the company reviews the carrying amounts of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount.

### 3.15 Off setting of financial assets and liabilities

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

### 3.16 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalent comprises of cash in hand, balances with banks and short term running finances. In the balance sheet, short term running finances are included in the current liabilities.

### 3.17 Revenue recognition

Revenue represents the fair value of the consideration received or receivable for goods sold, net of discounts and sales tax. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue, and the associated cost incurred, or to be incurred, can be measured reliably.

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to buyer i.e. on the dispatch of goods to the customers. Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

### 3.18 Foreign currency translation

Assets and liabilities in foreign currencies are translated into Pak rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at spot rate. The Company charges all exchange differences to profit and loss account.

### 3.19 Borrowing costs

Borrowings and other related costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are ready for their intended use. All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 3.20 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

### 3.21 Dividend

Dividend distribution to the Company's shareholders is recognized as a liability in the period in which it is approved.

## 4 Issued, subscribed and paid up capital

| | | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|---|
| 20,749,585 | (2011: 20,749,585) ordinary shares of Rs. 10 each fully paid-up in cash | | 207,495,850 | 207,495,850 |
| 11,230,000 | (2011: 11,230,000) ordinary shares of Rs. 10 each issued against consideration other than cash | | 112,300,000 | 112,300,000 |
| 96,777,656 | (2011: 96,777,656) ordinary shares of Rs. 10 each issued as bonus shares | | 967,776,560 | 967,776,560 |
| 128,757,241 | | | 1,287,572,410 | 1,287,572,410 |

34,438 (2011: 34,438) ordinary shares of the Company are held by Tariq Motors (Private) Limited - related party.

## 5 Reserves

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **Capital Reserves** | | | |
| - Share premium | 5.1 | 49,704,951 | 49,704,951 |
| - Fair value reserve | 5.2 | 2,831,900 | 15,987,900 |
| - Hedging reserve | 5.3 | - | (6,283,842) |
| | | 52,536,851 | 59,409,009 |
| **Revenue reserves** | | | |
| - General reserves | | 70,000,000 | 70,000,000 |
| | | 122,536,851 | 129,409,009 |

**5.1** This reserve can be utilized by the Company only for the purpose specified in section 83(2) of the Companies Ordinance, 1984.

**5.2** This represents fair value adjustment on revaluation of available for sale investments.

**5.3** As referred in note 9, this represents the effect of change in fair value of cross currency swap as at balance sheet date and is net of deferred tax impact amounting to Rs. Nil (2011: Rs. 54.490 million).

## 6 Long term finances - secured

| | Note | Limit (Rupees in million) | 2012 Rupees | 2011 Rupees |
|---|---|---|---|---|
| Standard Chartered Bank (Pakistan) Limited | 6.1 | 108.5 | - | 62,600,000 |
| Redeemable capital - Sukuk Certificates | 6.2 | 2,500 | 755,000,000 | 2,414,320,000 |
| Consortium of financial institutions led by Standard Chartered Bank (Pakistan) Limited | 6.3 | 1,140 | 900,000,000 | 1,100,000,000 |
| | | | 1,655,000,000 | 3,576,920,000 |
| Less: Current maturity shown under current liabilities | | | 492,300,000 | 40,050,000 |
| | | | 1,162,700,000 | 3,536,870,000 |

**6.1** The facility was fully paid during the period.

**6.2** This facility is re-profiled on 16 December 2011 effective from 20 June 2011. According to the revised terms, four quarterly installments starting 20 September 2011 and ending on 20 June 2012 aggregating to Rs. 760 million have been adjusted towards repayment of principal only and further the Company has also prepaid Rs. 900 million on account of principal payments by exercising call option as allowed by the amended Trust Deed. Now the outstanding facility as of the balance sheet date is due in eight quarterly installments commencing 20 September 2012. Mark up rate has also been reduced from 3-month KIBOR + 1.8% p.a. to 3-month KIBOR + 1.5% p.a.

Moreover, mark-up amounting to Rs. 263.801 million for the said period along with outstanding mark-up of Rs. 401.228 million as of 20 June 2011 have been deferred. This aggregate deferred mark-up of Rs. 665.029 million outstanding as of balance sheet date is repayable in eight quarterly installments commencing from 20 September 2014 and ending on 20 June 2016. All mark-up payments are payable on quarterly basis.

The facility is secured by way of first joint pari passu hypothecation/equitable mortgage charge over all present and future fixed assets and immovable properties of the Company to the extent of Rs. 3,334 million (2011: Rs. 3,334 million).

**6.3** The facility was re-scheduled on 22 February 2011. As per revised terms, a grace period of three years starting December 2009 has been allowed in principal payments. Principal amount will now be repaid by June 2016 in 15 quarterly installments starting December 2012. Mark up is charged at the rate of three months KIBOR plus 1.8% (2011: three month KIBOR plus 1.8%) payable quarterly in arrears. Payment of outstanding mark-up of Rs. 81.126 million as of 20 December 2009 has been deferred and further company has been allowed to make partial payments against the quarterly mark-up payments due for the period March 2010 to September 2011. Out of total deferred mark-up of Rs. 223.827 million as at 30 June 2012, Rs. 63 million is due within next financial year whereas balance deferred markup of Rs. 160.827 million is repayable in twelve quarterly installments. All mark-up payments are payable on quarterly basis. The facility is secured by way of first joint pari passu hypothecation/ equitable mortgage charge over all present and future fixed assets and immovable properties of the Company to the extent of Rs. 1,520 million (2011: Rs. 1,520 million).

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **7 Long term security deposits and retention money** | | | |
| Security deposits - interest free | | | |
| From cement dealers | 7.1 | 1,661,100 | 1,711,100 |
| From cement transporters | 7.2 | 400,000 | 400,000 |
| | | 2,061,100 | 2,111,100 |
| Retention money - interest free | 7.3 | 163,674,053 | 161,545,729 |
| | | 165,735,153 | 163,656,829 |

**7.1** These deposits are repayable on the termination of the relationship and are being utilized by the Company in accordance with the terms of the contract.

**7.2** These deposits are held for providing guarantee of safe delivery of cement to customers. These are being utilized by the Company in accordance with the terms of the contract.

**7.3** These amounts have been retained from the invoices / bills of the expansion project's suppliers / contractors and are repayable after one year from the satisfactory fulfillment of terms and conditions of the supply / services contracts. This includes Rs 158.674 million (2011: 150.826 million) equivalent to USD 1,240,000 and Euro 353,300 (2011: USD 1,240,000 and Euro 353,300) retained from invoices of TCDRI, plant supplier as per terms of the agreement. (also refer note 24.3)

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **8 Deferred liabilities** | | | |
| Deferred taxation | 8.1 | 334,220,989 | 2,750,638 |
| Staff retirement benefits | 8.2 | - | 6,730,932 |
| Compensated absences | 8.3 | 5,614,085 | 2,120,361 |
| Deferred mark-up payments | 11 | 888,856,112 | 311,496,045 |
| | | 1,228,691,186 | 323,097,976 |

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **8.1 Deferred taxation** | | | |
| The liability for deferred taxation comprises of temporary differences relating to: | | | |
| Accelerated tax depreciation | | 1,232,130,719 | 1,222,466,219 |
| Minimum tax paid under section 113 | | (128,363,458) | - |
| Unrealized loss on derivative financial instrument | | - | (50,490,186) |
| Unused tax losses | | (769,546,272) | (1,169,225,395) |
| | | 334,220,989 | 2,750,638 |
| **8.2 Staff retirement benefits** | | | |
| Defined benefit plan funded - Gratuity | 8.2.1 | - | 6,730,932 |
| **8.2.1 Defined benefit plan funded - Gratuity** | | | |
| Amount recognized in the balance sheet is as follows: | | | |
| Present value of defined benefit obligation | 8.2.2 | - | 11,319,105 |
| Benefits payable to outgoing members | | - | 218,080 |
| Fair value of plan assets | 8.2.3 | - | (4,806,253) |
| Un-recognized actuarial losses | 8.2.5 | - | - |
| **Liability as at 30 June** | | - | 6,730,932 |
| Net liability as at 01 July | | 6,730,932 | 4,344,715 |
| Charge to profit and loss account | 8.2.4 | 8,684,042 | 3,181,557 |
| Contribution by the Company | | (20,077,425) | (795,340) |
| Fair value of Planned assets realized | | 4,662,451 | - |
| **Liability as at 30 June** | | - | 6,730,932 |
| **8.2.2 Movement in liability for defined benefit obligation** | | | |
| Present value of defined benefit obligation as at 01 July | | 11,319,105 | 9,012,400 |
| Current service cost | | - | 1,103,543 |
| Interest cost | | - | 1,081,488 |
| Loss on settlement of defined benefit plan | | 8,540,240 | 116,870 |
| Benefit payments due, but not paid | | - | (76,270) |
| Benefits paid during the year | | (19,859,345) | (144,020) |
| Actuarial loss on present value of defined benefit obligation | | - | 225,094 |
| Present value of defined benefit obligation as at 30 June | | - | 11,319,105 |
| **8.2.3 Movement in fair value of plan assets** | | | |
| Fair value of plan assets as at 01 July | | 4,806,253 | 4,579,881 |
| Loss realized on plan assets | | (143,802) | - |
| Expected return on plan assets | | - | 261,000 |
| Contribution paid during the year | | - | 789,840 |
| Benefits paid during the year | | - | (789,840) |
| Actuarial (loss) / gain on plan assets | | - | (34,628) |
| Fair value of planned assets (realized) | | (4,662,451) | - |
| Fair value of plan assets as at 30 June | | - | 4,806,253 |
| Plan assets consist of the following: | | | |
| Term deposit - The Bank of Khyber | | - | 4,350,000 |
| Cash at Bank | | - | 456,253 |
| | | - | 4,806,253 |
| **8.2.4 Charge to profit and loss account** | | | |
| Current service cost | | - | 1,103,543 |
| Interest cost | | - | 1,081,488 |
| Expected return on plan assets | | - | (261,000) |
| Loss realized on plan assets | | 143,802 | - |
| Loss on settlement of defined benefit plan | | 8,540,240 | 116,870 |
| Actuarial loss recognized on settlement of plan | | - | 1,140,656 |
| | | 8,684,042 | 3,181,557 |

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **8.2.5 Movement in un-recognized actuarial losses** | | | |
| Un-recognized actuarial losses as at 01 July | | - | 880,934 |
| Actuarial loss arising during the year | | - | 259,722 |
| Actuarial losses charged to profit during the year on settlement of plan | | - | (1,140,656) |
| **Un recognized actuarial losses as at 30 June** | | - | - |

**8.2.6** Actual return on plan assets of funded gratuity scheme was nil. (2011: Rs. 0.456 million).

**8.2.7 Historical information**

| | 2012 Rupees | 2011 Rupees | 2010 Rupees | 2009 Rupees | 2008 Rupees |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | - | 11,319,105 | 9,012,400 | 9,791,602 | 8,535,002 |
| Fair value of plan assets | - | (4,806,253) | (4,579,881) | (4,175,907) | (3,726,968) |
| **Deficit in the plan** | - | 6,512,852 | 4,432,519 | 5,615,695 | 4,808,034 |
| Experience adjustment arising on plan liabilities | - | 225,094 | (807,901) | 57,046 | (837,542) |
| Experience adjustment arising on plan assets | - | 34,628 | (97,135) | 1,703 | (1,893,335) |

**8.2.8 Assumptions used for valuation of the defined benefit scheme for employees are as under:**

| | 2012 % per annum | 2011 % per annum |
|---|---|---|
| Discount rate | N/A | N/A |
| Expected rate of return on plan assets | N/A | N/A |
| Expected rate of increase in salary | N/A | N/A |

| | 2012 Rupees | 2011 Rupees |
|---|---|---|
| **8.3 Compensated absences** | | |
| Balance as at 01 July | 2,120,361 | 1,851,606 |
| Expense recognized during the year | 4,172,196 | 677,954 |
| Payments made during the year | (678,472) | (409,199) |
| Balance as at 30 June | 5,614,085 | 2,120,361 |

## 9 Derivative financial liabilities

The Company had entered into an interest rate cross currency swap agreement with Standard Chartered Bank (Pakistan) Limited, repriced semi-annually, to hedge the possible adverse movements in KIBOR being charged on its long term finances detailed as under:

| | Note | 2012 Company receives | Company pays | Maturity | Notional Amount Rupees | Fair Value Rupees |
|---|---|---|---|---|---|---|
| Cross Currency Swap Exchange USD 8.4 million | 9.1 | - | - | - | - | - |

| | 2011 Company receives | Company pays | Maturity | Notional Amount Rupees | Fair Value Rupees |
|---|---|---|---|---|---|
| Cross Currency Swap Exchange USD 8.4 million | 6 month KIBOR | 6 months LIBOR plus 1.25% | September 2012 | 500,000,000 | 187,420,429 |

**9.1** The cross currency swap agreement with Standard Chartered Bank (Pakistan) Limited has been unwound before maturity for USD 2.7 million equivalent to Rs. 247.194 million by the company in May, 2012.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **10 Trade and other payables** | | | |
| Trade Creditors | 10.1 | 504,783,234 | 551,857,844 |
| Contractors' bills payable | | 14,817,909 | 10,436,016 |
| Accrued liabilities | | 211,659,019 | 173,973,827 |
| Advances from cement customers | | 113,814,036 | 35,106,208 |
| Workers' profit participation fund | 10.2 | 107,176,672 | 6,620,043 |
| Workers' welfare fund | | 1,550,405 | 1,550,405 |
| | | 953,801,275 | 779,544,343 |
| Payable to Government on account of: | | | |
| Income tax deducted at source | | 1,754,789 | 7,499,433 |
| Sales Tax payable | | 46,983,168 | 18,914,132 |
| Excise duty | | 61,614,500 | 92,708,497 |
| Royalty and excise duty | | 43,134,973 | 32,100,888 |
| | | 153,487,430 | 151,222,950 |
| Securities and retention money payable | 10.3 | 5,349,185 | 22,449,274 |
| Unclaimed dividend | | 1,660,026 | 1,660,026 |
| Other payables | | 32,725,686 | 18,751,934 |
| | | 39,734,897 | 42,861,234 |
| | | 1,147,023,602 | 973,628,527 |

**10.1** Trade creditors do not include any amount due to related parties (2011: Rs. Nil).

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **10.2 Workers' profit participation fund** | | | |
| Balance as at 01 July | | 6,620,043 | - |
| Allocation for the year | 30 | 107,176,672 | 6,620,043 |
| Interest accrued | 32 | 372,377 | - |
| | | 114,169,092 | 6,620,043 |
| Paid during the year | | 6,992,420 | - |
| Balance as at 30 June | | 107,176,672 | 6,620,043 |

**10.3 Security and retention money**

This represents interest free security deposits and retention money received from contractors and are repayable after satisfactory completion of contracts.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **11 Interest and markup accrued** | | | |
| Long term finances | | 958,655,877 | 696,948,087 |
| Deferred mark-up payments | 11.1 | (888,856,112) | (311,496,045) |
| | | 69,799,765 | 385,452,042 |
| Short term borrowings | | 29,214,877 | 47,689,439 |
| Liabilities against assets subject to finance lease | | - | 40,689 |
| | | 99,014,642 | 433,182,170 |

**11.1** This includes deferred markup amounting Rs. 665.029 million (2011: Rs. 52.140 million) and Rs. 223.827 million (2011: Rs. 259.356 million) relating to Sukuk certificates (refer to note 6.2) and debt from Consortium of financial institutions led by Standard Chartered Bank (Pakistan) Limited (refer to note 6.3) respectively.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **12 Short term borrowings - secured** | | | |
| Short term running finances | 12.1 | 562,957,469 | 762,856,418 |
| Import finances | 12.2 | - | 202,822,355 |
| Export refinance | 12.3 | 598,000,000 | 398,000,000 |
| | | 1,160,957,469 | 1,363,678,773 |

| | Limit (Rupees in million) | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|---|
| **12.1 Short term running finances** | | | | |
| The Bank of Khyber | 165 | 12.1.1 | 161,800,401 | 163,794,820 |
| KASB Bank Limited | 100 | 12.1.2 | 99,872,839 | 99,175,980 |
| Askari Bank Limited | 300 | 12.1.3 | 301,284,229 | 299,894,203 |
| Soneri Bank Limited | 200 | 12.1.4 | - | 199,991,415 |
| | | | 562,957,469 | 762,856,418 |

**12.1.1** The finance carries mark up at three months KIBOR plus 3% (2011: three months KIBOR plus 3%) payable quarterly. The facility is secured by way of first joint pari passu hypothecation charge of Rs. 80 million (2011: Rs. 80 million) on Company's present and future current assets, first joint pari passu charge of Rs. 153.846 million (2011: Rs. 153.846 million) on Company's existing and future fixed assets duly registered with SECP and personal guarantees of two directors of the Company.

**12.1.2** The finance carries mark up at three months KIBOR plus 2.5% (2011: three months KIBOR plus 2.5%), payable quarterly. The facility is secured by way of first joint pari passu hypothecation charge over current assets of the Company of Rs. 267 million (2011: Rs. 267 million) and personal guarantees of four directors of the Company.

**12.1.3** The finance carries mark up at three months KIBOR plus 2.5% (2011: three months KIBOR plus 2.5%), payable quarterly. The facility is secured by way of first joint pari passu hypothecation charge over current assets of the Company of Rs. 400 million (2011: Rs. 400 million), ranking charge on all present and future fixed assets of the Company of Rs. 162.67 million (2011: 162.67 million), equitable mortgage over immovable properties of associated companies to the extent of Rs. 400 million (2011: Rs. 400 million) and personal guarantees of four directors of the Company.

**12.1.4** This facility is fully adjusted during the period.

**12.2** These finances are fully paid off during the period.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **12.3 Export refinance** | | | |
| Standard Chartered Bank (Pakistan) Limited | 12.3.1 | 398,000,000 | 398,000,000 |
| Soneri Bank Limited | 12.3.2 | 200,000,000 | - |
| | | 598,000,000 | 398,000,000 |

**12.3.1** This facility is obtained from Standard Chartered Bank (Pakistan) Limited, which carries mark-up at SBP rate plus 1% per annum (2011: SBP rate plus 1%). The facility is for a period of 180 days and can be rolled over for a further period of 180 days. It is secured against first joint pari passu charge on all present and future current assets of the Company of Rs. 315 million (2011: Rs. 315 million) and personal guarantees of all Directors of the Company.

**12.3.2** This facility is obtained from Soneri Bank Limited, which carries mark-up at SBP rate plus 1%. The facility is for a period of 180 days and can be rolled over for a further period of 180 days. It is secured against first joint pari passu charge on current assets of the Company including inventory/receivables to the extent of Rs. 267 million.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **13 Current portion of non-current liabilities** | | | |
| Long term finances | 6 | 492,300,000 | 40,050,000 |
| | | 492,300,000 | 40,050,000 |

## 14 Contingencies and commitments

### 14.1 Contingencies

**(i)** The Engineering Services International (Pakistan) Limited raised a claim of Rs 5,449,000 (2011: Rs 5,449,000) against the Company on account of Mechanical Installation/Erection. A counter claim of Rs 1,307,962 (2011: Rs 1,307,962) was lodged by the Company. The case is pending with the Senior Civil Judge, Lahore. The management of the Company expects a favorable outcome of the case; therefore, no provision has been made in the financial statements.

**(ii)** The State Cement Corporation of Pakistan (Private) Limited, the previous sole owner of the Company, raised a claim of Rs 5,640,000 (2011: Rs 5,640,000) against the Company on account of the interim dividend pertaining to the year ended 30 June 1993 declared by the previous Board of Directors. The subsequent Board of Directors rescinded the declaration of interim dividend on various grounds. The matter is pending for arbitration before Honorable Lahore High Court.

The Company has initiated proceedings for the recovery of Rs. 14,100,000 (2011: Rs. 14,100,000) being an interim dividend pertaining to the year ended 30 June 1992 paid by the previous management to the State Cement Corporation of Pakistan (Private) Limited. The said dividend has been rescinded by the Board and rescission confirmed at the Annual General Meeting. As a consequence, the Company has withheld Rs. 14,100,000 (2011: Rs. 14,100,000) interim dividend pertaining to the period ended 31 December 1994 payable to the State Cement Corporation of Pakistan (Private) Limited. Intimations have been made to the State Cement Corporation of Pakistan (Private) Limited and the Securities and Exchange Commission of Pakistan. This amount has been withheld on legal advice obtained from the corporate lawyers. Currently the matter is pending for arbitration with the Secretary of Finance, Government of Pakistan.

**(iii)** The Competition Commission of Pakistan (CCP) took suo moto action under Competition Ordinance, 2007 and issued Show Cause Notice on 28 October 2008 inquiring for increase in prices of cement across the country. The similar notice were also issued to All Pakistan Cement Manufacturer Association (APCMA) and its member cement manufacturers. The Company has filed Writ Petition in Lahore High Court (LHC), vide its order dated 24 August 2009 LHC allowed the CCP to issue its final order. The CCP accordingly passed an order on 28 August 2009 and imposed a penalty of Rs. 103 million on the Company. The Lahore High Court vide its order dated 31 August 2009 restricted the CCP from enforcing its order against the Company for the time being.

The vires of the Competition Commission of Pakistan, 2007 have been challenged by a number of petitioners and all have been advised by their legal counsel that prima facie the Competition Commission Ordinance, 2007 is ultra vires the Constitution. A large number of grounds have been raised by these petitioners and the matter is currently being adjudicated by the Lahore High Court, Sindh High Court and Supreme Court of Pakistan. In all these cases stay orders have been granted by the Courts. Based on the legal opinion, management is confident that the Company has a good case and there are reasonable chances of success in the pending petition in the Supreme Court of Pakistan.

**(iv)** Guarantees issued by Commercial Banks on behalf of the Company are of Rs. 118.730 million (2011: Rs. 118.730 million) in favor of Sui Northern Gas Pipelines Limited (SNGPL) in accordance with the terms of agreement between the Company and SNGPL and Rs. 1.68 million (2011: Rs. 1.68 million) in favor of government institutions for supply of cement.

**(v)** An application has been filed by some shareholders and one director of the Company before the Securities and Exchange Commission of Pakistan (the "Commission") praying for investigation into the affairs of the Company and the Commission has issued a show cause notice dated 27 July 2011, to the Company and all its directors. Responding to the notice, the management has strongly denied all the baseless, false and frivolous allegations leveled in the application and has further challenged the said notice before the Honorable Lahore High Court, Lahore (LHC). The LHC has stayed the proceedings till the next date of hearing. As per legal counsel of the Company, the application has no financial exposure to the Company.

(vi) Peshawar Electric Supply Company (PESCO) has charged an amount of Rs. 48.419 million as arrears on account of fuel price adjustment in the electricity bills of January 2012 and February 2012 pertaining to the period January 2011 to May 2011. The Company has challenged this levy in the honorable Islamabad High Court whereby a stay has been granted in its favor. Furthermore, fuel price adjustment for the period June 2011 to June 2012 has not been billed by PESCO. Based on the opnion of the legal council the management is hopeful for a favorable outcome, therefore no provision against the above demand has been made in these financial statements.

Further Peshawar Electric Supply Company (PESCO) has issued electricity bills with an increased EQ Surcharge from 2% to 4% amounting to Rs. 12.826 million from December 2011 to May 2012. The Company has challenged this levy in the honorable Islamabad High Court whereby a stay has been granted in its favor. As the management is hopeful for a favorable outcome, therefore no provision against the above demand has been made in these financial statements.

(vii) The Appellate Tribunal Inland Revenue (ATIR) while disposing of the Company's appeal against the order passed by the Taxation Officer (TO) pertaining to the assessment year 1995-96, set aside the order of TO and the TO while giving effect to the order of ATIR levied additional tax of Rs. 7.8 million under section 89 of the Income Tax Ordinance, 1979. The Commissioner of Inland Revenue (Appeals) has turned down the appeal filed by the Company against the aforesaid order. However, the management disputes the ATIR as well as CIR (Appeals) decision and has filed a reference application with the Honorable High Court, Lahore against the order of ATIR and has also filed appeal with ATIR against order of CIR (Appeals) which are pending adjudication.

(viii) The Additional Commissioner of Inland Revenue (ACIR) while amending assessment under section 122 (5A) of the Income Tax Ordinance, 2001 related to tax year 2005, has created a demand of Rs. 14.76 million, by making various profit and loss account additions and changing the basis for apportionment of expenses between normal and presumptive tax regime. The Company has filed an appeal before Commissioner of Inland Revenue (Appeals), which is pending adjudication.

(ix) The DCIR has created a demand of Rs. 13.76 million by passing an Ex-parte order under section 221 of the Income Tax Ordinance, 2001 for tax year 2010 which is against the explicit provisions of section 113 of the Income Tax Ordinance, 2001. The Company being aggrieved has filed an appeal before Commissioner Inland Revenue (Appeals) which was decided against the Company. The Company has filed an appeal before Appellate Tribunal Inland Revenue which is pending adjudicated.

(x) Company is contingently liable for Rs. 9.18 million along with default surcharge of Rs. 3.72 on account of alleged inadmissible adjustment of input sales tax in contravention of SRO 389(I)/2006 dated 27 April 2006. Based on legal opinion management of the Company is hopeful for a favorable outcome of this appeal. Refer to note 24.2.1

(xi) Company is contingently liable for an amount of Rs. 68.332 million charged by Customs Department by increasing the value of consignment of plant and machinery imported by the Company during 2008. Company has filed petition before Honorable Sindh High Court and is hopeful for a favorable outcome of this petition. Refer to note 24.2.2

(xii) Company is contingently liable for input tax claims and Federal Excise Duty Claims made by Federal Board of Revenue amounting to Rs. 12.716 million and Rs. 14.022 million respectively. The Company has filed an appeal against order passed by department, which is pending adjudication. Refer to note 24.2.3.

| | 2012<br>Rupees | 2011<br>Rupees |
|---|---|---|
| **14.2 Commitments** | | |
| *In respect of :* | | |
| *Letters of credit other than capital expenditure* | 51,376,410 | 78,603,606 |

## 15 Property, plant and equipment

### 15.1 Reconciliation of net book value

| | Cost | | | | | Depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cost as at 30 June 2011 | Additions / * Adjustments | Transfers | Disposals | Cost as at 30 June 2012 | Accumulated depreciation as at 30 June 2011 | Depreciation charge / * Adjustments | Disposal | Transfers | Accumulated depreciation as at 30 June 2012 | Net book value as at 30 June 2012 | Depreciation rate (% per annum) |
| | (-----Rupees-----) | | | | | (-----Rupees-----) | | | | | | |
| *Owned* | | | | | | | | | | | | |
| Freehold land | 35,171,158 | - | - | - | 35,171,158 | - | - | - | - | - | 35,171,158 | - |
| Factory building | 2,758,360,923 | - | - | - | 2,753,704,510 | 470,926,638 | 121,222,238 | - | - | 592,148,876 | 2,162,007,880 | 5% |
| | | * (4,656,413) | - | - | | | * (452,246) | - | - | (452,246) | | |
| Office and other building | 42,167,529 | - | - | - | 42,167,529 | 13,566,763 | 1,430,038 | - | - | 14,996,801 | 27,170,728 | 5% |
| Housing colony | 48,108,904 | - | - | - | 48,108,904 | 28,370,782 | 986,906 | - | - | 29,357,688 | 18,751,216 | 5% |
| Plant, machinery and equipment | 6,141,894,605 | 8,225,755 | (15,667,287) | (3,972,000) | 6,130,481,073 | 1,472,738,006 | 209,142,774 | (3,245,517) | (1,981,068) | 1,676,654,195 | 4,453,826,878 | 5% / units of production |
| Storage tanks and pipelines | 30,148,252 | - | - | - | 30,148,252 | 16,666,197 | 1,348,206 | - | - | 18,014,403 | 12,133,849 | 10% |
| Power installations | 96,782,524 | - | - | - | 96,782,524 | 80,858,761 | 1,592,376 | - | - | 82,451,137 | 14,331,387 | 10% |
| Furniture, fixtures and other office equipment | 37,877,954 | 1,979,003 | - | (17,350) | 39,839,607 | 19,264,199 | 1,998,858 | (12,277) | - | 21,250,780 | 18,588,827 | 10% |
| Computer and printers | 14,297,770 | 3,158,831 | - | - | 17,456,601 | 8,821,253 | 2,084,706 | - | - | 10,905,959 | 6,550,642 | 30% |
| Weighing scale | 5,789,015 | 51,000 | - | - | 5,840,015 | 2,276,399 | 355,095 | - | - | 2,631,494 | 3,208,521 | 10% |
| Light vehicles | 65,904,866 | 1,955,800 | - | (1,902,500) | 65,958,166 | 38,270,088 | 5,637,612 | (1,680,612) | - | 42,227,088 | 23,731,078 | 20% |
| Heavy vehicles | 62,783,088 | - | - | (2,156,000) | 60,627,088 | 55,551,773 | 1,425,462 | (1,635,954) | - | 55,341,281 | 5,285,807 | 20% |
| Railway sidings | 9,853,476 | - | - | - | 9,853,476 | 7,500,187 | 117,664 | - | - | 7,617,851 | 2,235,625 | 5% |
| Laboratory equipments | 24,345,860 | 1,049,664 | - | - | 25,395,524 | 17,848,393 | 660,514 | - | - | 18,508,907 | 6,886,617 | 10% |
| Library books | 94,217 | - | - | - | 94,217 | 79,794 | 1,442 | - | - | 81,236 | 12,981 | 10% |
| | 9,373,580,141 | 11,763,640 | (15,667,287) | (8,047,850) | 9,361,628,644 | 2,232,739,233 | 347,551,645 | (6,574,360) | (1,981,068) | 2,571,735,450 | 6,789,893,194 | |
| *Leased* | | | | | | | | | | | | |
| Heavy vehicles | - | - | - | - | - | - | - | - | - | - | - | 20% |
| 2012 | 9,373,580,141 | 11,763,640 | (15,667,287) | (8,047,850) | 9,361,628,644 | 2,232,739,233 | 347,551,645 | (6,574,360) | (1,981,068) | 2,571,735,450 | 6,789,893,194 | |

| | Cost | | | | | Depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cost as at 30 June 2010 | Additions | Transfers | Disposals | Cost as at 30 June 2011 | Accumulated depreciation as at 30 June 2010 | Depreciation charge | Disposal | Transfers | Accumulated depreciation as at 30 June 2011 | Net book value as at 30 June 2011 | Depreciation rate (% per annum) |
| | (-----Rupees-----) | | | | | (-----Rupees-----) | | | | | | |
| *Owned* | | | | | | | | | | | | |
| Freehold land | 35,171,158 | - | - | - | 35,171,158 | - | - | - | - | - | 35,171,158 | - |
| Factory building | 2,429,496,422 | 328,864,501 | - | - | 2,758,360,923 | 351,358,978 | 119,567,660 | - | - | 470,926,638 | 2,287,434,285 | 5% |
| Office and other building | 41,939,089 | 228,440 | - | - | 42,167,529 | 12,061,460 | 1,505,303 | - | - | 13,566,763 | 28,600,766 | 5% |
| Housing colony | 48,108,904 | - | - | - | 48,108,904 | 27,331,933 | 1,038,849 | - | - | 28,370,782 | 19,738,122 | 5% |
| Plant, machinery and equipment | 5,409,794,867 | 732,758,268 | - | (658,530) | 6,141,894,605 | 1,299,753,926 | 173,188,247 | (204,167) | - | 1,472,738,006 | 4,669,156,599 | 5% / units of production |
| Storage tanks and pipelines | 17,187,050 | 12,961,202 | - | - | 30,148,252 | 16,128,280 | 537,917 | - | - | 16,666,197 | 13,482,055 | 10% |
| Power installations | 96,040,124 | 742,400 | - | - | 96,782,524 | 79,161,463 | 1,697,298 | - | - | 80,858,761 | 15,923,763 | 10% |
| Furniture, fixtures and other office equipment | 35,629,596 | 2,248,358 | - | - | 37,877,954 | 17,298,086 | 1,966,113 | - | - | 19,264,199 | 18,613,755 | 10% |
| Computer and printers | 11,492,694 | 2,805,076 | - | - | 14,297,770 | 7,139,121 | 1,682,132 | - | - | 8,821,253 | 5,476,517 | 30% |
| Weighing scale | 5,789,015 | - | - | - | 5,789,015 | 1,886,108 | 390,291 | - | - | 2,276,399 | 3,512,616 | 10% |
| Light vehicles | 67,464,093 | 5,713,201 | - | (7,272,428) | 65,904,866 | 37,126,784 | 6,163,373 | (5,020,069) | - | 38,270,088 | 27,634,778 | 20% |
| Heavy vehicles | 98,723,347 | 155,440 | 5,500,000 | (41,595,699) | 62,783,088 | 90,688,304 | 1,454,304 | (39,509,501) | 2,918,666 | 55,551,773 | 7,231,315 | 20% |
| Railway sidings | 9,853,476 | - | - | - | 9,853,476 | 7,376,330 | 123,857 | - | - | 7,500,187 | 2,353,289 | 5% |
| Laboratory equipments | 22,656,562 | 1,689,298 | - | - | 24,345,860 | 17,247,871 | 600,522 | - | - | 17,848,393 | 6,497,467 | 10% |
| Library books | 94,217 | - | - | - | 94,217 | 78,191 | 1,603 | - | - | 79,794 | 14,423 | 10% |
| | 8,329,440,614 | 1,088,166,184 | 5,500,000 | (49,526,657) | 9,373,580,141 | 1,964,636,835 | 309,917,469 | (44,733,737) | 2,918,666 | 2,232,739,233 | 7,140,840,908 | |
| *Leased* | | | | | | | | | | | | |
| Heavy vehicles | 5,500,000 | - | (5,500,000) | - | - | 2,273,333 | 645,333 | - | (2,918,666) | - | - | 20% |
| 2011 | 8,334,940,614 | 1,088,166,184 | - | (49,526,657) | 9,373,580,141 | 1,966,910,168 | 310,562,802 | (44,733,737) | - | 2,232,739,233 | 7,140,840,908 | |

**15.2 Depreciation charge for the year has been allocated as follows:**

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| Cost of goods sold | 27 | 345,020,157 | 307,954,047 |
| Selling and distribution expenses | 28 | 691,604 | 616,837 |
| Administrative and general expenses | 29 | 1,839,884 | 1,991,919 |
| | | 347,551,645 | 310,562,803 |

**15.3 Disposal of operating fixed assets**

| Particulars of assets | Cost | Accumulated depreciation | Book value | Sale proceeds | Profit/(loss) on disposal | Mode of disposal | Particulars of purchaser |
|---|---|---|---|---|---|---|---|
| | (------------ | ------------ | --Rupees-- | ------------ | ------------) | | |
| **Light Vehicles** | | | | | | | |
| KIA Classic | 544,000 | 470,985 | 73,015 | 250,000 | 176,985 | Negotiation | Noushad Ali |
| Kia Classic NGV | 514,000 | 440,700 | 73,300 | 250,000 | 176,700 | Negotiation | Ch. Arshad Mehmood |
| **Plant and Machinery** | | | | | | | |
| Air compressors | 3,513,000 | 2,813,145 | 699,855 | 750,000 | 50,145 | Auction | Pir Sharyar |
| Cement bulker | 2,156,000 | 1,635,954 | 520,046 | 1,610,000 | 1,089,954 | Negotiation | Pir & Company |
| **Others** | | | | | | | |
| Assets with book value of less than Rs. 50,000 | 1,320,850 | 1,213,575 | 107,275 | 869,134 | 761,859 | Negotiation | |
| **2012** | **8,047,850** | **6,574,359** | **1,473,491** | **3,729,134** | **2,255,643** | | |
| 2011 | 49,526,657 | 44,733,737 | 4,792,920 | 5,811,072 | 1,018,152 | | |

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **16 Capital work-in-progress** | | | |
| Plant, machinery and equipment | | 78,546,638 | - |
| | | 78,546,638 | - |
| **17 Intangible asset** | | | |
| Cost | 17.1 | 4,502,284 | 3,990,238 |
| Less: Accumulated amortization | 17.2 | (2,459,519) | (1,634,275) |
| | | 2,042,765 | 2,355,963 |
| **17.1 Cost** | | | |
| Balance as at 01 July | | 3,990,238 | 3,533,944 |
| Add: Additions during period | | 512,046 | 456,294 |
| Balance as at 30 June | | 4,502,284 | 3,990,238 |
| **17.2 Accumulated amortization** | | | |
| Balance as at 01 July | | 1,634,275 | 946,291 |
| Add: Amortization for the year | | 825,244 | 687,984 |
| Balance as at 30 June | | 2,459,519 | 1,634,275 |

**17.3** The intangible assets represent Enterprise Resource Planning (ERP) and Computer software. These are being amortized at 20 % per annum.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **18 Long term loans and advances** | | | |
| Loans to employees - secured, considered good | 18.1 | 1,700,396 | 635,808 |
| Less: Receivable within one year | 24.1 | (366,718) | (429,754) |
| | | 1,333,678 | 206,054 |
| Loan to Sui Northern Gas Pipelines Limited (SNGPL) | 18.2 | 23,500,000 | 28,200,000 |
| Less: Receivable within one year | 24 | (4,700,000) | (4,700,000) |
| | | 18,800,000 | 23,500,000 |
| | | 20,133,678 | 23,706,054 |
| **18.1 Reconciliation of the carrying amount of loans and advances to employees:** | | | |
| Balance as at 01 July | | 635,808 | 984,506 |
| Disbursements during the year | | 1,686,208 | 144,000 |
| Recovered during the year | | (621,620) | (492,698) |
| **Balance as at 30 June** | | 1,700,396 | 635,808 |

These loans carry mark up at the rate ranging from 5 to 10 % (2011: 5 to 10%) per annum. These are secured against lien on retirement benefits and are repayable in 60 equal monthly installments. Chief Executive and directors have not taken any loan/ advance from the Company ( 2011 : Nil ). However, loans to executives amounts to Rs. 952,854 (2011: 366,391).

**18.2** This represents loan given to SNGPL for the development of the infrastructure for supply of natural gas to the Company. Mark up is charged at the rate of 1.5% (2011: 1.5%) per annum and is received annually. This amount is receivable in 5 annual installments of Rs. 4.7 million each ending in March 2017.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **19 Long term deposits** | | | |
| Long term deposits | | 3,879,440 | 3,879,440 |
| | | 3,879,440 | 3,879,440 |
| **20 Stores, spares and loose tools** | | | |
| Stores | 20.1 | 869,528,645 | 639,240,488 |
| Spares | | 317,799,823 | 208,806,245 |
| Loose tools | | 3,675,704 | 2,524,465 |
| | | 1,191,004,172 | 850,571,198 |

**20.1** These includes stores in transit valuing Rs. 632.59 million (2011: Rs.415.3 million)

**20.2** Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **21 Stock in trade** | | | |
| Raw materials | | 15,898,892 | 8,759,981 |
| Work in process | | 387,191,896 | 315,358,799 |
| Finished goods | | 31,499,616 | 51,815,710 |
| Packing material | | 65,736,456 | 131,592,843 |
| | | 500,326,860 | 507,527,333 |
| **22 Trade debts** | | | |
| Considered good | | | |
| - Secured | | - | - |
| - Un-secured | 22.1 | 4,491,829 | 12,567,298 |
| | | 4,491,829 | 12,567,298 |

**22.1** No amount is receivable from related parties during the current year (2011: Nil).

**23 Investments**

**Available-for-sale**

**Gharibwal Cement Limited**

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| 4,600,000 (2011: 4,600,000) fully paid ordinary shares of Rs 10 each | | 20,168,100<br>478,234 | 20,168,100 |
| Market value Rs. 23 million (2011: Rs. 36.156 million) | | | |
| Add: fair value adjustment | | 2,831,900 | 15,987,900 |
| | | 23,000,000 | 36,156,000 |

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **24 Advances, deposits, prepayments and other receivables** | | | |
| Advances - unsecured, considered good | | | |
| - to employees | 24.1 | 2,496,281 | 1,456,523 |
| - to suppliers | | 28,541,118 | 17,433,556 |
| - to contractors | | 62,898 | 768,982 |
| | | 31,100,297 | 19,659,061 |
| Advance income tax | | 50,777,386 | 48,690,554 |
| Sales tax, federal excise duty and custom duty paid under protest | 24.2 | 56,076,528 | 41,277,678 |
| Letters of credit in process | | 5,346,880 | 2,089,509 |
| Letter of credit/guarantee margin | | 55,624,642 | 156,835,080 |
| Prepayments | | 579,340 | 531,355 |
| Security deposits | | 44,375,634 | 43,265,634 |
| Other advances and receivables | 24.3 | 177,561,629 | 151,607,369 |
| Current portion of loan given to SNGPL | 18.2 | 4,700,000 | 4,700,000 |
| Duty drawback claims receivable on export sales | | 45,210,900 | 37,458,673 |
| | | 471,353,236 | 506,114,913 |
| **24.1 Advances to Company's employees** | | | |
| Current maturity of long term loans to employees | 18 | 366,718 | 429,754 |
| Others | 24.1.1 | 2,129,563 | 1,026,769 |
| | | 2,496,281 | 1,456,523 |

**24.1.1** This includes advances given to executives, directors and Chief Executive of the Company amounting to Rs. Nil (2011: Rs. Nil)

**24.2** These represents sales tax, federal excise duty and custom duty paid to the relevant departments under protest. Breakup of the same is as follows:

**24.2.1** Additional Commissioner of Inland Revenue while disposing off contravention report of Senior Auditor created a sales tax demand of Rs. 9,182,656 along with default surcharge of Rs. 3,718,975 on account of alleged inadmissible adjustment of input sales tax of Rs. 9,182,656 in contravention of SRO 389(I)/2006 dated 27 April 2006. Commissioner of Inland Revenue turned down the appeal filed by the Company against the impugned order against which the Company has filed an appeal before the Appellate Tribunal Inland Revenue which has been decided in the favour of the Company, However, against the said order the tax department has filed an appeal before the Peshawar High Court (PHC). The PHC has remanded the case back to the tribunal which is pending adjudication. Based on legal opinion management of the Company is hopeful for a favorable outcome of this appeal. However, the Company has deposited the principal amount of Rs. 9.18 million under protest.

**24.2.2** During 2008 the Company imported certain plant and equipment for its new grey cement plant of 6700 TPD clinker capacity and declared same to the Customs Authorities claiming the concessionary rate of duties and taxes available to the industrial concern under SRO 575(1)2006 dated 05 June, 2006. However, the Customs Department declined the Company's claim and charged standard / normal import duties rates and further increase the value of consignment resulting into additional liability of Rs. 68.332 million (2011: Rs. 68.332 million) which constitutes of Rs. 32.095 million (2011: Rs. 32.095 million) custom duty, Rs. 25.931 million (2011: Rs. 25.931 million) sales tax, Rs. 9.419 million (2011: Rs. 9.419 million) income tax and Rs. 0.887 million (2011: Rs. 0.887 million) special excise duty.

The Company disputing the department's contention filed a writ petition before the Honorable Sindh High Court at Karachi against the impugned act of the Custom Department. The matter is pending adjudication with the Court. However, the Honorable Sindh High Court ordered to release the goods on submission of bank guarantee valuing Rs. 68.332 million (2011: Rs. 68.332 million) being the value of additional liability. Accordingly the Customs Authorities released the goods on submission of bank guarantee by the Company.

During the year 2011, the aforesaid bank guarantee has been encashsed on the order of Honorable Sindh High Court. Based on legal opinion, management of the Company is confident of favorable outcome of this petition and accordingly the amount of duties and taxes paid has been recorded as a receivable.

**24.2.3** The tax department, after conducting sales tax and federal excise duty audit of the company for the tax year 2009 passed an order dated 23 May 2012 disallowing zero rating on certain exports and input tax claims, levying additional tax and penalty amounting to Rs. 12.716 million and Rs.14.022 million under the provisions of Sales Tax and Federal Excise Laws respectively. The Company has filed an appeal before Commissioner of Inland Revenue (Appeals) against order passed by department, which is pending adjudication.

During the current period the company has paid Rs. 14.799 million under Amnesty announced vide SRO 548(I)/2012 dated 22-May-2012

**24.3** This includes an amount of Rs. 172.686 million (2011:Rs. 150.826 million ) equivalent to USD 2,682,270 (2011: USD 2,682,270) net off Rs. 79.984 million (2011: Rs. 79.984 million) being provision for doubtful receivable of unconditional and irrevocable Performance Bank Guarantees issued by foreign / local bank on behalf of the foreign supplier of plant and equipment of 6700 TPD cement plant, which had been called by the Company for encashment, as the foreign supplier could not complete the project within the time period stipulated in the Plant Supply Contract and accordingly, cost of related plant and equipment has been reduced by this amount. The Company also withheld retention money of Rs. 158.674 million (2011: Rs. 150.826 million) of supplier till the resolution of this matter as referred in note 7.3.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **25 Cash and bank balances** | | | |
| Cash in hand | | 649,010 | 637,634 |
| Cash at bank | | | |
| - Current accounts | | 45,545,542 | 15,431,715 |
| - Saving accounts | 25.1 | 82,011,044 | 24,612,385 |
| | | 127,556,586 | 40,044,100 |
| | | 128,205,596 | 40,681,734 |

**25.1** These carry mark-up @ 5% (2011: 5%) per annum.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **26 Sales** | | | |
| Local sales - gross | | 10,179,765,398 | 6,549,579,828 |
| Less: Sales tax | | 1,404,668,803 | 940,682,143 |
| Federal excise duty | | 700,713,930 | 773,592,050 |
| Special excise duty | | - | 75,473,719 |
| | | 2,105,382,733 | 1,789,747,912 |
| | | 8,074,382,665 | 4,759,831,916 |
| Export sales | | 1,371,390,767 | 1,517,842,187 |
| | | 9,445,773,432 | 6,277,674,103 |
| Less: Rebate/ commission on cement sales | | (129,392,559) | (192,239,586) |
| | | 9,316,380,873 | 6,085,434,517 |

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **27 Cost of goods sold** | | | |
| Raw materials consumed | | 438,689,669 | 303,570,149 |
| Packing materials consumed | 27.1 | 578,550,554 | 503,545,932 |
| Power and fuel | | 1,339,112,641 | 1,039,326,848 |
| Coal, gas and furnace oil | | 3,294,091,669 | 2,556,698,188 |
| Coal unloading and feeding charges | | 3,630,055 | 3,392,671 |
| Stores and spares consumed | | 190,471,623 | 295,319,405 |
| Salaries, wages and other benefits | 27.2 | 128,738,451 | 85,763,651 |
| Royalty and excise duty | | 77,422,290 | 72,694,281 |
| Rent, rates and taxes | | 15,741,452 | 9,135,849 |
| Repairs and maintenance | | 51,706,961 | 43,583,024 |
| Insurance | | 13,493,955 | 15,118,504 |
| Depreciation | 15.2 | 345,020,157 | 307,954,047 |
| Other expenses | | 39,034,072 | 35,655,426 |
| | | 6,515,703,549 | 5,271,757,975 |
| Opening work-in-process | | 315,358,799 | 159,419,277 |
| Less: Closing work-in-process | | (387,191,896) | (315,358,799) |
| Cost of goods manufactured | | 6,443,870,452 | 5,115,818,453 |
| Opening stock of finished goods | | 51,815,710 | 94,624,070 |
| | | 6,495,686,162 | 5,210,442,523 |
| Closing stock of finished goods | | (31,499,616) | (51,815,710) |
| | | 6,464,186,546 | 5,158,626,813 |
| Less: Cost attributable to own cement consumption | | (209,290) | (324,199) |
| | | 6,463,977,256 | 5,158,302,614 |

**27.1** This amount is exclusive of duty draw back on exports of Rs. 8.632 million (2011: Rs. 12.2 million).

**27.2** Salaries, wages and other benefits include Rs. 2.705 million and Rs. 8.591 million (2011: Rs. 0.708 million and Rs. 2.277 million ) in respect of provident fund contribution and employees' gratuity respectively.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **28 Selling and distribution expenses** | | | |
| Salaries, wages and other benefits | 28.1 | 18,804,332 | 13,182,791 |
| Vehicle running | | 1,678,940 | 1,543,718 |
| Travelling and conveyance | | 1,650,384 | 1,507,598 |
| Printing and stationery | | 962,565 | 804,454 |
| Postage, telephone and telegrams | | 946,850 | 931,429 |
| Entertainment | | 822,839 | 526,189 |
| Rent, rates and taxes | | 783,663 | 734,390 |
| Electricity, water and gas | | 268,351 | 218,135 |
| Sales promotion | | 3,211,807 | 2,333,229 |
| Depreciation | 15.2 | 691,604 | 616,837 |
| Cement loading charges | | 14,035,957 | 10,472,548 |
| Freight and handling charges on exports | | 2,066,710 | 8,167,032 |
| Miscellaneous | | 318,714 | 160,784 |
| | | 46,242,716 | 41,199,134 |

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|

**28.1** Salaries, wages and other benefits include Rs. 0.481 million and Rs. 0.037 million (2011: Rs. 0.146 million and Rs. 0.347 million ) in respect of provident fund contribution and employees' gratuity respectively.

## 29 Administrative and general expenses

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| Salaries, wages and other benefits | 29.1 | 34,823,858 | 22,147,411 |
| Vehicle running | | 505,278 | 718,049 |
| Traveling and conveyance | | 772,654 | 536,387 |
| Printing and stationery | | 1,828,635 | 1,778,906 |
| Legal and professional | 29.2 | 6,736,052 | 4,617,088 |
| Postage, telephone and telegrams | | 1,540,075 | 1,267,446 |
| Repairs and maintenance | | 8,826,994 | 7,801,229 |
| Rent, rates and taxes | | 2,015,456 | 1,056,268 |
| Electricity, water and gas | | 3,361,919 | 2,457,195 |
| Entertainment | | 1,800,205 | 1,567,014 |
| Auditor's remuneration | 29.3 | 710,000 | 695,000 |
| Depreciation | 15.2 | 1,839,884 | 1,991,919 |
| Amortization | | 825,244 | 687,984 |
| Advertisement | | 193,235 | 219,690 |
| Miscellaneous | | 935,359 | 1,303,430 |
| | | 66,714,848 | 48,845,016 |

**29.1** Salaries, wages and other benefits include Rs. 0.913 million and Rs.0.057 million (2011: Rs. 0.222 million and Rs. 0.557 million) in respect of provident fund contribution and employees' gratuity respectively

**29.2** Legal and professional charges include remuneration to cost auditor 2012: 0.060 million (2011: Rs. 0.065 million).

### 29.3 Auditor's remuneration

| | 2012 Rupees | 2011 Rupees |
|---|---|---|
| Statutory audit | 550,000 | 550,000 |
| Half year review | 115,000 | 100,000 |
| Out of pocket expenses | 45,000 | 45,000 |
| | 710,000 | 695,000 |

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **30 Other operating expenses** | | | |
| Donations | 30.1 | 988,065 | 3,338,000 |
| Workers' profit participation fund | | 107,176,672 | 6,620,043 |
| Exchange fluctuation loss - net | | - | 6,526,472 |
| | | 108,164,737 | 16,484,515 |

**30.1** None of the directors of the Company or any of their spouse have any interest in donee's fund.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **31 Other operating income** | | | |
| *Income from financial assets* | | | |
| Profit/mark-up on bank deposits | | 4,865,351 | 2,917,754 |
| Profit/mark-up on SNGPL Loan | | 406,582 | 475,926 |
| *Income from non-financial assets* | | | |
| Income from sale of scrap | | 1,513,389 | 1,007,768 |
| Gain on disposal of property, plant and equipment | | 2,255,644 | 1,018,152 |
| Exchange fluctuation gain - net | | 14,012,085 | - |
| Insurance claim | | 1,499,841 | 13,200,000 |
| Bad Debt recovered | | 5,750,000 | - |
| Miscellaneous | | 460,576 | 1,804,875 |
| | | 30,763,468 | 20,424,475 |
| **32 Finance cost** | | | |
| Interest/mark-up on: | | | |
| Liabilities against assets subject to finance lease | | - | 154,403 |
| Short term borrowings | 32.1 | 139,605,192 | 141,187,125 |
| Long term finances | | 412,018,738 | 536,417,971 |
| Workers' profit participation fund | | 372,377 | - |
| Default surcharge on FED and sales tax liability | | 628,051 | 23,383,149 |
| Loss on winding up of financial derivative instrument | | 61,703,160 | - |
| Bank charges, commission and others | | 11,732,880 | 14,104,258 |
| | | 626,060,398 | 715,246,906 |

**32.1** Finance cost amounting to Rs. nil (2011:Rs. 45.359 million) has been capitalized during the year using weighted average capitalization rate of nil (2011: 13.93%).

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **33 Taxation** | | | |
| For the year | | | |
| Current | 33.1 | 94,492,844 | 65,294,366 |
| Deferred | | 233,371,768 | (3,229,530) |
| Prior Year | | | |
| Deferred | | 47,608,397 | - |
| | | 375,473,009 | 62,064,836 |

**33.1 Current**

The provision for current taxation represents minimum tax under section 113 of the Income Tax Ordinance, 2001 at the rate of 1% (2011: 1%) of turnover from local sales. In addition to this, it also includes tax on exports which is full and final discharge of Company's tax liability in respect of income arising from such source.

**33.2** Since the Company is liable to pay minimum tax, therefore, no numerical tax reconciliation is given.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **34 Earnings per share - basic and diluted** | | | |
| **34.1 Earnings per share - Basic** | | | |
| Earnings for the year after taxation | Rupees | 1,660,511,377 | 63,715,971 |
| Weighted average number of ordinary shares in issue during the year | Numbers | 128,757,241 | 128,757,241 |
| **Earnings per share - basic** | Rupees | 12.90 | 0.49 |

**34.2 Earnings per share - Diluted**

There is no dilution effect on the basic earnings/ (loss) per share as the Company does not have any convertible instruments in issue as at 30 June 2012 and 30 June 2011.

| **35 Cash and cash equivalents** | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| Cash and bank balances | 25 | 128,205,596 | 40,681,734 |
| Short term running finances | 12.1 | (562,957,469) | (762,856,418) |
| | | (434,751,873) | (722,174,684) |

**36 Operating segments**

The financial information has been prepared on the basis of a single reportable segment.

**36.1** Sale from grey cement, white cement and clinker represents 99.1% , 0.84% and 0.04% (2011: 100%, 0% and 0%) of total revenue of the Company respectively.

**36.2** The net sales percentage by geographic region is as follows:

| | 2012 % | 2011 % |
|---|---|---|
| Pakistan | 83.64 | 78.22 |
| Afghanistan | 16.30 | 21.44 |
| Others | 0.06 | 0.34 |
| | 100 | 100 |

**36.3** All assets of the Company as at 30 June 2012 are located in Pakistan.

## 37 Financial instruments

The Company has exposure to the following risks from its use of financial instruments.:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors have the overall responsibility for the establishment and oversight of Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to react to changes in market conditions and the Company's activities.

### 37.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and loans to/due from related parties. Out of the total financial assets of Rs. 520.630 million (2011: Rs. 496.45 million) financial assets which are subject to credit risk amount to Rs. 519.982 million (2011: Rs. 495.812 million).

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage exposure to credit risk in respect of trade receivables, management reviews credit worthiness, references, establish purchase limits taking into account the customer's financial position, past experience and other factors. Export sales are secured through letters of credit. The management has set a maximum credit period of 30 days to reduce the credit risk. Limits are reviewed periodically and the customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

The carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date is:

| | 2012 Rupees | 2011 Rupees |
|---|---|---|
| Long term loans, advances | 20,133,678 | 23,706,054 |
| Long term deposits | 3,879,440 | 3,879,440 |
| Trade debts | 4,491,829 | 12,567,298 |
| Advances, deposits and other receivables | 363,919,982 | 415,615,326 |
| Bank balances | 127,556,586 | 40,044,100 |
| | 519,981,515 | 495,812,218 |

The trade debts as at the balance sheet date are classified as follows:

| | 2012 Rupees | 2011 Rupees |
|---|---|---|
| Foreign | 1,262,619 | - |
| Domestic | 3,229,209 | 12,567,298 |
| | 4,491,828 | 12,567,298 |

The aging of trade receivables at the reporting date is:

| | 2012 Rupees | 2011 Rupees |
|---|---|---|
| Past due 1 - 3 Months | 2,556,839 | 3,973,547 |
| Past due 4 - 6 Months | 338,349 | - |
| Past due 7 - 10 Months | 773,454 | 5,822,056 |
| Past due 11 - 12 Months | - | - |
| Past due above one year | 823,186 | 2,771,695 |
| | 4,491,828 | 12,567,298 |

Based on past experience the management believes that no impairment allowance is necessary in respect of trade receivables past due as some receivables have been recovered subsequent to the year end and for other receivables there are reasonable grounds to believe that the amounts will be recovered in short course of time.

The credit quality of cash and bank balances that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rate:

| | Rating | | Rating |
|---|---|---|---|
| | Short term | Long term | Agency |
| Allied Bank | A1+ | AA | PACRA |
| Askari Bank Limited | A1+ | AA | PACRA |
| Bank Alfalah Limited | A1+ | AA | PACRA |
| The Bank of Khyber | A2 | A- | PACRA |
| The Bank of Punjab | A1+ | AA- | PACRA |
| Dubai Islamic Bank (Pakistan) Limited | A-1 | A | JCR-VIS |
| Habib Metropolitan Bank Limited | A1+ | AA+ | PACRA |
| JS Bank Limited | A1 | A | PACRA |
| MCB Bank Limited | A1+ | AA+ | PACRA |
| National Bank of Pakistan | A-1+ | AAA | JCR-VIS |
| Soneri Bank Limited | A1+ | AA - | PACRA |
| Standard Chartered Bank Limited | A1+ | AAA | PACRA |
| United Bank Limited | A-1+ | AA+ | JCR-VIS |
| Habib Bank Limited | A-1+ | AA+ | JCR-VIS |

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, the credit risk is minimal.

### 37.2 Liquidity risk

Liquidity risk is the risk that the Company will encouter difficuilty in meeting its obligations arising from financial liabilities that are setelled by delivering cash or another financial asset or that such obligation will have to be settled in a manner disadvantages to the Company. For this purpose the Company has sufficient running finance facilities available from various commercial banks to meet its liquidity requirements. Further liquidity position of the Company is closely monitored through budgets, cash flow projections and comparison with actual results by the Board.

The following are the contractual maturities of financial liabilities as at June 30, 2012:

| | Carrying amount | Less than 6 months | Between 6 to 12 months | Between 1 to to 5 years | Between 6 to 10 years | Over 10 years |
|---|---|---|---|---|---|---|
| | ------------ | ------------ | ------------ Rupees | ------------ | ------------ | |
| **Non derivative financial liabilities** | | | | | | |
| Long term finances - secured | 1,655,000,000 | 215,324,588 | 276,975,412 | 1,162,700,000 | - | - |
| Security deposits and retention money | 171,084,338 | - | 5,349,185 | 165,735,153 | - | - |
| Trade and other payables | 879,459,910 | 879,459,910 | - | - | - | - |
| Mark up payable | 987,870,754 | 62,014,642 | 37,000,000 | 888,856,112 | - | - |
| Short Term Borrowings | 1,160,957,469 | 1,160,957,469 | - | - | - | - |
| **Derivative financial liabilities** | | | | | | |
| Interest rate swaps | - | - | - | - | - | - |
| **2011-2012** | 4,854,372,471 | 2,317,756,609 | 319,324,597 | 2,217,291,265 | - | - |

| | Carrying amount | Less than 6 months | Between 6 to 12 months | Between 1 to to 5 years | Between 6 to 10 years | Over 10 years |
|---|---|---|---|---|---|---|
| | ------------ | ------------ | ------------ Rupees | ------------ | ------------ | |
| **Non derivative financial liabilities** | | | | | | |
| Long term finances - secured | 3,576,920,000 | 15,050,000 | 25,000,000 | 3,536,870,000 | - | - |
| Security deposits and retention money | 186,106,103 | - | 22,449,274 | 163,656,829 | - | - |
| Trade and other payables | 791,785,855 | 791,785,855 | - | - | - | - |
| Mark up payable | 744,678,215 | 433,182,170 | - | 311,496,045 | - | - |
| Short Term Borrowings | 1,363,678,773 | 1,363,678,773 | - | - | - | - |
| **Derivative financial liabilities** | | | | | | |
| Interest rate swaps | 187,420,429 | - | - | 187,420,429 | - | - |
| 2010-2011 | 6,850,589,375 | 2,603,696,798 | 47,449,274 | 4,199,443,303 | - | - |

### 37.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### (i) Currency risk

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency primarily U.S. Dollars (USD). The Company uses forward exchange and derivative contracts to hedge its currency risks. The Company's exposure to foreign currency risk for US Dollars is as follows:

| | 2012<br>Rupees | 2011<br>Rupees |
|---|---|---|
| **USD** | | |
| Foreign debtors | (1,262,619) | - |
| Compensation receivable from TCDRI | (172,686,167) | (150,825,637) |
| Foreign creditors | 374,513,400 | 371,193,678 |
| Long term retention money | 116,808,003 | 106,702,000 |
| Derivative financial instruments - liability | - | 187,420,429 |
| Outstanding import letters of credit | 16,517,028 | 32,415,207 |
| Net exposure | 333,889,645 | 546,905,677 |

Company's exposure to foreign currency risk for Euro is as follows:

| | 2012<br>Rupees | 2011<br>Rupees |
|---|---|---|
| **Euro** | | |
| Long term retention money | 41,866,050 | 44,123,637 |
| Outstanding import letters of credit | 34,859,382 | 44,195,200 |
| Net exposure | 76,725,432 | 88,318,837 |

The following significant exchange rates have been applied:

| | Reporting date rate | |
|---|---|---|
| | 2012 | 2011 |
| USD to PKR - Buy | 94.20 | 86.05 |
| USD to PKR - Sell | 94.00 | 85.85 |
| Euro to PKR- Buy | 118.50 | 124.89 |
| Euro to PKR- Sell | 118.25 | 124.60 |

| | Average rate | |
|---|---|---|
| | 2012 | 2011 |
| USD to PKR | 90.53 | 86.23 |
| Euro to PKR | 118.52 | 124.09 |

**Sensitivity analysis:**

At reporting date, if the PKR had strengthened by Rupee one against the US Dollar and Euro with all other variables held constant, post-tax profit for the year would have been increased/ (decreased) by Rs. 4.192 million (2011: Rs. 7.063 million).

The sensitivity analysis prepared is not necessarily indicative of the effects on (loss) / profit for the year and assets / liabilities of the Company.

**(ii) Interest rate risk**

Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in market interest rates. Significant interest rate risk exposures are primarily managed by a mix of borrowings at fixed and variable interest rates and entering into interest rate swap contracts. At the reporting date the interest rate profile of the Company's significant interest bearing financial instruments was as follows:

| | 2012 | 2011 | 2012 | 2011 |
|---|---|---|---|---|
| | Effective rate (in Percentage) | | Carrying amount | |
| **Financial liabilities** | | | | |
| Variable rate instruments | | | | |
| Long term finances - PKR | 14.36% | 14.85% | 1,655,000,000 | 3,576,920,000 |
| Short term borrowings - PKR | 13.26% | 13.93% | 1,160,957,469 | 1,363,678,773 |

***Cash flow sensitivity analysis for variable rate instruments***

A change of 100 basis points in interest rates will have an impact on income of Rs. 28.16 million (2011: Rs. 49.406 million) worked out on the outstanding debt amount at the reporting date. This analysis assumes that all other variables remain constant.

**(iii) Other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). Equity price risk arises from available-for-sale equity securities held.

**37.4 Fair value of financial instruments**

The carrying values of the financial assets and financial liabilities approximate their fair values. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**37.5 Financial instruments by categories**

***Financial assets as per balance sheet***

| | Available for sale | |
|---|---|---|
| | 2012 Rupees | 2011 Rupees |
| Investments | 23,000,000 | 36,156,000 |

| | Loans and receivables | |
|---|---|---|
| | 2012 Rupees | 2011 Rupees |
| Long term deposits | 3,879,440 | 3,879,440 |
| Long term loans and advances | 20,133,678 | 23,706,054 |
| Trade debts | 4,491,829 | 12,567,298 |
| Advances, deposits, prepayments and other receivables | | |
| - Advances to employees | 2,496,281 | 1,456,523 |
| - Advances to suppliers | 28,541,118 | 17,433,556 |
| - Advances to contractors | 62,898 | 768,982 |
| - Others receivables | 332,819,685 | 395,956,265 |
| Cash and bank balances | 128,205,596 | 40,681,734 |
| | 520,630,525 | 496,449,852 |

| | Financial liabilities at amortized cost | |
|---|---|---|
| | 2012 Rupees | 2011 Rupees |
| ***Financial liabilities as per balance sheet*** | | |
| Long term loans - secured | 1,655,000,000 | 3,576,920,000 |
| Long term security deposits and retention money | 165,735,153 | 163,656,829 |
| Deferred markup | 888,856,112 | 311,496,045 |
| Trade and other payables | 884,809,095 | 814,235,129 |
| Accrued markup | 99,014,642 | 433,182,170 |
| Short term borrowings - secured | 1,160,957,469 | 1,363,678,773 |
| | 4,854,372,471 | 6,663,168,946 |

| | Financial liabilities at fair value | |
|---|---|---|
| | 2012 Rupees | 2011 Rupees |
| Derivative financial liabilities | - | 187,420,429 |

**37.6 Capital management**

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

(i) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

(ii) to provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital on the basis of the debt-to-equity ratio - calculated as a ratio of total debt to equity.

The debt-to-equity ratios as at 30 June 2012 and at 30 June 2011 were as follows:

| | | 2012 | 2011 |
|---|---|---|---|
| Total debt | Rupees | 2,815,957,469 | 4,940,598,773 |
| Total equity and debt | Rupees | 6,572,412,825 | 7,043,414,910 |
| Debt-to-equity ratio | | 43% | 70% |

Neither there were any changes in the Company's approach to capital management during the year nor the Company is subject to externally imposed capital requirements.

## 38 Remuneration of Chairperson, Chief Executive and Directors

**38.1** The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the Chief Executive, full time working director and executives of the company is as follows:

| | 2012 | | | |
|---|---|---|---|---|
| | Chief Executive | Non Executive Director | Executive Director | Executives |
| | (Rupees) | | | |
| **Short term employee benefits** | | | | |
| Managerial remuneration | 8,400,000 | - | 12,000,000 | 13,200,800 |
| Bonus | - | - | - | 1,100,067 |
| Fees | - | 760,000 | - | - |
| Medical expenses reimbursed | 78,108 | - | 112,360 | - |
| | 8,478,108 | 760,000 | 12,112,360 | 14,300,867 |
| **Post employment benefits** | | | | |
| Contribution to provident fund | 294,000 | - | 420,000 | 819,042 |
| Contribution to gratuity | 3,800,000 | - | 4,600,000 | 1,149,715 |
| | 12,572,108 | 760,000 | 17,132,360 | 16,269,624 |
| **Number of persons** | 1 | 1 | 2 | 5 |

| | 2011 | | | |
|---|---|---|---|---|
| | Chief Executive | Non Executive Director | Executive Director | Executives |
| | (Rupees) | | | |
| **Short term employee benefits** | | | | |
| Managerial remuneration | 2,400,000 | - | 3,600,000 | - |
| Bonus | - | - | - | - |
| Fees | - | - | - | - |
| Medical expenses reimbursed | 1,190,194 | - | 10,500 | - |
| | 3,590,194 | - | 3,610,500 | - |
| **Post employment benefits** | | | | |
| Contribution to provident fund | - | - | - | - |
| Contribution to gratuity | - | - | - | - |
| | - | - | 3,610,500 | - |
| **Number of persons** | 1 | - | 2 | - |

**38.2** The Company also provides the Chief Executive, Directors and executives with free use of Company maintained cars.

## 39 Transactions with related parties

The related parties comprise associated companies, directors of the Company, key management staff and staff retirement funds. Amounts due from/to related parties are shown under receivables and payables, amounts due to directors are shown under payables and remuneration of directors is disclosed in note 38. Other significant transactions with related parties are as follows:

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| Contribution to provident fund | | 4,209,009 | 1,260,799 |
| Contribution to gratuity fund | | 7,014,974 | 795,340 |
| Donation to Kohat Cement Co. Ltd. Education Trust | 39.1 | 873,806 | 827,370 |
| Palace Enterprises (Pvt) Ltd. | | 397,831 | 107,115 |

**39.1** None of the directors of the Company or any of their spouse have any interest in donee's fund except that Mr. Aizaz Mansoor Sheikh and Mr. Nadeem Atta Sheikh, Directors of the Company are members of the Board of Trustees of Kohat Cement Educational Trust.

## 40 Capacity and production

| | Plant Capacity | | Actual Production | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Clinker | | | | |
| Grey (M Tons) | 2,550,000 | 2,550,000 | 1,507,812 | 1,363,820 |
| White (M Tons) | 135,000 | 135,000 | 10,217 | - |
| Cement | | | | |
| Grey (M Tons) | 2,805,000 | 2,805,000 | 1,664,921 | 1,472,479 |
| White (M Tons) | 148,500 | 148,500 | 14,201 | - |

Lower capacity utilization of cement plant is due to gap between demand and supply of cement in local market. The capacity figures of both the plants is based on 300 days.

## 41 Dividend

The Board of Directors have proposed a final cash dividend for the year ended 30 June 2012 of Rs. 3.00 per ordinary share, amounting to Rs. 386,271,723 at their meeting held on 12-09-2012, for approval of the members at the Annual General Meeting to be held on 20-10-2012.

## 42 General

**42.1** Figures have been rounded off to the nearest Pak Rupee.

**42.2** Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. However, no significant re-arrangement have been made.

**42.3** These financial statements were authorized for issue on12-09-2012 by the board of directors of the Company.

CHIEF EXECUTIVE

DIRECTOR

# KEY FINANCIAL DATA FOR LAST 8 YEARS

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|---|---|
| **TRADING RESULTS** | | | | | | | | |
| **Quantitative data (000 M.Tonnes):** | | | | | | | | |
| **Capacity:** | | | | | | | | |
| Clinker: | | | | | | | | |
| - Grey | 2,550 | 2,550 | 2550 | 1880 | 540 | 540 | 540 | 540 |
| - White | 135 | 135 | 135 | 135 | 135 | 135 | 135 | - |
| Cement: | | | | | | | | |
| - Grey | 2,805 | 2,805 | 2805 | 1974 | 567 | 567 | 567 | 567 |
| - White | 149 | 149 | 149 | 142 | 142 | 142 | 142 | - |
| **Production:** | | | | | | | | |
| Clinker: | | | | | | | | |
| - Grey | 1,508 | 1,364 | 1,174 | 713 | 429 | 506 | 554 | 531 |
| - White | 10 | - | - | 19 | 19 | 23 | 16 | - |
| Cement: | | | | | | | | |
| - Grey | 1,665 | 1,472 | 1,225 | 782 | 450 | 529 | 555 | 562 |
| - White | 14 | - | 4 | 20 | 21 | 22 | 15 | - |
| **Dispatches - cement:** | | | | | | | | |
| - Grey | 1,673 | 1,494 | 1,192 | 778 | 452 | 524 | 557 | 560 |
| - White | 14 | - | 5 | 21 | 20 | 23 | 14 | - |
| **Financial data (Rs. 000):** | | | | | | | | |
| Turnover | 9,316,381 | 6,085,435 | 3,692,038 | 3,395,581 | 1,371,792 | 1,553,733 | 2,327,238 | 1,715,427 |
| Gross profit | 2,852,404 | 927,132 | 357,021 | 804,559 | 87,402 | 343,267 | 1,199,662 | 664,223 |
| Operating profit | 2,739,446 | 837,088 | 264,831 | 662,974 | 21,629 | 278,226 | 1,145,849 | 615,203 |
| Profit before tax, interest & VSS | 2,662,045 | 841,028 | 283,206 | 693,901 | 36,649 | 346,210 | 1,093,522 | 584,153 |
| Profit/(loss) before tax | 2,035,984 | 125,781 | (382,238) | 21,184 | (279,573) | 327,841 | 1,039,424 | 560,949 |
| Profit/(loss) after tax | 1,660,511 | 63,716 | (327,777) | 27,093 | (222,439) | 248,368 | 789,867 | 386,501 |
| **BALANCE SHEET (Rs. 000)** | | | | | | | | |
| Shareholders equity | 3,756,455 | 2,102,816 | 1,960,970 | 2,271,547 | 2,329,129 | 2,339,656 | 2,283,940 | 1,081,732 |
| Fixed capital expenditure | 6,868,440 | 7,140,841 | 7,229,394 | 6,937,818 | 6,248,720 | 5,258,260 | 2,079,393 | 1,119,880 |
| Net current assets/(liabilities) | (580,914) | (856,921) | (1,835,304) | (1,300,717) | (683,869) | 642 | 556,588 | 164,551 |
| Long term liabilities | 1,328,435 | 3,887,947 | 3,407,267 | 3,305,756 | 3,122,560 | 2,810,116 | 245,309 | 119,242 |
| Deferred liabilities | 1,228,691 | 323,098 | 62,670 | 101,198 | 155,733 | 158,740 | 161,268 | 104,240 |
| **RATIO ANALYSIS** | | | | | | | | |
| Gross profit ratio % | 30.62 | 15.24 | 9.67 | 23.69 | 6.37 | 22.09 | 51.55 | 38.72 |
| Profit before tax ratio % | 21.85 | 2.07 | (10.35) | 0.62 | (20.38) | 21.10 | 44.66 | 32.70 |
| Profit after tax ratio % | 17.82 | 1.05 | (8.88) | 0.80 | (16.22) | 15.99 | 33.94 | 22.53 |
| Operating fixed assets turnover ratio % | 137.21 | 85.22 | 57.98 | 53.45 | 145.71 | 151.80 | 269.01 | 295.25 |
| Return on capital employed % | 42.16 | 12.34 | 6.22 | 12.32 | (3.09) | 6.21 | 31.37 | 58.12 |
| Debt : equity ratio | 43: 57 | 70 : 30 | 72 : 28 | 69 : 31 | 67 : 33 | 55 : 45 | 10 : 90 | 10 : 90 |
| Current ratio | 0.80 | 0.70 | 0.43 | 0.56 | 0.66 | 1.00 | 2.44 | 1.47 |
| Interest coverage ratio | 4.25 | 1.18 | 0.42 | 1.26 | (4.71) | 1.23 | 20.21 | 25.17 |
| **BREAK UP VALUE PER SHARE OF RS. 10 EACH (Rs.)** | 29.17 | 16.33 | 15.23 | 17.64 | 19.90 | 22.99 | 24.68 | 21.92 |
| **EARNING/ (LOSS) PER SHARE (Rs.)** | 12.90 | 0.49 | (2.55) | 0.21 | (1.73) | 2.12 | 9.06 | 4.50 |
| **DIVIDENDS** | | | | | | | | |
| Cash (Rs. 000) | 386,272 | - | - | - | - | - | - | - |
| %age | 30% | - | - | - | - | - | - | - |
| Bonus Shares | | | | | | | | |
| %age | - | - | - | - | 10 | 15 | 10 | 50 |

# PATTERN OF SHAREHOLDINGS
as at 30 June 2012

| No. of Shareholders | Shareholdings | | No. of Shareholders Held |
|---|---|---|---|
| | From | To | |
| 295 | 1 | 100 | 13,097 |
| 594 | 101 | 500 | 180,935 |
| 537 | 501 | 1,000 | 447,257 |
| 690 | 1,001 | 5,000 | 1,524,995 |
| 120 | 5,001 | 10,000 | 888,896 |
| 42 | 10,001 | 15,000 | 501,404 |
| 13 | 15,001 | 20,000 | 258,257 |
| 12 | 20,001 | 25,000 | 268,715 |
| 13 | 25,001 | 30,000 | 368,249 |
| 9 | 30,001 | 35,000 | 291,354 |
| 9 | 35,001 | 40,000 | 342,741 |
| 3 | 40,001 | 45,000 | 126,804 |
| 2 | 45,001 | 50,000 | 95,515 |
| 2 | 50,001 | 55,000 | 104,301 |
| 3 | 55,001 | 60,000 | 175,624 |
| 1 | 60,001 | 65,000 | 65,000 |
| 3 | 65,001 | 70,000 | 197,622 |
| 2 | 70,001 | 75,000 | 150,000 |
| 2 | 75,001 | 80,000 | 153,700 |
| 1 | 80,001 | 85,000 | 81,982 |
| 1 | 90,001 | 95,000 | 94,999 |
| 5 | 95,001 | 100,000 | 490,781 |
| 3 | 100,001 | 105,000 | 306,226 |
| 2 | 120,001 | 125,000 | 245,327 |
| 2 | 130,001 | 135,000 | 261,652 |
| 3 | 135,001 | 140,000 | 415,634 |
| 1 | 140,001 | 145,000 | 142,725 |
| 2 | 145,001 | 150,000 | 294,361 |
| 4 | 155,001 | 160,000 | 628,926 |
| 1 | 175,001 | 180,000 | 176,000 |
| 1 | 180,001 | 185,000 | 183,360 |
| 1 | 185,001 | 190,000 | 187,013 |
| 1 | 190,001 | 195,000 | 191,725 |
| 1 | 195,001 | 200,000 | 200,000 |
| 1 | 205,001 | 210,000 | 208,725 |
| 1 | 240,001 | 245,000 | 245,000 |
| 2 | 245,001 | 250,000 | 490,811 |
| 1 | 250,001 | 255,000 | 253,050 |
| 2 | 260,001 | 265,000 | 525,007 |
| 1 | 265,001 | 270,000 | 267,675 |
| 1 | 270,001 | 275,000 | 275,000 |
| 1 | 285,001 | 290,000 | 290,000 |
| 1 | 305,001 | 310,000 | 310,000 |
| 1 | 320,001 | 325,000 | 325,000 |
| 1 | 340,001 | 345,000 | 345,000 |
| 1 | 370,001 | 375,000 | 374,400 |
| 1 | 375,001 | 380,000 | 376,357 |
| 1 | 395,001 | 400,000 | 395,945 |
| 1 | 460,001 | 465,000 | 462,940 |
| 1 | 470,001 | 475,000 | 471,912 |
| 1 | 495,001 | 500,000 | 500,000 |
| 1 | 530,001 | 535,000 | 531,500 |
| 1 | 535,001 | 540,000 | 539,560 |
| 1 | 545,001 | 550,000 | 547,362 |
| 1 | 610,001 | 615,000 | 614,627 |
| 1 | 675,001 | 680,000 | 675,768 |
| 1 | 840,001 | 845,000 | 840,117 |
| 1 | 1,075,001 | 1,080,000 | 1,076,236 |
| 1 | 1,260,001 | 1,265,000 | 1,261,020 |
| 1 | 1,895,001 | 1,900,000 | 1,896,112 |
| 1 | 2,095,001 | 2,100,000 | 2,100,000 |
| 2 | 2,195,001 | 2,200,000 | 4,400,000 |
| 1 | 2,445,001 | 2,450,000 | 2,449,923 |
| 2 | 2,775,001 | 2,780,000 | 5,550,078 |
| 1 | 3,720,001 | 3,725,000 | 3,721,627 |
| 1 | 6,370,001 | 6,375,000 | 6,371,350 |
| 1 | 7,075,001 | 7,080,000 | 7,078,005 |
| 1 | 21,420,001 | 21,425,000 | 21,421,913 |
| 1 | 22,970,001 | 22,975,000 | 22,971,505 |
| 1 | 28,535,001 | 28,540,000 | 28,538,539 |
| 2421 | | | 128,757,241 |

| Categories of Shareholders | Shares Held | Percentage |
|---|---|---|
| **Directors, Chief Executive Officer, their Spouse and Minor Children** | 75,105,589 | 58.33% |
| **Associated Companies, Undertakings & Related Parties** | 131,903 | 0.10% |
| **NIT & ICP** | 247,317 | 0.19% |
| **Banks, Development Finance Institution, and Non-Banking Finance Institutions** | 24,311 | 0.02% |
| **Modarbas and Mutual Funds** | 1,457,110 | 1.13% |
| **Insurance Companies** | - | 0.00% |
| **Share holders holding 10%** | 72,931,957 | 56.64% |
| **General Public** | | |
| a) Local | 50,100,578 | 38.91% |
| b) Foreign | 7,873 | 0.01% |
| **Others** | | |
| i) Joint Stock Companies | 802,710 | 0.62% |
| ii) KCCL Employees Trust | 851,768 | 0.66% |
| iii) Al-Bader Welfare Trust | 21,125 | 0.02% |
| iv) Wah Nobel P. Ltd, Management Staff Provident Fund | 6,957 | 0.01% |

Lahore: September 12, 2012

CHIEF EXECUTIVE

# ADDITIONAL INFORMATION AS REQUIRED BY THE CODE OF CORPORATE GOVERNANCE

| | Categories Of Shareholders | Number Of Shareholders | Number Of Shares Held |
|---|---|---|---|
| **I** | **Associated Companies, Undertakings & Related Parties** | **2** | **131,903** |
| | Tariq Motors (Private) limited | 1 | 34,438 |
| | Kohat Cement Education Trust | 1 | 97,465 |
| **II** | **Mutual Funds** | **11** | **1,702,613** |
| | National Bank of Pakistan-Trustee Department, NI(U)T FUND | 1 | 245,503 |
| | CDC - Trustee Pakistan Stock Market Fund | 1 | 245,308 |
| | CDC - Trustee Atlas Stock Market Fund | 1 | 200,000 |
| | CDC - Trustee United Stock Advantage Fund | 1 | 100,000 |
| | CDC - Trustee United Composite Islamic Fund | 1 | 245,000 |
| | CDC - Trustee MCB Dynamic Stock Fund | 1 | 187,013 |
| | CDC - Trustee KASB Stock Market Fund | 1 | 145,536 |
| | CDC - Trustee KASB Asset Allocation Fund | 1 | 18,500 |
| | CDC - Trustee Crosby Dragon Fund | 1 | 156,379 |
| | CDC - Trustee Pakistan Premier Fund | 1 | 131,374 |
| | Trustee - Pakistan Pension Fund - Equity Sub Fund | 1 | 28,000 |
| **III** | **Directors, their Spouse and Minor Children** | **10** | **75,105,589** |
| | **Directors** | **7** | **68,134,239** |
| | Mr. Aizaz Mansoor Sheikh | 1 | 22,971,505 |
| | Mr. Nadeem Atta Sheikh | 1 | 28,538,539 |
| | Mr. Omer Aizaz Sheikh | 1 | 2,100,000 |
| | Mr. Ibrahim Tanseer Sheikh | 1 | 2,775,039 |
| | Mr. Muhammad Atta Tanseer Sheikh | 1 | 2,775,039 |
| | Mrs. Ghazala Amjad | 1 | 7,078,005 |
| | Mrs. Hafsa Nadeem Sheikh | 1 | 1,896,112 |
| | **Director's Spouse** | **3** | **6,971,350** |
| | Mr. Capt. Amjad Latif Sheikh H/o Mrs. Ghazala Amjad | 1 | 6,371,350 |
| | Mrs. Shahnaz Aizaz W/o Mr. Aizaz Mansoor Sheikh | 1 | 500,000 |
| | Mrs. Mahnum Omer W/o Mr. Omer Aizaz Sheikh | 1 | 100,000 |
| **IV** | **Executives** | **-** | **NIL** |
| **V** | **Public Sector Companies and Corporations** | **-** | **NIL** |
| **VI** | **Banks, Development Finance Institutions, Non-Banking Finance Companies, Insurance Companies, Takaful, Modarbas and Pension Funds** | **3** | **25,725** |
| **VII** | **Shareholders Holding Five Percent or More Voting Interests** | **4** | **80,009,962** |
| | Mr. Aizaz Mansoor Sheikh | 1 | 22,971,505 |
| | Mr. Nadeem Atta Sheikh | 1 | 28,538,539 |
| | Mrs. Hijab Tariq | 1 | 21,421,913 |
| | Mrs. Ghazala Amjad | 1 | 7,078,005 |

CHIEF EXECUTIVE

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# FORM OF PROXY

## 33rd Annual General Meeting 2012

I / We ____________________________________________

of ____________________________________________ being a member of

**Kohat Cement Company Limited** and holder of ____________ (No. of shares) Ordinary shares as per

**Share Register Folio No.** ____________ and / or **CDC Participant I.D. No.** ____________ and

**Sub Account No.** ____________ hereby appoint ____________________________

of ____________________________ another member of the company (or failing

him ____________________________ of ____________________________ )

as my/ our proxy to attend and vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held on **Saturday, 20 October 2012 at 11:00 A.M.** at the registered office of the company **Kohat Cement Factory, Rawalpindi Road, Kohat** and at any adjournment thereof.

Signed this ________ day of ________ 2012.

Signature:

| |
|---|
| Please<br>affix<br>Rupees five<br>revenue stamp |

**Witnesses:**

| | | | | | |
|---|---|---|---|---|---|
| **1.** | Signature: | ____________ | **2.** | Signature: | ____________ |
| | Name: | ____________ | | Name: | ____________ |
| | Address: | ____________ | | Address: | ____________ |
| | | ____________ | | | ____________ |
| | CNIC or | | | CNIC or | |
| | Passport No. | ____________ | | Passport No. | ____________ |

**Note:**

1. Proxies in order to be effective must be duly stamped and received by the company not less than 48 hours before the time of holding the meeting. No person shall be appointed as a proxy who is not a member of the company qualified to vote except that a company/ corporation being a member may appoint as proxy a person who is not a member.

2. CDC account holders and their proxies are requested to attach an attested photocopy of their Computerized National Identity Card or Passport with this proxy form before submission to the company.

3. Signature should agree with the specimen signature registered with the company.

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AFFIX
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POSTAGE

The Company Secretary,

**Kohat Cement Company Limited,**
Rawalpindi Road, Kohat.
Tel: 0922-560-990
Fax: 0922-560-405

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**HEAD OFFICE**
37-P, Gulberg II, Lahore. Pakistan.
Tel #: +92 (0) 42 11-111-KCCL(5225) Fax #: +92 (0) 42 5754084, 5874990
E-mail: info@kohatcement.com

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