

CHAKWAL CEMENT COMPANY LIMITED

Annual Reports 2003

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Company Information

BOARD OF DIRECTORS	Khawaja Mohammad Jawed Khawaja Mohammad Jahangir Khawaja Mohammad Tanveer Khawaja Mohammad Nadeem Khawaja Mohammad Naveed Mr. Mohammad Aman Farooq Mr. Stephen Potter Mr. Shamsuddin Khan	(Chief Executive) (Nominee NIT)
BOARD AUDIT COMMITTEE	Khawaja Mohammad Jahangir Khawaja Mohammad Nadeem Mr. Mohammad Aman Farooq	
COMPANY SECRETARY	Mr. Muhammad Anwar Sheikh M. Com., FCMA	
CHIEF FINANCIAL OFFICER	Mr. Khalid Mahmood Bhatti	
AUDITORS	M. Hussain Chaudhury & Co. Chartered Accountants	
BANKERS	Faysal Bank Limited Muslim Commercial Bank Limited KASB Bank Limited National Bank of Pakistan Metropolitan Bank Limited	
LEGAL ADVISORS	Cornelius Lane & Mufti Advocates and Solicitors	
REGISTERED OFFICE	7/1, E-3, Main Boulevard, Gulberg-III, Lahore-Pakistan. Tel: (042) 5757108	
CORPORATE & SHARES	31-F, Near Main Market,	

DEPARTMENT

Gulberg-II, Lahore-Pakistan.
Tel: 5755774 Fax: 5755760

PLANT SITE

Karuli Near Kallar Kahar
District Chakwal-Pakistan.

Notice of Annual General Meeting

Notice is hereby given that the 10th Annual General Meeting of the shareholders of **Chakwal Cement Company Limited** will be held on Friday, October 31, 2003 at 11:00 a.m., at 7-Happy Homes, 38-A, Main Gulberg, Lahore to transact the following business:

1. To confirm the minutes of the last Annual General Meeting held on November 07,2002.
2. To receive and adopt the audited accounts of the company for the year ended June 30,2003 alongwith Directors' and Auditors' reports thereon.
3. To appoint Auditors for the year ending June 30,2004 and to fix their remuneration.
4. To consider any other business which may be placed before the meeting with the permission of the Chair.

By Order of the Board

Lahore:

October 8,2003

MUHAMMAD ANWAR SHEIKH

Corporate Secretary

Notes:

*• The share transfer books of the Company shall remain closed from Wednesday, October 22, 2003 to Friday, October 31,2003 (both days inclusive).

2. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend the meeting and vote instead of him/her. Proxies in order to be effective must be received by the Company not later than 48 hours before the meeting.
3. Any individual Beneficial Owner of CDC, entitled to attend and vote at this meeting, must bring his/her NIC or Passport to prove his/her identity, and in case of Proxy must enclose an attested copy of his/her NIC or Passport. Representative of corporate members should bring the usual documents required for such purpose.
4. Shareholders are requested to promptly notify the Company of any change in their address.

Directors' Report to the shareholders

The Directors have pleasure in presenting annual report of the Company for the year ended June 30, 2003 together with the audited accounts and the Auditors' Report thereon.

The Government has accepted the plea of the Company and has allowed lifting of the consignments after payment of 10% demurrage. The Government has also allowed deferment of custom duty and sales tax to be recovered in five equal annual installments without any interest after going into commercial production. After payment of port dues the plant and machinery has been lifted from Karachi port and has reached the site. The plant & machinery that was placed in the custom bonded warehouse has been released after furnishing the

indemnity bond. The Company is however, of the opinion that the exemption available under the SRO 987(1) 99 is in addition to the concessions allowed by the Economic Co-ordination Committee and therefore exemption of sales tax should be applicable in the case of the Company. The Company has made representation to the Central Board of Revenue for redressal. We are hopeful that due concession will be available to the company.

The Company personnel have carried out the inspection of machinery and equipment. In addition, Messrs. F.L. Smidth & Co. has been asked to carry out a technical inspection of machinery and equipment supplied by them and their proposals for the additional equipment necessary to commission the complete factory according to the specifications. Their inspection team will reach at site shortly for this purpose. The estimates of funds required for completing the remaining work will be revised after the arrival of Messrs. F.L. Smidth engineers at site for inspection of the machinery and will be finalized simultaneously with the completion of the inspection report by Messrs. F.L. Smidth. The Directors look forward to active participation and financial support of all the parties in completing the project.

The loan from Messrs. Nichimen Corporation has become overdue because of delay in the completion of the project. The lenders have filed suit for the recovery of the loan. The suit is being defended and at the same time, negotiations are under way with foreign lenders for rescheduling of loan and waiver of major portion of interest.

The auditors' observation regarding the ability of the Company to continue as a going concern is mitigated by the explanation given in the notes to the accounts. The directors believe that adequate resources will be available to complete the project and that the liabilities shall be restructured/rescheduled. Furthermore, based on the legal opinion the directors believe that the contingencies are not likely to crystallize.

Corporate & Financial Reporting

In compliance with the provisions of the Code, the Board Members are pleased to place the following statement on record:

* The financial statements for the year ended June 30, 2003 present fairly its state of affairs, cash flows and changes in equity;

* Proper books of account have been maintained;

*> Appropriate accounting policies have been consistently applied in preparation of financial statements for the year ended June 30, 2003 and accounting estimates are based on reasonable and prudent judgment;

* International Accounting Standards (IAS) as applicable in Pakistan have been followed in preparation of financial statements; and there has been no departure there from;

* The system of internal control is sound in design. The process of monitoring will continue and control strengthened where ever considered necessary;

* In the light of explanations discussed in the report, the directors consider that 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 listing regulations;

* The key financial data of last six years is annexed;

* There are no outstanding statutory payments on account of taxes, duties, levies or charges except those reflected in note No. 8 and 9 to the accounts;

* There have been four Board meetings during the year and the attendance of each Director is stated below:

Name of Director	No. of Board Meetings Attended	
Khawaja Mohammad Jawed	4	
Khawaja Mohammad Jahangir	3	
Khawaja Mohammad Tanveer	4	
Khawaja Mohammad Nadeem	4	
Khawaja Mohammad Naveed	4	
Mr. Mohammad Aman Farooq	4	
Mst. Zubaida Khatoon	2	(Resigned on 30-04-2003)
Mr. Shamsuddin Khan (Nominee NIT)	1	

Mr. Stephen Potter was co-opted as Director of the Company on April 30, 2003.

* The pattern of shareholding as on 30-06-2003 and its disclosure as required in the Code of Corporate Governance is annexed with this report;

➤ No trade in the shares of the Company was carried out during the year by its Directors, CEO, CFO, Company Secretary and their spouses and minor children;

Auditors

As recommended by the Audit Committee, the present auditors M/s M. Hussain Chaudhury & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

Acknowledgement

The Directors would like to express their gratitude to the shareholders, foreign lenders, bankers and Government functionaries for their continued support and co-operation.

For and on behalf of the Board

Lahore: **(KHAWAJA MOHAMMAD JAWED)**

October 7, 2003 Chief Executive

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges 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 the representation of independent non-executive directors on its Board of Directors. At present the Board includes two independent non-executive directors
2. It is confirmed that none of the directors is serving as a director in more than ten 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 DPI or an NBFII or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurred in the Board on April 30, 2003 was filled up by the directors within 30 days thereof.

5. The company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the company.
6. The Board has developed a vision statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies alongwith the date 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 have been taken by the Board. No remuneration was paid to the Chief Executive and any director during the year.
8. The meetings of the Board were presided over by the Chief Executive and the Board met at least once in every quarter. Written notices of the Board meetings, alongwith agenda were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. All the Directors on the Board are fully conversant with their duties and responsibilities as Director of corporate bodies. The orientation course package has been sent to the Directors during the year, which appraised them of their duties and responsibilities and briefed them regarding amendments in the Companies Ordinance/Corporate Laws.
10. The Board has approved appointment of Chief Financial Officer (CFO), Company Secretary and Internal Auditor. Remuneration, terms & conditions in case of future appointments on these positions will be approved by the Board.
11. The directors' report for the period ended June 30, 2003 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 CEO and CFO before approval of the Board.
13. The Directors, CEO and Executive 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, all the members 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 the approval of interim and final results of the Company and as required by the Code. The terms of references of the committee have been formed and advised to the committee for compliance.
17. The Board has set up an effective internal audit function.
18. The statutory auditors of the company have confirmed that they have been given 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 the Institute of Chartered Accountants.
19. 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.
20. We confirm that all other material principles contained in the Code have been complied with.

Lahore:

(KHAWAJA MOHAMMAD JAWED)

October 7, 2003

Chief Executive

**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 **CHAKWAL CEMENT COMPANY LIMITED**, to comply with the Regulation No.37 (Chapter XI) of the Listing Regulations of Karachi Stock Exchange, Clause 49 (Chapter XIII) of the Listing Regulations of the Lahore Stock Exchange and Section 36 (Chapter XI) of the Listing Regulations of the Islamabad Stock Exchange, where the Company is listed.

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2003.

Lahore:

M. HUSSAIN CHAUDHURY & CO.

October 7, 2003

Chartered Accountants

Auditors' Report to the Members

We have audited the annexed balance sheet of **CHAKWAL CEMENT COMPANY LIMITED** as at June 30, 2003 and the related 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:

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(a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984.

(b) in our opinion;

(i) the balance sheet 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2003 and of its 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.

Without qualifying our opinion, we draw attention to note 1.3 to the financial statements. The Company's current liabilities exceed its current assets by Rs. 1,594.179 million as at June 30, 2003. These conditions, along with other matters as set forth in note 1.3, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Lahore:

M. HUSSAIN CHAUDHURY & CO.

October 7, 2003

Chartered Accountants

Balance Sheet

	Notes	2003 (Rupees)	2002 (Rupees)
CAPITAL AND LIABILITIES			
Share Capital and Reserves			
Authorised capital			
750 million (2002:750 million) ordinary shares of Rs.10/- each			
		7,500,000,000	7,500,000,000
Issued, subscribed and paid up capital	3	5,624,563,630	5,624,563,630
Capital reserve	4	214,838,692	214,838,692
		5,839,402,322	5,839,402,322
Long Term Loan - Directors	5	144,262,647	44,999,539
Deferred Liabilities	6	1,136,892,620	689,017,833
Current Liabilities			
Overdue foreign long term loan	7	966,600,000	1,010,600,000
Creditors, accrued and other liabilities	8	770,164,325	844,275,634
		1,736,764,325	1,854,875,634
Contingencies and Commitments	9	-	-
		8,857,321,914	8,428,295,328

The annexed notes from 1 to 20 form an integral part of these accounts.

Lahore:

(KHAWAJA MOHAMMAD JAWED)

October 7, 2003

Chief Executive

	Notes	2003 (Rupees)	2002 (Rupees)
PROPERTY AND ASSETS			
Tangible Fixed Assets			
Operating fixed assets	10	30,503,588	30,796,419
Capital work in progress - net	11	8,683,106,273	8,253,786,293
		8,713,609,861	8,284,582,712
Long Term Deposits		1,126,280	803,000
Current Assets			
Advances, deposits, prepayments and other receivables	12	142,102,610	142,614,756
Cash and bank balances	13	483,163	294,860
		142,585,773	142,909,616
		8,857,321,914	8,428,295,328

Cash Flow Statement for the Year ended June 30, 2003

	Notes	2003 (Rupees)	2002 (Rupees)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital work in progress - Net		-12,096,286	-13,856,620
Financial charges paid		-143,496	-15,884
Net Cash used in Investing Activities		-12,239,782	-13,872,504
CASH FLOW FROM FINANCING ACTIVITIES			
Interest income received		101	98,346
Long term loan - Directors		99,263,108	14,890,775
Net Cash from Financing Activities		99,263,209	14,989,121
Decrease in current assets		197,626	974,667
Increase in current liabilities		4,158,578	2,384,422
Income tax paid		-8,760	-5,451,974
Gratuity paid		-56,000	-81,335
Incidental and storage charges paid		-91,126,568	-
Net Increase/ (Decrease) in Cash and Cash Equivalents		188,303	-1,057,603
Cash and cash equivalents at the beginning of the year		294,860	1,352,463
Cash and Cash Equivalents at the end of the Year		483,163	294,860

Statement of Changes in Equity for the Year ended June 30, 2003

	Notes	2003 (Rupees)	2002 (Rupees)
Issued, Subscribed and Paid up Capital		5,624,563,630	5,624,563,630
Capital Reserves - Share Premium		214,838,692	214,838,692
Closing Balance		5,839,402,322	5,839,402,322

Lahore: (KHAWAJA MOHAMMAD JAWED)
October 7, 2003 Chief Executive

(KHAWAJA MOHAMMAD NADEEM)
Director

Notes to the Accounts for the Year ended June 30, 2003**1. The Company and its Operations**

1.1 Chakwal Cement Company Limited was incorporated in Pakistan on May 23, 1993 as a Private Limited Company and subsequently converted into a Public Limited Company on October 18, 1994 under the Companies Ordinance, 1984. The Company is listed on all Stock Exchanges of Pakistan. The principal activity of the Company is to set up an industrial undertaking for the manufacture and sale of cement.

1.2 Profit and loss account for the year ended June 30, 2003 has not been drawn up as the Company has not commenced its operating activities.

1.3 Going concern

The Company had originally envisaged commencement of commercial production by October 1997. But the project could not be completed due to certain financial constraints and long delay in clearance of certain parts of imported plant and machinery lying at the Karachi Port. Resultantly, the Company has not been able to repay any installments in respect of the foreign currency loan that has become totally due and the lender has filed a suit for recovery as explained in note 7. These factors along with other matters as stated in note 9 raise significant uncertainty that the Company will be able to continue as going concern and, therefore, may be unable to realize its assets and discharge its liabilities.

The management is in the process of defending in all the pending litigations and is confident about the revival of the project, restructuring of the foreign currency loan and favourable outcome of other litigations. Additionally the Central Board of Revenue has deferred the payments of custom duties and sales tax on import of plant and machinery as specified in note 6.2. During the year the Company has taken the possession of plant and machinery after payment of incidental and storage charges as specified in note 8.1. The management believes that the Company would be able to raise additional funds from its directors, financial institutions, foreign investors and incentives from Government to complete the project as early as possible. Consequently, these financial statements have been prepared on a going concern basis and do not include any adjustments that may be necessary, should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

2.1 Basis of preparation

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

2.2 Accounting convention

These accounts have been prepared under the historical cost convention without giving effect to specific or general changes in the price during the period except that certain assets and liabilities have been included at fair value in accordance with the recognition / measurement criteria mentioned in the relevant International Accounting Standards applicable to such assets as mentioned in note 11.1 and liabilities as mentioned in note 7.

2.3 Staff retirement benefit

The Company operates an unfunded gratuity scheme covering all of its employees. The latest actuarial valuation has been carried out as at June 30, 2003.

The future contribution rates of these plans include allowances for deficit and surplus. As per actuarial estimation carried out as at June 30, 2003, the following significant assumptions are used for calculation of these Plans.

Discount Rate	8%
Expected rate of salary increase in future years	7%
Average expected remaining working life time of employees	7 Years
Actuarial valuation method	Projected Unit Credit Method

2.4 Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation except freehold land and capital work in progress which are stated at cost, adjusted for exchange differences as stated in note 2.9. Cost of operating fixed assets consists of historical cost and attributable expenses in bringing the assets to their working condition.

Depreciation is charged by applying the reducing balance method at the rates specified in note 10 so as to depreciate the carrying value of assets over their useful lives.

No depreciation is charged on the assets disposed off during the year, whereas, full year's depreciation is charged on additions during the year.

Gain / loss on disposal of fixed assets is transferred to unallocated capital expenditure.

2.5 Taxation

The Company has not yet commenced its operating activities and as such the provision for taxation is not required in these accounts.

2.6 Provision

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

2.7 Financial instruments

Financial instruments are recognised in the financial statements when Company becomes a party to the contract and ceases to recognise when it loses control of contractual rights, in case of financial assets, and in case of financial liability when liability is extinguished.

2.8 Foreign currency translations

Transactions denominated in foreign currencies are recorded, on initial recognition, in rupees by applying to the foreign currency amount the exchange rate between the rupee and the foreign currency at the date of transaction. Outstanding foreign currency monetary items at the balance sheet date are recorded at the closing exchange rate differences on foreign currency loan are capitalised.

2.9 Borrowing cost

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of assets.

2.10 Transfer pricing policy

Transactions with related parties are carried out at arm's length using the comparable uncontrolled price method.

2.11 Revenue recognition

- Return on investments from bank accounts is recognized on receipt basis.
- Revenue from sales shall be recognized under the policy to be framed after the completion of the project.

2.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow, cash and cash equivalents comprises cash in hand, with bank in current and PLS accounts.

3. Issued, Subscribed and Paid up Capital

	2003 Number of shares	2002 Number of shares	2003 (Rupees)	2002 (Rupees)
Ordinary shares of Rs.10/-each fully paid in cash	562,456,363	562,456,363	5,624,563,630	5,624,563,630
4. Capital Reserve Share premium			214,838,692	214,838,692

This represents share premium of Rs. 0.50 on issue of 429,677,383 ordinary shares.

5. Long Term Loan - Directors Loan from directors - Unsecured			144,262,647	44,999,539
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This represents interest free loan obtained from directors to meet the liquidity requirements of the Company. The loan is repayable on the terms and conditions to be finalised after the commencement of commercial production and has been reclassified as long term liability during the year owing to its non-current nature.

6. Deferred Liabilities				
Gratuity 6.1			1,956,461	1,574,036
Custom duties 6.2			1,134,936,159	687,443,797
			1,136,892,620	689,017,833

6.1 The amounts recognized in the balance sheet are as follows:

Balance as at July 01,			1,574,036	1,259,150
Cost recognized during the year			438,425	396,221
			2,012,461	1,655,371
Benefits paid during the year			-56,000	-81,335
Balance as at June 30,			1,956,461	1,574,036
Balance sheet reconciliation as at June 30,				
Present value of defined benefit obligation			1,697,521	1,457,324
Unrecognised actuarial gains			258,940	116,712
Balance as at June 30,			1,956,461	1,574,036
Cost for the year ended June 30,				
Current service cost			278,119	257,714
Interest cost			160,306	138,507
Charged to unallocated capital expenditures			438,425	396,221

6.2 This represents deferred payment of custom duties and sales tax on import of plant and machinery under Order No.C.No.3/I/March/96 of Central Board of Revenue. The payment shall be made in five equal annual installments after the commencement of commercial operations of, the project. No interest shall be applicable on these deferred payments. The Company has issued, Corporate guarantees amounting to Rs. 1,135 million (2002:Rs. 687.444 million)in the favour of Collector of Customs, Rawalpindi against the custom duties and sales tax.

7. Overdue Foreign Long Term Loan - Secured

	Notes	2003 (Rupees)	2002 (Rupees)
Balance as at July 01,		966,600,000	1,010,600,000

This represents Japanese Yen 2 billion foreign currency loan obtained from M/s Nichimen Corporation, U.K. in 1996 to meet the local cost components for the construction and installation of cement plant. The prime covenants of the loan agreement are as follows:

- a) The loan carries interest @ 7.5% per annum from the disbursement date to the actual repayment date of loan, payable on March 15, and September 15, each year.
- b) The loan was repayable in eight equal bi-annual installments commencing from March 15, 1998 expired on 15th September, 2001.
- c) In case of non payment on the due date, the Company is liable to pay penal interest @ 10% per annum, on demand, to the lenders calculated on the amount including the principal and interest payment overdue to the date of actual repayment.
- d) The loan is secured:
 - by way of a mortgage (first charge) on the entire current and future assets of the Company, including land, building, plant and machinery; and
 - by a personal guarantee of one of the directors.

The Company has not paid any installment of the loan and hence the entire loan amount has become due and is being reflected as current liability. Adequate provision for applicable penal interest has been made in the accounts.

The lenders, M/s Nichimen Corporation, UK have instituted a suit for the recovery of amounts outstanding in respect of principal and accumulated interest thereon, which amounts in total to Japanese Yen 2,621 million. The suit is pending for adjudication before the learned Civil Court, Lahore.

8. Creditors, Accrued and Other Liabilities

Notes	2003 (Rupees)	2002 (Rupees)
Creditors	71,719,809	69,067,855
Payable to contractors	19,432,185	19,432,185
Call deposit money	500,000	500,000
Retention money - interest free	7,370,519	7,320,002
Accrued expenses	3,437,901	2,605,550
Accrued interest on secured long term loan	665,296,958	652,440,277
Income tax deducted at source	2,275,791	1,652,035
Payable against incidental and storage charges on imported plant and machinery	131,162	91,257,730
	770,164,325	844,275,634
8.1 Payable against incidental and storage charges on imported plant and machinery		
Opening balance	91,257,730	883,024,735
Paid during the year	-91,126,568	-
Net-storage charge 8.1.1	-	-791,767.01
Closing balance	131,162	91,257,730

8.1.1 The Karachi Port Trust in implementation of the decision of the Economic Co-ordination Committee, Government of Pakistan, has allowed waiver to the extent of 90 percent of the storage charges as outstanding on April 11, 2001. The waiver was conditional for the period of 180 days from the decision, subject to the payment of balance amount in full. The Company has paid all the balance amount except charges of one shipment which has not yet been released.

9. Contingencies and Commitments**Contingencies**

a) The Company has issued an insurance guarantee for Rs. 2.400 million (2002: Rs. 2.400 million) in the favour of Director General of Mines and Minerals Punjab, Lahore to acquire the mining lease for lime stone / clay / gypsum and area of 4,070 acres situated near Karuli District Chakwal.

b) The Revenue Officer, District Chakwal, raised a demand of Rs. 269.590 million being short fall in stamp duty and penalty in respect of land mortgaged against foreign long term loan. During the course of appellate procedures, the Chief Revenue Authority, Board of Revenue, Punjab reiterated the demand and the Company finally filed a revision petition with the Lahore High Court, Rawalpindi Bench. No provision, however, has been made in the accounts as the Company expects a favourable outcome.

c) Income tax assessments for income years from June 30,1995 to June 30,2000 have been finalised resulting in gross liability of Rs. 34.957 million. No provision has been made in the accounts as the Company has filed an appeal with the Appellate Authorities and is confident about the favourable outcome of the decision.

Commitments

a) Commitments in respect of capital expenditure contracted as at the balance sheet date are Rs. 1,042 million (2002: Rs. 1,042 million).

b) Commitments in respect of rent of lease hold land of 1,337 kanals as at the balance sheet date are Rs.96.598 million (2002: Rs. 97.668 million).

10. Operating Fixed Assets

Particulars	COST			Rate %	DEPRECIATION		Total as at 30-06-2003 (Rupees)	Book Value as at 30-06-2003 (Rupees)
	As at 01-07-2002 (Rupees)	Additions / (Deletions) (Rupees)	As at 30-06-2003 (Rupees)		As at 01-07-2002 (Rupees)	For the year (Rupees)		
Freehold land	28,820,980	-	28,820,980	-	-	-	-	28,820,980
Factory equipment	370,048	-	370,048	10	169,321	20,073	189,394	180,654
Office equipment	460,550	-	460,550	10	238,834	22,172	261,006	199,544
Furniture and fixtures	1,652,100	-	1,652,100	10	880,980	77,112	958,092	694,008
Computers	866,740	-	866,740	25	524,782	85,490	610,272	256,468
Vehicles	2,554,240	-	2,554,240	20	2,114,322	87,984	2,202,306	351,934
Total Rupees 2003	34,724,658	-	34,724,658		3,928,239	292,831	4,221,070	30,503,588
Total Rupees 2002	34,724,658	-	34,724,658		3,571,656	356,583	3,928,239	30,796.42

10.1 The depreciation charge has been transferred to unallocated expenditure (refer to Note 11.2).

11. Capital Work in Progress - Net

	Notes	2003	2002
		(Rupees)	(Rupees)
Civil and development work		733,350,291	731,238,783
Construction material		29,786,374	29,593,367
Plant machinery and equipment	11.1	7,022,103,139	6,622,633,414
Unallocated capital expenditure - Net	11.2	897,866,469	870,320,729
		8,683,106,273	8,253,786,293

11.1 This amount includes cumulative exchange gain of Rs. 327.280 million (2002:Rs. 371.280 million) on foreign currency loan and amount payable against deferred custom duties, sales tax, incidental and

storage charges on imported plant and machinery of Rs. 1,135.067 million (2002: Rs. 778.702 million).

11.2	Unallocated capital expenditure - Net		
	Salaries and benefits	49,437,209	42,911,940
	Travelling expenses	9,944,819	9,418,312
	Utilities	1,902,595	1,541,773
	Telephone, telegrams and postage	8,945,047	8,638,163
	Vehicle running expenses	3,479,289	2,839,892
	Insurance	12,202,094	11,026,118
	Printing and stationery	1,573,852	1,249,813
	Entertainment	932,196	752,068
	Office renovation and maintenance	2,865,043	2,720,836
	Newspapers and periodicals	177,501	164,251
	Fees and subscriptions	2,171,818	1,888,918
	Rent, rates and taxes	4,242,334	4,024,134
	Advertisement expenses	668,959	623,509
	Security charges	14,636,567	12,199,747
	Corporate service charges	1,349,790	1,349,790
	Legal and professional charges	4,583,184	3,847,089
	Auditors' remuneration	1,195,000	1,035,000
	Freight and octroi	110,106	136,256
	Interest charges, penal interest and commission on long term loan	744,695,694	731,839,013
	Bank charges	869,368	725,872
	Zakat	140,850	140,850
	Charity and donations	18,120	18,120
	Miscellaneous expenses	1,418,740	1,215,802
	Deferred costs amortized	26,294,224	26,294,224
	Depreciation	4,357,620	4,064,789
		898,212,019	870,666,279
	Less:		
	Gain on disposal of fixed assets	-107,800	-107,800
	Other income	-237,750	-237,750
		897,866,469	870,320,729
11.2.1	Auditors' remuneration		
	- Statutory audit	985,000	860,000
	- Consultancy fee	175,000	175,000
	- Limited review, review of code c if corporate governance	35,000	-
		1,195,000	1,035,000

11.2.2 None of the directors or their spouses have any interest in the donees.

12. Advances, Deosits. Prepayments and Other Receivables

	Notes	2003 (Rupees)	2002 (Rupees)
Advances - Unsecured considered good			
-to suppliers		-	891,609
-to executives	12.1	57,809	-
Margin against bank guarantee		600,000	631,200
Mobilization advance		110,292,064	110,292,064
Income tax deducted at source		30,778,813	30,770,053
Prepayments		344,094	-
Other receivables		29,830	29,830
		142,102,610	142,614,756

12.1 The maximum aggregate amount of advances to executives due at the end of any month during the year was Rs. 242,811(2002: Rs. Nil)

13. Cash and Bank Balances

Cash in hand		126,166	5,174
Cash at banks in:			
-Current accounts		353,217	276,517
-PLS accounts	13.1	3,780	13,169
		356,997	289,686
		483,163	294,860

13.1 It represents deposits with commercial banks yielding 1.5% to 3.5% (2002: 6% to 9%) per annum.

14. Chief Executive's, Directors' and Executives' Remuneration

The aggregate amounts charged in the accounts for the year as remuneration and benefits to the executives of the Company are as follows:

Managerial remuneration		2,937,980	2,657,312
Allowances / utilities		1,730,574	1,328,656
		4,668,554	3,985,968
Number of persons		8	7

14.1 Three executives of the Company are provided with Company's maintained cars.

14.2 No remuneration or meeting fee was paid to the chief executive and any director during the year (2002: Nil)

15. Plant Capacity

The plant (upon completion) according to specifications has the capacity to produce 5,500 tons of clinker per day for the production of high quality Ordinary Gray Portland Cement.

16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

	2003			2002			Rupees
	Interest mark-up bearing	Non-Interest mark-up bearing	Sub Total	Interest mark-up bearing	Non-Interest mark-up bearing	Sub Total	
	Maturity year Rupees	Maturity year Rupees	Sub Total Rupees	Maturity year Rupees	Maturity year Rupees	Sub Total Rupees	
Financial assets							
Long term deposits					1,126,280	1,126,280	1,126,280
Advances, deposits prepayments and other receivables		-	-	629,830		629,830	629,830
Cash and bank balances	3.78	-	3.78	479,383	-	479,383	483,163
	3.78	-	3.78	1,109,213	1,126,280	2,235,493	2,239,27
Financial liabilities							
Long term loans - Directors					144,262,647	144,262,647	144,262,647
Overdue portion of long term							
Loan - secured	966,600,000	-	966,600,000		-	-	966,600,000
Creditors, accrued and other liabilities	217,364,175	-	217,364,175	552,229,699	-	552,229,699	769,593,874
	1,183,964,175	-	1,183,964,175	552,229,699	-	552,229,699	1,736,193,874

Interest / mark-up bearing

2002

Non Interest / mark-up bearing

	Maturity upto one year Rupees	Maturity after one year Rupees	Total Rupees	Maturity upto one year Rupees	Maturity after one year Rupees	Total Rupees	Total Rupees
Financial assets							
Long term deposits	-	-	-	-	803,000	803,000	803,000
Advances, deposits prepayments and other receivables	-	-	-	629,830	~	629,830	629,830
Cash and bank balances	13,169	-	13,169	281,691	"	281,691	294.86
	13,169	-	13,169	911,521	803,000	1,714,521	1,727,690
Financial liabilities							
Long term loans - Directors	-	-	-	-	44,999,539	44,999,539	44,999,539
Overdue portion of long term Loan - secured	1,010,600,000	-	1,010,600,000	-	-	-	1,010,600,000
Creditors, accrued and other liabilities	652,440.28	-	652,440,277	100,156,792	~	100,156.79	752,597,069
	1,663,040,277	-	1,663,040,277	100,156,792	-	100,156,792	1,763,197,069

16.1 Concentration of credit risk and credit exposures of the financial statements

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. Out of the total financial assets of Rs. 2,239,273 (2002: Rs. 1,727,690) the financial assets which are subject to credit risk amount to Rs. 2,113,107(2002: Rs. 1,722,516). The company believes that it is not exposed to any concentration of credit risk.

16.2 Currency risk

Currency risk is the risk that the value of a financial instruments will fluctuate due to changes in foreign exchange rates. Foreign currency loan (Japanese Yen) as specified in note 7 is exposed to foreign currency risk as future payments in foreign currency are not secured against any hedge instrument.

16.3 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rate will affect the value of financial instruments. The financial liabilities of the company aggregated Rs. 1,736,193,874 (2002: Rs. 1,763,197,069). The financial liabilities which are based on interest /markup amounting to Rs. 1,183,964,175 (2002: Rs. 1,663,040,277). The effective interest/markup rates of financial liabilities range from 7.5% to 10% per annum.

16.4 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and availability of funding through an adequate amount of committed credit facilities. The Company aims at maintaining flexibility in funding by keeping committed lines available from directors.

16.5 Fair Value of the financial instruments

The carrying value of all the financial instruments reflected in the financial statements approximates to their fair values.

16.6 Effective interest rates

Applicable to the financial assets and financial liabilities range from 1.5% to 3.5% (2002:6% to 9%) and 7.5%to 10% (2002:7.5% to 10%), per annum, respectively.

17. Transactions with Related Parties

2003

2002

	Notes	(Rupees)	(Rupees)
Transactions with related parties undertaken during the year were as follows:			
-Funds received from associated undertakings		1,500,000	1,629,054
-Funds repaid to associated undertakings		1,510,000	409,054
-Funds received from Directors		99,427,063	15,490,775
-Funds repaid to Directors		163,955	600,000

17.1 Funds from related parties are interest free keeping in view the liquidity position of the Company.

18. Number of Employees

	2003 Numbers	2002 Numbers
Number of employees at the year end	15	15

19. Authorization of Financial Statements

These financial statements were approved by the board of directors for issue on October 7, 2003.

20. General

-Figures have been rounded off to the nearest rupee; and

-Corresponding figure have been rearranged, wherever necessary, to facilitate comparison.

Lahore: (KHAWAJA MOHAMMAD JAWED) (KHAWAJA MOHAMMAD NADEEM)

October 7,2003 Chief Executive Director

Key Financial Data of Last Six Years

	1998	1999	2000	(Rs. in '000)		2003
PARTICULARS				2001	2002	
Issued, Subscribed and Paid up Capital	5,624,564	5,624,564	5,624,564	5,624,564	5,624,564	5,624,564
Capital reserve	214,839	214,839	214,839	214,839	214,839	214,839
Long term loan	410,748	320,632	124,200	-	45,000	144,262
Deferred Liabilities	495	956	1,221	1,477	689,018	1,136,893
Current Liabilities	532,147	1,343,568	1,993,393	2,504,452	1,854,876	1,736,764
Operating fixed assets	32,302	31,876	31,486	31,153	30,796	30,504
Capital work in progress - net	6,487,801	7,325,945	7,783,068	8,173,851	8,253,786	8,683,106
Long term deposits	-	-	-	-	803	1,126
Deferred costs	26,294	5,259	-	-	-	-
Current assets	236,394	141,477	143,662	140,328	142,910	142,586

Pattern of Shareholding as at June 30, 2003

Number of Shareholders	From	Shareholdings	To	Total Shares Held
3	1	-	100	300
1311	101	-	500	653592
272	501	-	1000	271900
780	1001	-	5000	2743633
335	5001	-	10000	3030425
92	10001	-	15000	1206800

102	15001	-	20000	1971000
73	20001	-	25000	1768000
31	25001	-	30000	884600
17	30001	-	35000	559500
18	35001	-	40000	705000
14	40001	-	45000	607400
34	45001	-	50000	1681000
7	50001	-	55000	377000
5	55001	-	60000	292500
3	60001	-	65000	190000
8	65001	-	70000	542000
7	70001	-	75000	518500
8	75001	-	80000	633500
2	80001	-	85000	169000
3	85001	-	90000	262500
2	90001	-	95000	188000
27	95001	-	100000	2694600
3	100001	-	105000	313000
6	105001	-	110000	651000
3	110001	-	115000	336000
3	115001	-	120000	353500
3	120001	-	125000	375000
3	125001	-	130000	384500
2	130001	-	135000	266500
1	140001	-	145000	143000
4	145001	-	150000	599000
2	150001	-	155000	309000
2	155001	-	160000	313000
2	165001	-	170000	335000
1	175001	-	180000	177500
8	195001	-	200000	1599800
2	200001	-	205000	405000
2	205001	-	210000	417500
2	215001	-	220000	439500
1	225001	-	230000	230000
3	245001	-	250000	745500
2	255001	-	260000	512500
3	260001	-	265000	791000
1	290001	-	295000	292000
2	305001	-	310000	613675
1	310001	-	315000	314000

Number of Shareholders	Shareholdings		Total Shares Held
	From	To	
1	320001	-	325000
1	360001	-	363000
1	375001	-	380000
1	380001	-	385000
1	385001	-	390000
2	395001	-	400000
1	435001	-	440000
1	450001	-	455000
1	460001	-	465000
1	480001	-	485000
1	495001	-	500000
1	500001	-	505000

1	505001	-	510000	509500
1	510001	-	515000	511700
1	515001	-	520000	516500
1	520001	-	525000	525000
1	675001	-	680000	676000
1	745001	-	750000	750000
1	770001	-	775000	771500
1	845001	-	850000	847500
2	895001	-	900000	1792600
5	995001	-	1000000	4997000
1	1150001	-	1155000	1154000
1	1375001	-	1380000	1380000
1	1695001	-	1700000	1698000
1	1785001	-	1790000	1789000
1	1795001	-	1800000	1798000
1	1825001	-	1830000	1828500
11	1995001	-	2000000	21978200
1	2995001	-	3000000	2997000
1	3460001	-	3465000	3464700
1	8145001	-	8150000	8146619
1	8940001	-	8945000	8943711
1	11730001	-	11735000	11735900
1	13870001	-	13875000	13874142
1	14995001	-	15000000	15000000
1	17060001	-	17065000	17064095
1	19995001	-	20000000	19999980
2	24515001	-	24520000	49038190
1	24570001	-	24575000	24572476
1	52600001	-	52605000	52603500
1	253150001	-	253155000	253151225
3,275				562,456,363

Categories of Shareholders

	Number of Shares Held	Percentage
Directors, Chief Executive, their Spouse and Minor Children	102,423,519	18.22
Associated Companies Undertakings & Related Parties	-	-
NIT/ICP	52,603,500	9.35
Banks, Development Financial Institutions and Non Banking Financial Institutions	11,838,900	2.1
Insurance Companies	19,999,980	3.56
Modarabas and Mutual Funds	26,500	0
Shareholders holding 10% and above (citybank N.A. as custodian of global depository receipts)	253,151,225	45.01
General Public		
a. Local	81,615,520	14.51
b. Foreign	.	-
Others		
a. Joint Stock Companies	16,827,100	2.99
b. Foreign Companies	23,970,119	4.26
TOTAL	562,456,363	100

**Detail of Pattern of Shareholding as per Requirements
of Code of Corporate Governance**

	Number of Shares Held
Associated Companies Undertakings & Related Parties	.

NIT/ICP

i. National Bank Of Pakistan - Trustee Wing Directors, Chief Executive, their Spouse and Minor Children	52,603,500
i. Khawaja Mohammad Jawed	8,943,711
ii. Khawaja Mohammad Jahangir	24,519,095
iii. Khawaja Mohammad Tanveer	24,519,095
iv. Khawaja Mohammad Nadeem	13,874,142
v. Khawaja Mohammad Naveed	24,572,476
vi. Mr. Mohammad Aman Farooq	500
vii. Mr. Stephen Pottor	500
viii. Mr. Shamsuddin Khan (Nominee NIT)	-
ix. Mrs. Kausar Tasneem W/o Kh. M. Jawed	1,998,000
x. Mrs. Rubina Khanum W/o Kh. M. Jahangir	999,000
xi. Mrs. Nusrat Arfeen W/o Kh. M. Tanveer	1,998,000
xii. Mrs. Andleeb W/o Kh. M. Nadeem	999,000
Executives	-
Public Sector Companies & Corporations	
i. State Life Insurance Corporation	19,999,980
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds	11,865,400
Shareholders Holding Ten Percent or More Voting Interests	
i- Citibank N. A. (as custodian of Global Depository Receipts)	253,151,225