CONTENTS

CORPORATE PROFILE

Board of Directors	Mrs. Naz Mansha	Chairman
	Mian Raza Mansha	Chief Executive
	Mr. Manzar Mushtaq	
	Mr. Khalid Qadeer Qureshi	
	Mr. Zaka-ud-Din	
	Mr. Muhammad Azam	
	Mr. Inayat Ullah Niazi	Chief Financial Officer
Audit Committee	Mr. Manzar Mushtaq	Member/Chairman
	Mr. Khalid Qadeer Qureshi	Member
	Mr. Muhammad Azam	Member
Company Secretary	Mr. Khalid Mahmood Chohan	

Bankers

ABN AMRO Bank
Allied Bank Limited
Askari Commercial Bank Limited
Bank Alflah Limited
Citibank N.A.
Habib Bank Limited
M.C.B. Bank Limited (Former Muslim Commercial Bank Limted)
National Bank of Pakistan
Standard Chartered Bank
The Bank of Punjab
Union Bank Limited
United Bank Limited

Auditors

M/s A.F. Ferguson & Co., Chartered Accountants

Legal Advisors

Mr. Shahid Hamid, Bar-at-Law

Registered Office

Nishat House, 53-A, Lawrence Road,
Lahore-Pakistan
Phone: 92-42-6367812-20
Fax: 92-42-6367414
Email: info@dgcement.com
web site: www.dgcement.com

Factory

1. Khofli Sattai, Distt. Dera Ghazi Khan-Pakistan
   Phone: 92-641-460025-7
   Fax: 92-641-462392
   Email: dgsite@dgcement.com

2. 12, K.M. Choa Saidan Shah Road,
   Khairpur, Tehsil Kallar Kahar,
   Distt. Chakwal-Pakistan
   Phone: 92-543-650215-8
   Fax: 92-543-650231

Vision Statement

To transform the Company into a modern and dynamic cement manufacturing company with qualified professionals and fully equipped to play a meaningful role on sustainable basis in the economy of Pakistan.

Mission Statement

To provide quality products to customers and explore new markets to promote/expand sales of the Company through good governance and foster a sound and dynamic team, so as to achieve optimum prices of products of the Company for sustainable and equitable growth and prosperity of the Company.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that 27th Annual General Meeting of the Shareholders of D. G. Khan Cement Company Limited ("the Company") will be held on October 31, 2005 (Monday) at 10: 30 a. m. at Nishat House, 53-A, Lawrence Road, Lahore to transact the following business:

1. To confirm minutes of the last meeting.

2. To receive and adopt the audited accounts of the Company for the financial year ended June 30, 2005 together with the Directors' and Auditors' reports thereon.

3. To approve Cash Dividend @ Rs. 1.50 Per Ordinary Share (i.e. 15%) as recommended by the Board.

4. To appoint Auditors for the year 2005 - 2006 and fix their remuneration. The retiring Auditors M/s. A. F. Ferguson & Company, Chartered Accountants, Lahore, being eligible offer themselves for re-appointment.

5. SPECIAL BUSINESS:-

   To pass the following Special Resolutions with or without modification(s):-

   A. RESOLVED UNANIMOUSLY that the Company be and is hereby authorized to make further investments upto Rs. 60,000,000 (Rupees Sixty Million Only) in the share capital of Nishat Shuaiba Paper Products Company Limited, an associated company and to invest upto Rs. 200,000,000 (Rupees Two Hundred Million Only) by way of equity investment in the share capital of Gulf Nishat Apparel Limited, another associated company.

   FURTHER RESOLVED THAT the Chief Executive of the Company be and is hereby empowered / authorized to make the above said investments of shares as and when deemed appropriate and necessary and to sign any and all documents, papers, agreements, etc. etc., as may be required for execution of investment transactions in the best interest of the Company and its shareholders and to delegate and appoint any other Director and/or officer of the Company, on his behalf.

   B. RESOLVED UNANIMOUSLY that the consent be and is hereby granted to place the quarterly accounts of the Company on the website of the Company, pursuant to the Securities & Exchange Commission of Pakistan ("SECP") Circular No. 19 of 2004 dated 14 April 2004.

   FURTHER RESOLVED that the Chief Executive and the Company Secretary be and are hereby authorized severally or jointly, to apply SECP for its consent for such placing of the quarterly accounts on the website of the Company and to do all necessary acts, deeds and things in connection therewith and ancillary thereto including consultation with the Stock Exchanges on which the Company is listed.

6. Any other matter with the permission of the Chair.

By order of the Board

(KHALID MAHMOOD CHOHAN)
COMPANY SECRETARY

LAHORE
SEPTEMBER 19, 2005

NOTES:

1. BOOK CLOSURE NOTICE FOR THE ENTITLEMENT OF FINAL 15 % CASH DIVIDEND FOR THE YEAR ENDING JUNE 30, 2005.

   The Share Transfer Books of Ordinary Shares of the Company will remain closed for entitlement of 15 % Cash Dividend (Rs. 1.50 Per Ordinary Share) from 22-10-2005 to 31-10-2005 (both days inclusive). Physical transfers / CDS Transactions IDs received in order at Nishat House, 53-A, Lawrence Road, Lahore, upto 1 : 00 p.m. on October 21, 2005 will be considered in time for entitlement of 15 % Cash Dividend and attending of meeting.

2. BOOK CLOSURE NOTICE FOR THE ENTITLEMENT OF 10% DIVIDEND ON PREFERENCE SHARES FOR THE 3rd YEAR ENDING JUNE 30, 2005.

   The Share Transfer Books of Preference Shares (Non-voting) of the Company will remain closed for entitlement of 10% Preferred Dividend (Rs. 1.00 Per Preference Share) from 22-10-2005 to 31-10-2005 (both days inclusive). Physical transfers / CDS Transactions IDs received in order at Nishat House, 53-A, Lawrence Road, Lahore, upto 1 : 00 p. m. on October 21, 2005 will be considered in time for entitlement of preferred dividend. The Preference Shareholders are not entitled to attend the meeting.

3. A member eligible to attend and vote at this meeting may appoint another member his / her proxy to attend and vote instead of him/her. Proxies in order to be effective must reach the Company's Registered office not less than 48 hours before the time for holding the meeting. Proxies of the Members through CDC shall be accompanied with attested copies of their NIC. The shareholder through CDC are requested to bring original NIC, Account Number and Participant Account Number to produce at the time of attending the meeting.

4. Shareholders are requested to immediately notify the change in address, if any.

STATEMENT U/S 160(i)(b) OF THE COMPANIES ORDINANCE 1984.

A (i) Nishat Shuaiba Paper Products Company Limited (NSPPL) is an unquoted company with Authorised capital of Rs. 300.00 Million divided in to 30 million ordinary shares of Rs. 10/- each having its registered office at Nishat House 53-A Lawrence Road Lahore. It is a joint venture project with Shuaiba Paper Products Company of Kuwait to manufacture and sale of paper sack for packing of cement. The plant is situated at Khairpur, near Kallar Kahar District Chakwal, and hopefully will start production in November 2005, after completion of its erection.

The Kuwaiti partners of NSPPL have already remitted US$ 1,190,193 against their equity participation in the share capital of NSPPL.

The Company has already made an investment of Rs. 60,000,000 by way of equity participation and holds 20% of paid up capital and intends to make further investment up to Rs. 60,000,000 through Subscription of 100% Right Shares to be issued by NSPPL for expansion of project.

The shares will be subscribed at face value of Rs 10/- each for a long term investment purpose.

Two of the directors of the Company are also directors in NSPPL and they have no interest except and to the extent of their shareholding.

The Memorandum and Articles of Association of both the companies have been kept at registered office of the Company and can be inspected at any time during working hours up to 29th October, 2005.

Following is the information as required under Notification No. SRO 865(1)/2000, dated December 06, 2000 in this respect.

i)	Name of associated company	Nishat Shuaiba Paper Products Company Limited
ii)	Nature, amount and extent of investment	Not over 6,000,000 Ordinary shares of Rs. 10/- each
iii)	Average market price of the shares Intended to be purchased during preceding six months in case of listed companies:	N.A. (unlisted)
iv)	Break-up value of shares intended to be purchased on the basis of last published financial statements	N.A.
v)	Price at which shares will be purchased	At Face Value of Rs.10/- each.
vi)	Earning per share of investee company in last three years	N.A. (Plant Under Erection).
vii)	Source of funds from where shares will be purchased	Surplus funds / reserves of the Company
viii)	Period for which investment will be made	Long Term Investment
ix)	Purpose of investment	Subscription of Right Shares for expansion of existing plant.
x)	Benefits likely to accrue to the Company and the shareholders from the proposed investment; and	Adequate profits are expected after commissioning of the production.
xi)	Interest of Directors and their relatives in the investee Company	No special interest except to the extent of their shareholding which is as under:-

Name of Director	Shares Held	%
1. Mian Raza Mansha	725,700	3.28
2. Mr. Zaka Ud Din	100	0.00
RELATIVES :-		
1. Mrs. Naz Mansha	1,399,400	6.33
2. Mian Umer Mansha	1,400,000	6.33
3. Mian Hassan Mansha	1,400,000	6.33
4. Mrs. Ammil Raza Mansha	625,000	3.05

A (ii) Gulf Nishat Apparel Limited (GNAL) is also an unquoted company with Authorised Capital of Rs. 250.00 Million divided into 25 million ordinary shares of Rs 10/- each having its registered office at Nishat House 53-A Lawrence Road Lahore. It is a joint venture project with Gulf Baraka Apparel of Bahrain to manufacture and sale of Apparel products in all forms. The plant will be set up adjacent to the Nishat Mills Limited, Dyeing and Finishing Plant, Nishat Avenue, 5 K.M. East Hadyara Drain, Off 22 K.M. Ferozepur Road, Lahore.

One of the director of the Company is also director in GNAL and he has no interest except and to the extent of his shareholding.

The foreign partners of Bahrain have already remitted US $ 1,000,000 as their initial equity participation in GNAL.

The shares will be purchased at face value of Rs.10/= each for a long term investment purpose.

The Memorandum and Articles of Association of both the companies have been kept at registered office of the Company and can be inspected at any time during working hours up to 29th October, 2005.

Following is the information as required under Notification No. SRO 865(1)/2000, dated December 06, 2000 in this respect.

i)	Name of associated company	Gulf Nishat Apparel Limited
ii)	Nature, amount and extent of investment:	Not over 20,000,000 Ordinary shares of Rs. 10/- each
iii)	Average market price of the shares Intended to be purchased during preceding six months in case of listed companies	N.A. (unlisted)
iv)	Break-up value of shares intended to be purchased on the basis of last published financial statements	N.A.
v)	Price at which shares will be purchased	At Face Value of Rs.10/- each.
vi)	Earning per share of investee company in last three years	N.A. (Incorporated on August 2, 2005)
vii)	Source of funds from where shares will be purchased	Surplus funds / reserves of the Company
viii)	Period for which investment will be made	Long Term Investment
ix)	Purpose of investment	Initial investment in joint venture project with Gulf Baraka Apparel of Bahrain.
x)	Benefits likely to accrue to the Company and the shareholders from the proposed investment; and	Adequate profits are expected after commissioning of the production.
xi)	Interest of Directors and their relatives in the investee Company	No special interest except to the extent of their shareholding which is as under:-

Name of Director	Shares Held	%
1. Khalid Qadeer Qureshi	100	0.16
RELATIVES :-	NIL	

In compliance with the SECP letter No. EMD/233/374/2002-3303 dated October 3, 2005, following information is circulated under Section 160(1)(b) of the Companies Ordinance 1984, in connection with Special Resolution under Section 208 of the Companies Ordinance, 1984.

- Paid up Capital of both investee companies, number of present shareholders and capital held by them (%age wise):-

Nishat Shuaiba Paper Products Company Limited

Paid Up Capital : 22,117,200 Shares of Rs. 10/- each.
No. of Shareholders : 14

	Name of Shareholder	No. of Shares	%
1.	Mrs. Naz Mansha	1,399,400	6.33
2.	Mian Raza Mansha	725,000	3.28
3.	Mr. Zaka Ud Din	100	0.00
4.	Mr. Farid Noor Ali Fazal	100	0.00
5.	Mr. Aftab Ahmad Khan	100	0.00
6.	Mr. Mohammad A. Al-Bahar	100	0.00
7.	Mr. Waleed Al-Ghunaiman	100	0.00
8.	Mr. Wesam E. M. Al-Hirz	100	0.00
9.	Shuaiba Paper Products Co.	6,617,200	29.92
10.	D. G. Khan Cement Co. Ltd.	4,400,000	19.89
11.	Nishat Mills Ltd.	5,500,000	24.87
12.	Mian Umer Mansha	1,400,000	6.33
13.	Mian Hassan Mansha	1,400,000	6.33
14.	Mrs. Ammil Raza Mansha	675,000	3.05
Total:		22,117,200	100.00

Gulf Nishat Apparel Limited

Paid Up Capital : 60,200 Shares of Rs. 10/- each.
No. of Shareholders : 6

	Name of Shareholder	No. of Shares	%
1.	Mian Hassan Mansha	29,800	49.67
2.	Mr. Khalid Qadeer Qureshi	100	0.16
3.	Mr. Faisal Naseem Kari	100	0.16
4.	Dawani Holdings Co. E.C.	10,000	16.67
5.	Asgharali Holdings Co. E.C.	10,000	16.67
6.	Dhaduk Holdings E.C.	10,000	16.67
	Total:	60,000	100.00

- Company's proposed shareholding in the investee companies (%age wise):-

	Nishat Shuaiba Paper Products Co. Ltd.	Gulf Nishat Apparel Ltd.
Proposed Equity %age	20%	25%

- Financial Projections of both investee companies for the next three years.

Nishat Shuaiba Paper Products Company Limited

	Year 1	Year 2	Year 3
	(Rupees in thousand)		
Sales	969,000	1,026,000	1,026,000
Gross Prifit	125,445	141,147	144,183
Profit After	66,382	52,944	66,855

Gulf Nishat Apparel Limited

	Year 1	Year 2	Year 3
	(Rupees in thousand)		
Sales	2,609,022	3,278,359	3,397,947
Gross Profit	647,766	807,592	804,584
Profit After Tax	261,502	335,391	327,215

B. This statement sets out the material facts concerning the Special Business, given in agenda item No.5 (Placement of Quarterly Accounts on Website) to be transacted at the Annual General Meeting of the Company to be held on October 31, 2005.

1. The Securities & Exchange Commission of Pakistan (SECP) vide Circular No.19 of 2004 has allowed the listed Companies to place the quarterly accounts on their websites instead of sending the same to each shareholder by post. We appreciate this decision which would ensure prompt disclosure of information to the shareholders, besides saving of costs associated with printing and dispatch of the accounts by post.

2. The Company is maintaining a website www.dgcement.com. Prior permission of the Securities & Exchange Commission of Pakistan would be sought for transmitting the quarterly accounts through Company's website after the approval of the shareholders. The Company, however, will supply the copies of accounts to the shareholders on demand at their registered address, free of cost, within one week of receiving such request.

3. The Directors of the Company have no interest in the above resolution that would need a further disclosure.

DIRECTORS' REPORT

The Board of Directors of D.G. Khan Cement Company Limited is pleased to present 27th annual report and audited financial statements for the year ended 30th June 2005.

INDUSTRY REVIEW

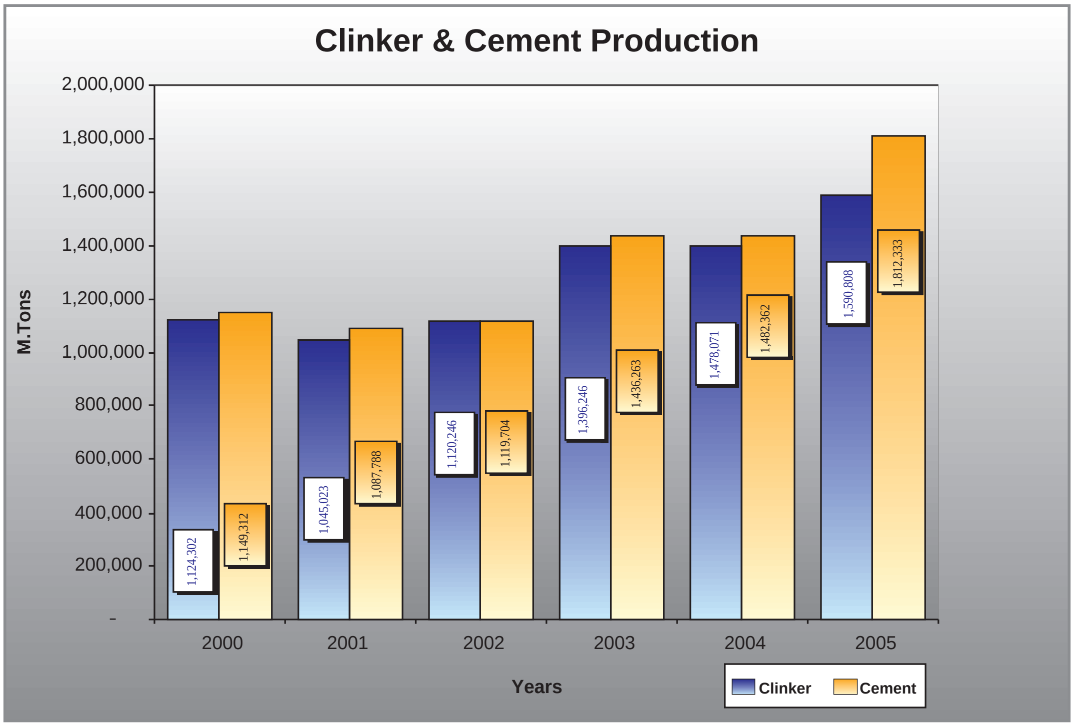
The FY 2005 ended up with an impressive GDP growth of over 8%. Main factors which contributed to this growth are manufacturing, agriculture and service sectors. The manufacturing sector's growth alone was above 16% and cement industry played a vital role in achieving this notable growth.

Sales volume increased by 19.7% as compared to the last year (local and export increased by 18% and 40% respectively). In the last quarter (April-June 2005) the exports were relatively lower due to increase in local demand.

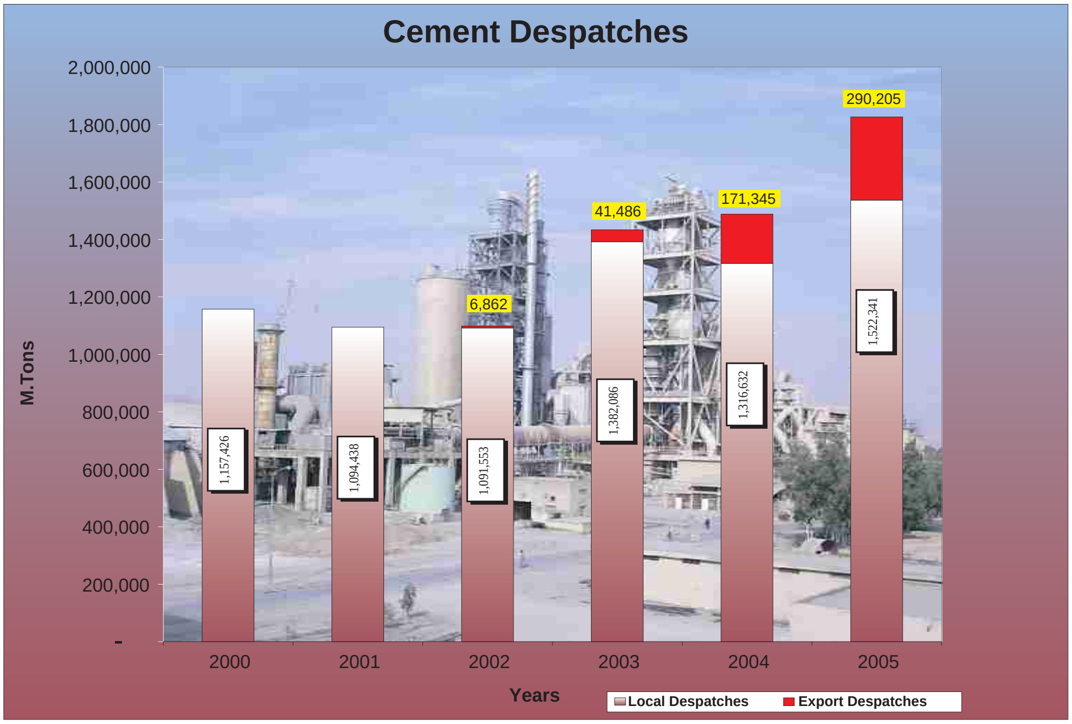
PLANT PERFORMANCE

Plant performance during the year under review was excellent, detail given below:

		2005	2004	Inc./(Dec.)
-Clinker	(M.Tons)	1,590,808	1,478,071	7.63%
-Capacity Utilization	% age	94.97%	89.58%	5.39%
-Cement	(M.Tons)	1,812,333	1,482,362	22.26%
-Sales	(M.Tons)	1,812,546	1,487,976	21.81%
Local		1,522,341	1,316,632	15.62%
Export		290,205	171,345	69.37%



Clinker production during the year increased about 8% despite closure of Unit-1 for about 5 months for optimization. After optimization, the production capacity has increased from 2200 tpd to 2700 tpd. The plant is operating smoothly and producing greater than the guaranteed figure of 2700 tpd with substantial savings in fuel and energy. The optimization of Unit-2 is also completed and the guarantee tests of different equipments are underway.

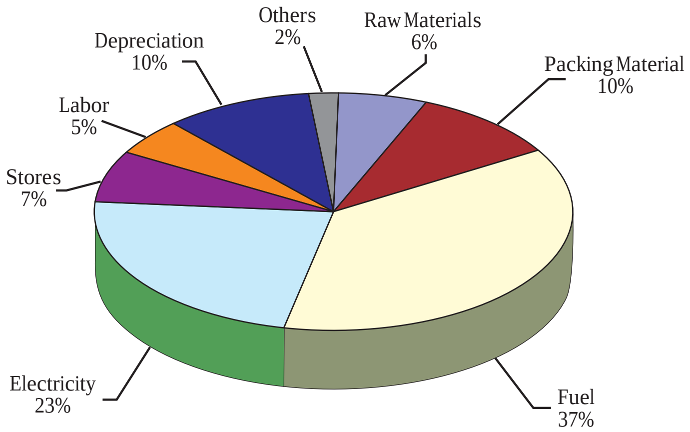


OPERATING RESULTS

(Rupees in thousand)

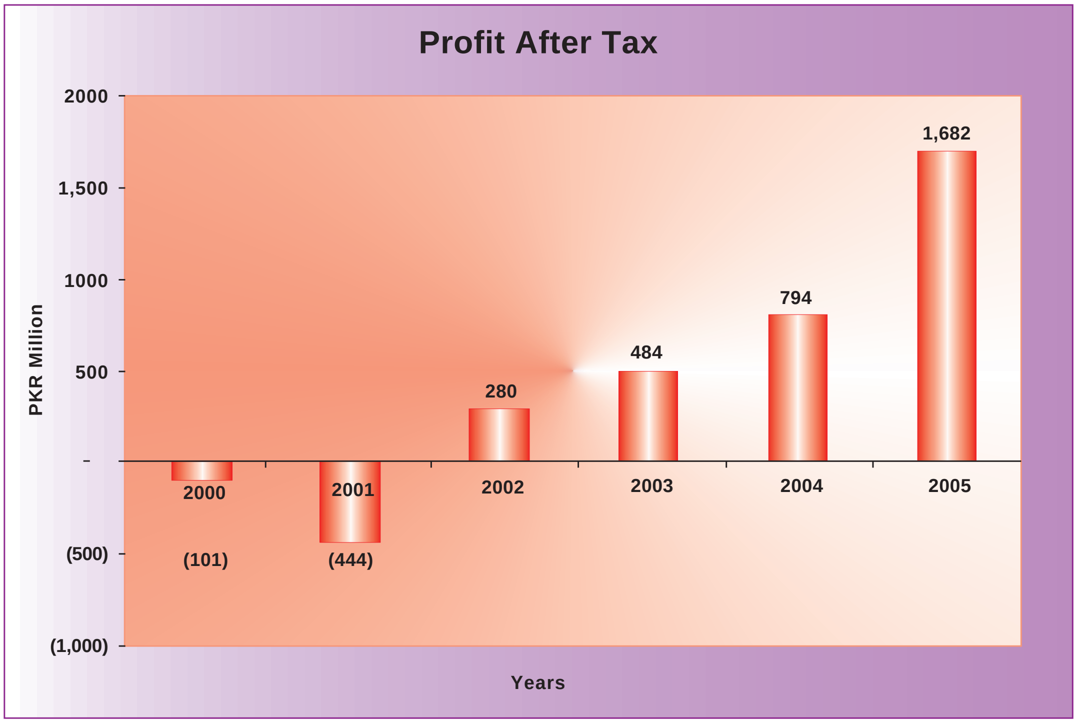
		2005	2004
-Net Sales		5,279,560	3,882,756
-Cost of Sales		3,330,769	2,497,262
-Gross Profit		1,948,791	1,385,494
-After tax profit		1,682,078	794,493
-EPS (Basic)	Rs./Share	9.12	4.31

Cost of Production



Economic activities in the country led to growth in cement sales, during the year net sales revenue ascended by 36% compared with last year. In addition, with the revival of development works in Afghanistan, the exports are on the rise. Out of total country's cement export, your Company's share was 19% and thus emerged as the export leader.

The gross profit has augmented by Rs. 563.297 million due to increase in sales volume and better prices, despite rising fuel prices in international markets and inflationary trend in the country which caused negative impacts on cost of production.



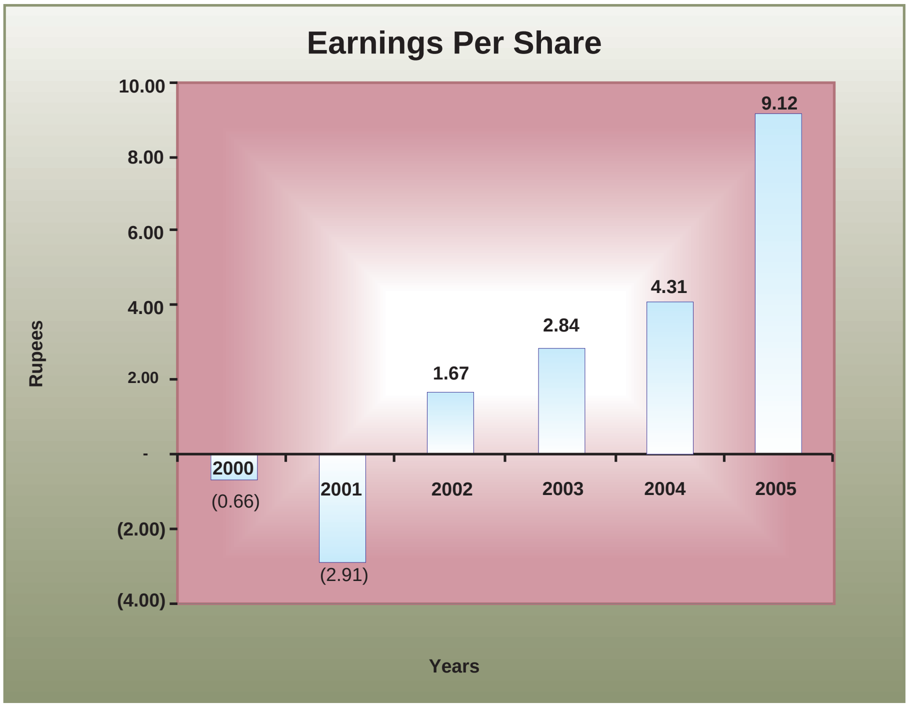
During the period under review furnace oil and coal prices went up by 51% and 34% respectively. Selling expenses increased by Rs. 22.345 million mainly on account of freight on exports.

Other income includes Rs. 543.173 million being the fair value gain on de-recognition of investment in shares of Umer Fabrics Ltd. upon its merger with Nishat Mills Ltd. and Nishat (Chunian) Ltd.

After accounting for all charges including deprecation/amortization of Rs. 357.083 million, financial charges of Rs. 304.041 million and Rs. 439.193 million for provision for taxation (including deferred tax Rs. 399.0 million) etc. your Company earned a net profit of Rs. 1,682.078 million.

DIVIDEND

The Board has recommended 15% cash dividend for the FY 2005 even your Company is spending heavily on optimization and implementation of expansion project.



OPERATING AND FINANCIAL DATA

Operating and financial data with key ratios for the last six years is annexed.

KHAIRPUR EXPANSION PROJECT

The memorable stone breaking of the project was done by honorable Mr. Shaukat Aziz, Prime Minister of Pakistan on 9th of April 2005. The Prime Minister showed his pleasure for setting such a huge project in the area. He further added that such projects will boost economic activities and create both direct jobs and indirect business opportunities to local residents.

Prime Minister inaugurating Khairpur Cement Project

Laying of Gas pipeline (by SNGPL) and installation of poles for 132 KVA power transmission line by WAPDA have also been started.

The consignments of plant and machinery are reaching at site. Local fabrication of plant and erection is in progress.

The work on Khairpur project is in full swing. Pilling and foundation work of most of the plant has been completed. Quarry development and internal roads are in progress.

Coal Storage Yard

Coal Storage Yard with CF Silo

Cement Mill Feed

Clinker Storage Yard

Cement Silos

Fabrication Work

Kiln Shell Fabrication

Erection of Pre-heater tower

Pre-heater tower

Financing for the project has been arranged through local banks. Steps are being taken to curtail the completion period of the project to make it operational well before the target date.

FUTURE OUTLOOK

The future of the cement industry looks bright. The federal budget for the year FY 2006 focus on promoting manufacturing growth and enhancing industrial competitiveness. Tariff reforms to boost industrial growth are key elements of the budget. Across the board custom duties have been slashed, accordingly the duty on import of construction machinery and tools has been drastically reduced from 25 to 5%.

Going forward sizeable amount of funds have been allocated to Public Sector Development Plan (PSDP) of Rs. 272 billion which is 35% higher than previous year's allocation. It has been announced that capacity of the Mangla Dam is being raised, in addition construction of Gomal Zam, Kurram Tangi, Mirani and Sabz Kai Dams is also under consideration. These budgetary measures will boost the cement demand in the period to come.

INVESTMENTS

During FY 2005 the Company invested Rs. 44.0 million in Nishat Shuaiba Paper Products Co. Ltd. (NSPPC) an associated Company. The plant is located adjacent to the Khairpur expansion plant. The project will produce and sell paper sacks for cement packing. The Plant & machinery of the project has arrived at site. Civil work is almost completed. Erection of the machinery is in progress. Commercial production is expected to start in November 2005.

Prime Minister inaugurating Nishat Shuiba Paper Project

Keeping in view the expansion in cement industry, the management of the NSPPC has decided to double the production capacity of the project in order to capitalize the additional sack demand.

Gulf Nishat Apparel Ltd.

A new associated company has been ventured with Gulf Baraka Apparel of Bahrain. The Gulf Baraka is a well established firm and has expertise in apparel products. The project will be set up near Lahore. Your company has planned to invest up to Rs. 200.0 million through equity participation in this new joint venture.

RELATED PARTIES

The transactions between the related parties were made at arm's length prices determined in accordance with the comparable uncontrolled prices method. The Company has fully complied with the best practices on Transfer Pricing as contained in the Listing Regulations of Stock Exchanges in Pakistan.

CORPORATE & FINANCIAL REPORTING FRAME WORK

In compliance with the Code of Corporate Governance, we give below statements on Corporate and Financial Reporting Frame Work:

- The financial statements, prepared by the management of the Company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Value of investments of Provident Fund as on June 30, 2005 is Rs. 109.023 million.

- Board Meetings:

  During the year under review, five meetings were held. Attendance by each director is as follow:

S. No.	Name of Director		Attendance
1.	Mrs. Naz Mansha	Chairman	3
2.	Mian Raza Mansha	Chief Executive	5
3.	Saqib Elahi		4
4.	Khalid Qadeer Qureshi		5
5.	Zaka ud din		5
6.	Muhammad Azam		5
7.	Inayat Ullah Niazi		5

CORPORATE GOVERNANCE

The statement of compliance with the best practices of Code of Corporate Governance is annexed.

PATTERN OF SHAREHOLDING AND INFORMATION UNDER CLAUSE XIX (i) AND (j) OF THE CODE OF CORPORATE GOVERNANCE

The information under this head as on June 30, 2005 is annexed.

AUDITORS

M/s A.F. Ferguson & Company, Chartered Accounts, Lahore, retire, and being eligible have offered themselves for re-appointment. The Audit Committee has also recommended their re-appointment.

M/s Anjum Asim Shahid Rehman, Chartered Accountants, Lahore have been appointed as Cost Auditors.

ACKNOWLEDGEMENT

The Directors commended the efforts, dedication and professional skills shown by the Company's engineers and technicians in the accomplishment of the task of optimization/de-bottlenecking of the two units and saving a substantial amount of foreign exchange. The management also acknowledged the support and co-operation of the financial institutions, suppliers, valued customers and Officer/Workers in achieving the excellent results.

for and on behalf of the Board

MIAN RAZA MANSHA
Chief Executive

Lahore
September 19, 2005

OPERATING AND FINANCIAL DATA

	2005	2004	2003	2002	2001	2000
PRODUCTION & SALES						(M. Tons)
Clinker	1,590,808	1,478,071	1,396,246	1,120,246	1,045,023	1,124,302
Cement	1,812,333	1,482,362	1,436,263	1,119,704	1,087,788	1,149,312
Cement Sales:	1,812,546	1,487,976	1,433,551	1,098,425	1,094,438	1,157,426
Local	1,522,341	1,316,632	1,392,065	1,091,563	1,094,438	1,157,426
Export	290,205	171,345	41,486	6,862	-	-
Export-Clinker	-	-	-	-	-	42,100
OPERATING RESULTS						(Rupees in thousand)
Net sales	5,279,560	3,882,756	2,992,006	2,718,654	2,551,832	2,943,014
Gross profit	1,948,791	1,385,494	677,676	770,859	24,898	448,761
Pre-tax profit/(loss)	2,121,271	1,120,415	355,510	294,174	(430,804)	(85,454)
After tax profit/(loss)	1,682,078	794,493	483,592	279,868	(444,004)	(101,199)
FINANCIAL POSITION						
Current assets	4,196,769	2,881,143	2,051,813	1,491,194	1,254,725	1,325,131
Current liabilities	3,055,858	2,376,989	1,527,010	1,391,325	1,870,239	3,253,225
Property, plant and equipment	6,637,237	6,128,083	6,147,435	6,326,987	6,806,073	6,437,914
Total assets	18,016,505	11,714,619	9,660,401	8,673,992	8,718,327	8,720,784
Long term liabilities	5,105,649	2,882,575	3,048,296	3,626,997	3,662,458	1,858,093
Shareholders' equity	9,317,998	6,317,055	5,085,095	3,492,663	3,165,462	3,609,466
RATIOS						
Current ratio	1.37:1	1.10:1	1.34:1	1.07:1	0.67:1	0.41:1
Debt to equity ratio	35:65	31:69	37:63	51:49	54:46	34:66
Gross profit to sales (%)	36.91	35.68	22.65	28.35	0.98	15.25
Net profit to sales (%)	31.86	20.46	16.16	10.30	(17.40)	(3.44)
Break up value per share (Rs)	31.06	24.92	22.67	22.92	20.77	23.69
Earnings per share:						
Basic (Rs)	9.12	4.31	2.84	1.67	(2.91)	(0.66)
Diluted (Rs)	7.82	3.78	2.77	-	-	-

STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

Year Ended : June 30, 2005

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37, 43 & 36 of listing regulations of Karachi, Lahore & Islamabad Stock Exchanges respectively 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 independent non-executive directors.

2. The directors have confirmed that none of them 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 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 has been occurred in the Board, during the year 2004-05.

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/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved 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 and conditions of employment of the CEO and other executive directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, 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. No new director has been appointed during the year therefore no new orientation course has been arranged.

10. The appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment have been duly approved by the Board.

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 CEO and 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 audit committee is continued and it comprises 3 members, of whom all 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. The Board has set-up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.

18. 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.

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 substantially complied with.

MIAN RAZA MANSHA
Chief Executive
NIC Number : 35202-2539500-5

Lahore
September 19, 2005

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES ON TRANSFER PRICING FOR THE YEAR ENDED JUNE 30, 2005

The Company has fully complied with the best practices on Transfer Pricing as contained in the related Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges.

MIAN RAZA MANSHA
Chief Executive
NIC Number : 35202-2539500-5

Lahore
September 19, 2005

PATTERN OF SHARE HOLDING AS AT JUNE 30, 2005 (ORDINARY SHARES)

NO. OF SHAREHOLDERS	SHARE HOLDING (NO. OF SHARES) FROM	TO	TOTAL SHARES HELD
889	1	100	42899
1400	101	500	471715
952	501	1000	829383
1237	1001	5000	3121008
271	5001	10000	2112543
99	10001	15000	1227149
67	15001	20000	1213753
58	20001	25000	1390896
23	25001	30000	633644
17	30001	35000	550511
16	35001	40000	614606
9	40001	45000	386106
20	45001	50000	976635
4	50001	55000	210214
10	55001	60000	590425
6	60001	65000	379379
3	70001	75000	221470
3	75001	80000	235800
1	80001	85000	83100
2	85001	90000	172100
5	90001	95000	465364
8	95001	100000	798065
3	100001	105000	310032
2	105001	110000	215795
3	120001	125000	369500
6	130001	135000	799750
2	135001	140000	275541
2	145001	150000	300000
1	160001	165000	165000
1	170001	175000	170475
2	180001	185000	363988
2	185001	190000	377737
4	195001	200000	800000
1	200001	205000	202000
1	205001	210000	210000
1	210001	215000	212900
1	220001	225000	221294
2	230001	235000	464450
1	240001	245000	242400
3	245001	250000	745012
1	250001	255000	250200
2	255001	260000	516700
1	270001	275000	272700
2	275001	280000	556000
1	285001	290000	288605
3	295001	300000	900000
1	310001	315000	313000
3	335001	340000	1017700
1	345001	350000	350000
1	370001	375000	375000
2	395001	400000	800000

Continued →

NO. OF SHAREHOLDERS	FROM	SHARE HOLDING (NO. OF SHARES) TO	TOTAL SHARES HELD
1	400001	405000	404900
1	415001	420000	416030
1	480001	485000	481183
3	495001	500000	1500000
2	510001	515000	1027905
1	545001	550000	547810
1	565001	570000	569200
1	570001	575000	572600
1	575001	580000	578390
1	630001	635000	633472
1	650001	655000	651500
1	670001	675000	675000
1	755001	760000	755850
1	820001	825000	821900
1	845001	850000	850000
1	850001	855000	853300
1	880001	885000	883000
1	940001	945000	940940
1	1105001	1110000	1106900
1	1145001	1150000	1147500
1	1275001	1280000	1276700
1	1295001	1300000	1300000
1	1395001	1400000	1397000
1	1405001	1410000	1407714
1	1485001	1490000	1488750
1	2195001	2200000	2200000
1	2230001	2235000	2235000
1	2330001	2335000	2334815
1	2340001	2345000	2343900
1	2380001	2385000	2381900
1	2530001	2535000	2535000
1	2765001	2770000	2765550
1	2890001	2895000	2894944
1	2910001	2915000	2911500
1	2995001	3000000	3000000
1	3295001	3300000	3300000
1	3315001	3320000	3320000
1	3705001	3710000	3705900
1	4070001	4075000	4071166
1	4255001	4260000	4256500
1	6380001	6385000	6383900
1	6510001	6515000	6514006
1	6670001	6675000	6675000
1	11560001	11565000	11562800
1	57900001	57905000	57901600
5204	T O T A L	184393569	

CLASSIFICATION OF ORDINARY SHARES BY CATEGORIES AS AT JUNE 30, 2005

CATEGORIES OF MEMBERS	NUMBER	SHARES HELD	PERCENTAGE
Individuals	4,926	53,181,706	28.84
Investment Companies	34	9,296,345	5.04
Insurance Companies	13	4,640,092	2.52
Joint Stock Companies	135	76,246,353	41.35
Financial Institutions	24	15,082,191	8.18
Modaraba Companies	39	13,832,475	7.50
Foreign Investors	7	11,737,911	6.37
Others	26	376,496	0.20
TOTAL	5,204	184,393,569	100.00

INFORMATION UNDER CLAUSE XIX (i) OF THE CODE OF CORPORATE GOVERNANCE AS ON JUNE 30, 2005

		SHARES HELD	PERCENTAGE
(A) ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES AS ON 30/06/2005:-			
1. NISHAT MILLS LTD.		57,901,600	31.40
(B) NIT AND ICP:-			
1. INVESTMENT CORPORATION OF PAKISTAN		4,350	0.00
2. NATIONAL BANK OF PAKISTAN-TRUSTEE WING (NATIONAL INVESTMENT (UNIT) TRUST)		2,334,915	1.27
(C) DIRECTORS, CEO, THEIR SPOUSE AND MINOR CHILDERN:-			
1. MRS. NAZ MANSHA	DIRECTOR/ CHAIRPERSON	47,601	0.03
2. MIAN RAZA MANSHA	DIRECTOR/ CHIEF EXECUTIVE	4,071,166	2.21
3. MR. SAQIB ELLAHI	DIRECTOR	3,630	0.00
4. MR. I.U. NIAZI	DIRECTOR/CFO	10,336	0.01
5. MRS. AMMIL RAZA MANSHA (SPOUSE OF CHIEF EXECUTIVE)		940,940	0.51
(D) EXECUTIVES:-			
NIL			
(E) PUBLIC SECTOR COMPANIES & CORPORATIONS:-			
1. Joint Stock Companies		76,246,353	41.35
(F) BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE INSTITUTIONS INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS:-			
1. Investment Companies		9,296,345	5.04
2. Insurance Companies		4,640,092	2.52
3. Financial Institutions		15,082,191	8.18
4. Modaraba Companies		13,832,475	7.50
(G) SHAREHOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE LISTED COMPANY:-			
1. NISHAT MILLS LTD.		57,901,600	31.40

INFORMATION UNDER CLAUSE XIX (J) OF THE CODE OF CORPORATE GOVERNANCE

NAME OF CEO/DIRECTOR/CFO COMPANY SECRETARY and their SPOUSE AND MINOR CHILDREN	NO. OF SHARES Purchased	DATE (Rs.)	RATE
NIL	NIL	NIL	NIL

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE 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 D.G. Khan Cement Company Limited to comply with the Listing Regulation No. 37 of Karachi Stock Exchange, Chapter XIII of Lahore Stock Exchange and Chapter XI of Islamabad Stock 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 enquiries 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 respect, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended June 30, 2005.

Lahore	A. F. FERGUSON & Co.
September 19, 2005	Chartered Accountants

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of D. G. Khan Cement Company Limited as at June 30, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes referred to in note 2.3 to the accounts with which we concur;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2005 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Lahore
September 19, 2005

A. F. FERGUSON & Co.
Chartered Accountants

BALANCE SHEET

	Note	2005	2004
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorised capital			
- 250,000,000 (2004: 250,000,000) ordinary shares of Rs 10 each		2,500,000	2,500,000
- 50,000,000 (2004: 50,000,000) preference shares of Rs 10 each		500,000	500,000
		3,000,000	3,000,000
Issued, subscribed and paid up capital	3	1,843,937	1,676,306
Reserves	4	7,196,568	4,389,088
Un-appropriated profit		277,493	251,661
		9,317,998	6,317,055
NON-CURRENT LIABILITIES			
Long term finances	5	4,899,225	2,730,573
Liabilities against assets subject to finance lease	6	131,985	83,487
Long term deposits	7	28,674	30,365
Retirement and other benefits	8	45,765	38,150
Deferred taxation	9	537,000	138,000
		5,642,649	3,020,575
CURRENT LIABILITIES			
Current portion of long term liabilities	10	599,674	487,254
Finances under mark- up arrangements - secured	11	960,620	1,360,677
Derivative foreign currency forward options	12	306,048	-
Creditors, accrued and other liabilities	13	1,154,426	493,968
Provision for taxation		35,090	35,090
		3,055,858	2,376,989
CONTINGENCIES AND COMMITMENTS	14		
		18,016,505	11,714,619

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Executive

AS AT JUNE 30, 2005

	Note	2005	2004
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15	6,637,237	6,128,083
Assets subject to finance lease	16	317,262	166,583
Capital work in progress	17	3,983,175	1,126,108
Investments	18	2,610,634	1,387,681
Long term loans and deposits	19	271,428	25,021
		13,819,736	8,833,476
CURRENT ASSETS			
Stores, spares and loose tools	20	1,035,081	938,847
Stock-in-trade	21	100,994	298,538
Trade debts	22	76,238	52,622
Investments	23	2,769,134	1,386,816
Advances, deposits, prepayments and other receivables	24	121,486	120,329
Cash and bank balances	25	93,836	83,991
		4,196,769	2,881,143
		18,016,505	11,714,619

Director

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2005

		Note	2005	2004
			(Rupees in thousand)	
Sales		26	5,279,560	3,882,756
Cost of sales		27	(3,330,769)	(2,497,262)
Gross profit			1,948,791	1,385,494
Administrative expenses		28	(76,480)	(68,645)
Selling and distribution expenses		29	(60,905)	(38,560)
Other operating expenses		30	(93,786)	(61,735)
Other operating income		31	707,692	128,462
Profit from operations			2,425,312	1,345,016
Finance cost		32	(304,041)	(224,601)
Profit before tax			2,121,271	1,120,415
Taxation		33	(439,193)	(325,922)
Profit for the year			1,682,078	794,493
Basic earnings per share	Rupees	41.1	9.12	4.31
Diluted earnings per share	Rupees	41.2	7.82	3.78

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Executive

Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2005

	Note	2005	2004
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	34	2,768,564	1,193,545
Finance cost paid		(239,581)	(225,202)
Retirement and other benefits paid		(1,724)	(1,777)
Taxes paid		(40,809)	(23,569)
Net (decrease)/increase in long term deposits		(1,691)	2,524
Net cash from operating activities		2,484,759	945,521
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,705,612)	(1,359,733)
Purchase of investments		(193,543)	(408)
Net (increase)/decrease in long term loans and deposits		(246,407)	8,658
Sales proceeds of property, plant and equipment		4,337	9,831
Dividend received		157,005	115,491
Net cash used in investing activities		(3,984,220)	(1,226,161)
Cash flows from financing activities			
Repayment of non-participatory redeemable capital		(199,920)	(80)
Proceeds from long term loans		2,900,000	-
Repayment of long term loans		(471,429)	(405,105)
Repayment of finance lease liabilities		(68,583)	(98,590)
Dividend paid		(250,705)	(138,374)
Net cash from/(used in) financing activities		1,909,363	(642,149)
Net increase/(decrease) in cash and cash equivalents		409,902	(922,789)
Cash and cash equivalents at the beginning of year		(1,276,686)	(353,897)
Cash and cash equivalents at the end of year	35	(866,784)	(1,276,686)

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Executive

Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2005

(Rupees in thousand)

	Share capital	Share premium	Fair value reserve	Hedging reserve	Reserve for issue of bonus shares	Capital redemption reserve fund	General reserve	Accumulated profit	Total
Balance as at June 30, 2003 as previously reported	2,029,816	1,561,350	931,503	-	-	18,000	540,827	3,599	5,085,095
Effect of change in accounting policies:									
- Final dividend for the year ended June 30, 2003 (note 2.3)	-	-	-	-	-	-	-	167,631	167,631
- Transfer to long term finances (note 2.3)	(353,510)	-	-	-	-	-	-	-	(353,510)
Balance as at June 30, 2003 as restated	1,676,306	1,561,350	931,503	-	-	18,000	540,827	171,230	4,899,216
Final dividend for the year ended June 30, 2003	-	-	-	-	-	-	-	(167,631)	(167,631)
Fair value gain during the year	-	-	790,977	-	-	-	-	-	790,977
Profit for the year	-	-	-	-	-	-	-	794,493	794,493
Transfer from profit and loss account	-	-	-	-	167,631	88,800	290,000	(546,431)	-
Balance as at June 30, 2004 as restated	1,676,306	1,561,350	1,722,480	-	167,631	106,800	830,827	251,661	6,317,055
Final dividend for the year ended June 30, 2004	-	-	-	-	-	-	-	(251,446)	(251,446)
Nominal value of bonus shares issued	167,631	-	-	-	(167,631)	-	-	-	-
Fair value gain during the year	-	-	2,398,200	-	-	-	-	-	2,398,200
Gain on derecognition of investment transferred to other operating income	-	-	(529,645)	-	-	-	-	-	(529,645)
Loss arising on marking to market foreign currency forward options entered into as part of cash flow hedge for the purchase of plant and machinery (note 12)	-	-	-	(298,244)	-	-	-	-	(298,244)
Profit for the year	-	-	-	-	-	-	-	1,682,078	1,682,078
Transfer from profit and loss account	-	-	-	-	-	88,800	1,316,000	(1,404,800)	-
Balance as at June 30, 2005	1,843,937	1,561,350	3,591,035	(298,244)	-	195,600	2,146,827	277,493	9,317,998

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Executive | Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

1. Legal status and nature of business

The company is incorporated in Pakistan and is listed on Karachi, Lahore and Islamabad Stock Exchanges. It is principally engaged in production and sale of Ordinary Portland and Sulphate Resistant Cement.

2. Significant accounting policies

2.1 Basis of preparation

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

2.3 Change in accounting policies

During the year, the SECP substituted the Fourth Schedule to the Companies Ordinance, 1984 which is effective from financial year ending on or after July 5, 2004. This has resulted in the change in accounting policy pertaining to the recognition of dividends proposed subsequent to year end (note 2.3.1), capitalisation of exchange differences (note 2.3.2) and reclassification of non-voting redeemable preference shares (note 2.3.3).

2.3.1 Dividends, proposed subsequent to the year end has not been recognised as a liability. Such a change in accounting policy has been accounted for retrospectively and comparative financial statements have been restated in accordance with the recommended benchmark treatment of IAS-8, Net profit or loss for the period, fundamental errors and changes in accounting policy. Had there been no change, the unappropriated profit and the current liabilities for the year ended June 30, 2005 would have been lower and higher respectively by Rs. 276.590 million (2004: Rs. 251.446 million).

2.3.2 All exchange differences are charged to profit and loss account. Previously exchange differences on loans utilized for the acquisition of property, plant and equipment were capitalised and all other exchange differences were charged to profit and loss account. This change in accounting policy has no effect on the amounts reported for the current year.

2.3.3 Redeemable preference shares (non-voting) have been reclassified as long term finances whereas previously these shares were being shown as part of the issued, subscribed and paid up capital. Accordingly, preferred dividend has been included in finance cost. Such a change in policy has been accounted for retrospectively and comparative financial statements have been restated in accordance with the recommended benchmark treatment of IAS-8, Net profit or loss for the period, fundamental errors and changes in accounting policy. Had there been no change, the issued, subscribed and paid up capital and long term finances for the year ended June 30, 2005 would have been higher and lower respectively by Rs 353.510 million (2004: Rs. 353.510 million) and profit before taxation would have been higher by Rs 35.351 million (2004: Rs. 35.351 million).

2.4 Taxation

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. 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 is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

2.5 Retirement and other benefits

The main features of the schemes operated by the company for its employees are as follows:

(a) The company operates an unfunded gratuity scheme for all employees according to the terms of employment, subject to a minimum qualifying period of service. Annual provision is made on the basis of actuarial valuation to cover obligations under the scheme for all employees eligible to gratuity benefits irrespective of the qualifying period.

The latest actuarial valuation for gratuity scheme was carried out as at June 30, 2005. Projected Unit Credit Method, using the following significant assumptions is used for valuation of the scheme:

- Discount rate 9 percent per annum
- Expected rate of increase in salary level 8 percent per annum

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19.

(b) There is an approved defined contribution provident fund for all employees. Equal monthly contributions are made by the employer and the employees to the fund in accordance with the fund rules.

Interest is payable to the fund on the balances utilized at the weighted average borrowing rate of the company, which is charged to profit.

(c) The company provides for accumulating compensated absences, when the employees render service that increase their entitlement to future, compensated absences. Under the rules employees are entitled to 2.5 days leave per month. Unutilized leaves can be accumulated upto 90 days in case of officers. Any balance in excess of 90 days can be encashed upto 17 days a year only. Any further unutilised leaves will lapse. In case of workers, unutilized leaves may be accumulated without any limit. However, balance above 50 days is encashable upon demand of the worker. Unutilized leaves can be used at any time by all employees, subject to the company’s approval.

Provisions are made annually to cover the obligation for accumulating compensated absences based on actuarial valuation and are charged to profit.

The latest actuarial valuation was carried out as at June 30, 2005. Projected Unit Credit Method, using the following significant assumptions is used for valuation of accumulating compensated absences:

- Discount rate 9 percent per annum
- Expected rate of increase in salary level 8 percent per annum

- Expected mortality rate	EFU 61-66 mortality table adjusted for company's experience
- Expected withdrawal and early retirement rate	Based on experience

	Officers (days)	Workers (days)
Average number of leaves		
- Utilized per annum	14.00	19.00
- Encashed per annum	8.00	9.00
- Utilized per annum in excess of accrued leave of 30 days	0.56	2.60
- Encashed per annum in excess of accrued leave of 30 days	0.25	2.00

Actuarial gains and losses arising during the year are recognized immediately in accordance with the provisions of IAS 19.

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

2.6 Property, plant and equipment

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss. Cost in relation to certain property, plant and equipment signifies historical cost, gains and losses transferred from equity on qualifying cash flow hedges as referred to in note 2.18 and borrowing costs as referred to in note 2.20.

Depreciation on all property, plant and equipment is charged to profit on the reducing balance method, except for plant and machinery which is being depreciated using the straight line method, so as to write off the historical cost of an asset to its residual value over its estimated useful life at rates mentioned in note 15.

Full year's depreciation is charged on additions, while no depreciation is charged on deletions during the year. However, depreciation on major additions is charged from the month in which the assets are put to use. Impairment loss or its reversal, if any, is also charged to profit. Where an impairment loss is recognised, depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount over its estimated useful life.

Major renewals and improvements are capitalised. Maintenance and normal repairs are charged to profit as and when incurred. The profit and loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as profit or loss.

2.7 Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.

2.8 Leases

The company is the lessee.

Finance leases

Leases where the company has substantially all the risks and rewards of ownership are classified as finance leases. At inception, finance leases are capitalised at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets.

The related rental obligations, net of finance costs, are included in liabilities against assets subject to finance lease as referred to in note 6. The liabilities are classified as current and non-current depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit over the lease term.

Assets acquired under a finance lease are depreciated over the useful life of the assets on reducing balance method except plant and machinery which is depreciated on a straight line method at the rates mentioned in note 16. Depreciation of leased assets is charged to profit.

Full year's depreciation is charged on additions while no depreciation is charged on deletions during the year. However, depreciation on major additions is charged from the month in which the assets are put to use.

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) consideration given. At subsequent reporting dates, these investments are remeasured at fair value, unless fair value cannot be reliably measured. The fair value of publicly traded securities is based on market prices quoted on Karachi Stock Exchange at the balance sheet date. The investments for which a quoted market price is not available, are measured at cost as it is not possible to apply any other valuation methodology. Unrealised gains and losses arising from the changes in the fair value are included in fair value reserve in the period in which they arise.

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 recognised on the trade date which is the date that the company commits to purchase or sell the investment. Cost of purchase includes transaction cost. are charged to profit on a straight-line basis over the lease term.

2.9 Investments

Available for sale

Investments classified as available for sale are initially measured at cost, being the fair value of 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 recognised as expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of initial cost of the investment A reversal of the impairment loss is recognised in income.

2.10 Stores and spares

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 value plus other charges paid thereon.

2.11 Stock-in-trade

Stock of raw materials, except for those in transit, work in process and finished goods are valued principally at the lower of average cost and net realisable value. Stock of packing material is valued principally at moving average cost. Cost of work in process and finished goods comprises cost of direct materials, labour and appropriate manufacturing overheads.

Materials in transit are stated at cost comprising invoice value plus other charges paid thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make a sale.

2.12 Financial instruments

Financial assets and financial liabilities are recognised 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.

2.13 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.

2.14 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 equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under mark-up arrangements. In the balance sheet, finances under mar-kup arrangements are included in current liabilities.

2.15 Borrowings

Loans and borrowings are recorded at the proceeds received. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Preference shares, which are redeemable on a specific date at the option of the company, are classified as liabilities. The dividend on these preference shares are recognised in the profit and loss account as finance cost.

Finance costs are accounted for on an accrual basis and are included in creditors, accrued and other liabilities to the extent of the amount remaining unpaid.

2.16 Creditors, accrued and other liabilities

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services.

2.17 Provisions

Provisions are recognised when the company has a present obligation as a result of past event, which it is probable will result in an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation.

2.18 Derivative financial instruments and hedging activities

These are initially recorded at cost and are remeasured to fair value at subsequent reporting dates. The method of recognising 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 hedges.

The company documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recognised in profit and loss account in the periods when the hedged item will effect profit or loss. However, when the forecast hedged transaction results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

2.19 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at the spot rate. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

All exchange differences are charged to profit and loss account.

2.20 Borrowing costs

Mark-up, interest and other charges on borrowings are capitalised upto the date of commissioning of the related property, plant and equipment acquired out of the proceeds of such borrowings. All other mark-up, interest and other charges are charged to profit.

2.21 Revenue recognition

Revenue is recognised on despatch of goods. Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return. Dividend income on equity investments is recognised as income when the right of receipt is established.

3. Issued, subscribed and paid up capital

2005	2004		2005	2004
(Number of shares)			(Rupees in thousand)	
112,835,676	112,835,676	Ordinary shares of Rs 10 each fully paid in cash	1,128,357	1,128,357
20,000,000	20,000,000	Ordinary shares of Rs 10 each issued for consideration other than cash	200,000	200,000
51,557,893	34,794,842	Ordinary shares of Rs 10 each issued as fully paid bonus shares	515,580	347,949
184,393,569	167,630,518		1,843,937	1,676,306

57,901,600 (2004: 52,637,819) ordinary shares of the company are held by Nishat Mills Limited, an associated concern as at June 30, 2005.

	Note	2005	2004
		(Rupees in thousand)	

4. Reserves

Movement in and composition of reserves is as follows:

Capital			
Share premium	- note 4.1	1,561,350	1,561,350
Fair value reserve	- note 4.2		
At the beginning of the year		1,722,480	931,503
Net gain during the year		2,398,200	790,977
Gain on derecognition of investment		(529,645)	-
		3,591,035	1,722,480
Hedging reserve	- note 4.3		
At the beginning of the year		-	-
Loss during the year		(298,244)	-
		(298,244)	-
Reserve for issue of bonus shares			
At the beginning of the year		167,631	-
Transfer from profit and loss account		-	167,631
Nominal value of bonus shares issued		(167,631)	-
		-	167,631
Capital redemption reserve fund	- note 4.4		
At the beginning of the year		106,800	18,000
Transfer from profit and loss account		88,800	88,800
		195,600	106,800
		5,049,741	3,558,261
Revenue			
General reserve			
At the beginning of the year		830,827	540,827
Transfer from profit and loss account		1,316,000	290,000
		2,146,827	830,827
		7,196,568	4,389,088

4.1 This reserve can be utilised by the company only for the purposes specified in section 83(2) of the Companies Ordinance, 1984.

4.2 As referred to in note 2.9 this represents the unrealised gain on remeasurement of investments at fair value and is not available for distribution. This amount will be transferred to profit and loss account on realisation.

4.3 As referred to in note 12 this represents the effective portion of loss arising on foreign currency forward options.

4.4 This fund has been created by the company to ensure timely payments to the preference shareholders as referred to in note 5.3.

5. Long term finances

These are composed of:

	Note	2005	2004
		(Rupees in thousand)	
Long term loans- secured	- note 5.1	5,057,143	2,628,572
Non- participatory redeemable capital- secured	- note 5.2	-	199,920
Redeemable preference shares (non-voting)- unsecured	- note 5.3	353,510	353,510
		5,410,653	3,182,002
Less: Current portion shown under current liabilities		511,428	451,429
Long term loans- secured		4,899,225	2,730,573

5.1 Long term loans - secured

These are composed of:

Loan	Lender	2005 (Rupees in thousand)	2004	Rate of interest per annum	Number of installments	Interest payable
1	Habib Bank Limited	1,142,857	1,371,428	*Base rate + 3% subject to floor of 4.5%	10 equal semi-annual installments ending March 31, 2010	Quarterly
2	Habib Bank Limited	285,714	342,857	*Base rate + 3% subject to floor of 4.5%	10 equal semi-annual installments ending June 20, 2010	Quarterly
3	National Bank of Pakistan	428,572	514,287	*Base rate + 2.5%	10 equal semi-annual installments ending June 30, 2010	Semi annual
4	Bank of Punjab	320,000	400,000	**Base rate + 1%	8 equal semi-annual installments ending June 30, 2009	Quarterly
5	Standard Chartered Bank	180,000	-	**Base rate + 1%	9 equal semi-annual installments ending August 15, 2009	Semi annual
6	Standard Chartered Bank	200,000	-	**Base rate + 1%	10 equal semi-annual installments commencing February 15, 2007	Semi annual
7	Allied Bank Limited	900,000	-	**Base rate + 1.1%	10 equal semi-annual installments commencing June 30, 2007	Semi annual
8	Habib Bank Limited	800,000	-	**Base rate + 1.1%	11 equal semi-annual installments commencing September 30, 2006	Semi annual
9	Citi Bank	300,000	-	**Base rate + 1%	8 equal semi-annual installments commencing Nobember 30, 2007	Semi annual
10	National Bank of Pakistan	500,000	-	**Base rate + 1.1%	10 equal semi-annual installments commencing Nobember 15, 2007	Semi annual
		5,057,143	2,628,572			

*Base rate
Average of cut off rates of six months treasury bills auctions to be set for each mark-up period.

**Base rate
Average ask rate of six-month Karachi Inter Bank Offer Rate (”KIBOR”) to be set for each mark-up period.

The company has Rs. 3,000 million undrawn borrowing facilities as at June 30, 2005. These facilities have been arranged to finance the Khairpur expansion project.

Security

These loans are secured by a registered first pari passu charge on all present and future fixed assets of the company upto Rs. 9,335.64 million.

5.2 These have been repaid during the year.

5.3 Redeemable preference shares (non-voting)- unsecured

On April 18, 2003, the company issued preference right shares to the existing shareholders of the company in the ratio of 25 preference shares (non-voting) for every 100 ordinary shares held as on January 12, 2003. These shares are listed on Karachi Stock Exchange.

Terms of Redemption

The company may convert these preference shares into non-voting ordinary shares at the expiry of four years after the issuance at a face value of Rs 10 each if the same are not redeemed.

The preference shares will be redeemed after four years of the issuance if the conversion option is not offered by the company to preference shareholders or the preference shareholders do not opt for the conversion option offered.

Rate of dividend

The preference shareholders are paid preferred dividend @ 10% per annum on cumulative basis.

Redemption fund

In accordance with the terms of issue, to ensure timely payments, the company is required to maintain a redemption fund with respect to preference shares.

The company has created a redemption fund and appropriates Rs 7.4 million each month from the profit and loss account in order to ensure that fund balance at redemption date is equal to the principal amount of the preference shares.

6. Liabilities against assets subject to finance lease

	2005	2004
	(Rupees in thousand)	
Present value of minimum lease payments	220,231	119,312
Less: Current portion shown under current liabilities	88,246	35,825
	131,985	83,487

The minimum lease payments have been discounted at an implicit interest rate ranging from 5.24% to 9.55% to arrive at their present value. Rentals are paid in monthly instalments and in case of default of any payment, an additional charge @ 2% to 5% per month shall be paid. The lessee has the option to purchase the assets after expiry of the lease term.

Taxes, repairs and insurance costs are to be borne by the company. In case of termination of the agreement, the company is to pay the entire rent for the unexpired period of lease agreement.

The amount of future payments of the lease and the period in which these payments will become due are as follows:

Years	Minimum lease payments	Future finance charge	Present value of lease liability 2005	2004
			(Rupees in thousand)	
Note later than one year and not later than five year	100,524	12,278	88,246	35,825
Later than one year and not later than five years.				
2006	-	-	-	37,570
2007	106,343	6,304	100,039	45,917
2008	26,262	1,091	25,171	-
2009	4,687	378	4,309	-
2010	2,585	119	2,466	-
	139,877	7,892	131,985	83,487
	240,401	20,170	220,231	119,312

7. Long term deposits

	2005	2004
Customers	18,440	19,203
Others	10,234	11,162
	28,674	30,365

7.1 These represent interest free security deposits from stockists and suppliers and are repayable on cancellation/withdrawal of the delership or on cessation of business with the company respectively.

8. Retirement and other benefits

		2005	2004
Staff gratuity	-note 8.1	37,072	31,692
Leave encashment		8,693	6,458
		45,765	38,150

8.1 Staff gratuity

The amounts recognised in the balance sheet are as follows:

	2005	2004
Present value of defined benefit obligation	40,390	31,479
Unrecognised actuarial (losses)/gains	(3,318)	213
Liability as at June 30, 2005	37,072	31,692
Liability as at July 1, 2004	31,692	27,743
Charge to profit and loss account	5,794	4,856
Contributions by the company	(414)	(907)
Liability as at June 30, 2005	37,072	31,692

			2005	2004
			(Rupees in thousand)	

9. Deferred taxation

The liability for deferred taxation comprises temporary differences relating to:

	2005	2004
Accelerated tax depreciation	1,354,276	1,328,801
Provision for retirement and other benefits	(14,688)	(13,353)
Minimum tax available for carry forward	-	(18,000)
Unused tax losses	(802,588)	(1,159,448)
	537,000	138,000

10. Current portion of long term liabilities - secured

		2005	2004
Long term finances	- note 5	511,428	451,429
Liabilities against assets subject to finance lease	- note 6	88,246	35,825
		599,674	487,254

11. Finances under mark up arrangements - secured

		2005	2004
Short term running finances	- note 11.1	718,710	553,467
Short term finances		-	421,000
Import finances	- note 11.2	241,910	386,210
		960,620	1,360,677

11.1 Short term running finances-secured

Short term running finances available from a consortium of commercial banks under mark up arrangements amount to Rs 1,485 million (2004: Rs 1,529 million). The rates of mark up range from Re 0.10904 to Re 0.26027 per Rs 1,000 per diem or part thereof on the balance outstanding. The aggregate short term finances of Rs 1,485 million (2004: Rs 1,529 million) are secured by a first registered charge on all present and future current assets of the company wherever situated including stores and spares, stock in trade, book debts, investments and receivables.

11.2 Import finances- secured

The company has obtained import finance facilities aggregating to Rs 424.820 million (2004: Rs 433.484 million) from commercial banks. The rates of mark-up range from Re 0.11288 to Re 0.12603 per Rs 1,000 per diem or part thereof. The aggregate import finances are secured by a registered charge on all present and future current assets of the company wherever situated including stores and spares, stock in trade, book debts, investments and receivables.

Of the aggregate facility of Rs 5,953.158 million (2004: Rs 2,009.235 million) for opening letters of credit and Rs 221.4 million (2004: Rs 107.044 million) for guarantees, the amount utilized at June 30, 2005 was Rs 4,866.498 million (2004: Rs 186.6 million) and Rs 88.454 million (2004: Rs 107.044 million) respectively. The aggregate facilities for guarantees are secured by a pledge of 1.7 million shares of Nishat Mills Limited and registered charge on current assets of the company. Of the facility for guarantees, Rs 14.615 million (2004: Rs 10.953 million) is secured by a lien over bank deposits as referred to in note 25.2.

12. Derivative foreign currency forward options

The company has entered into foreign currency forward options to hedge the possible adverse movements in exchange rates (exchange rate risk) arising on foreign currency payments required to be made for the purchase of new plant. As the hedging relationship is effective and meets the criteria of cash flow hedge, this arrangement qualifies for special hedge accounting specified in IAS 39.

The foreign currency forward options that are outstanding as at June 30, 2005 have been marked to market and the effective portion of the loss arising thereon amounting to Rs 298.244 million has been recognised in the statement of changes in equity as hedging reserve. The ineffective portion of Rs 7.804 million has been recognised in profit and loss account during the year.

13. Creditors, accrued and other liabilities

		2005	2004
		(Rupees in thousand)	
Trade creditors		216,227	54,114
Customers' balances		190,046	140,582
Accrued liabilities		426,616	56,924
Due to related parties	- note 13.1	2,947	9,550
Mark-up accrued on			
- long term loans		80,279	26,161
- non-participatory redeemable capital		-	9,585
- finances under mark-up arrangements		16,023	4,530
		96,302	40,276
Preferred dividend on redeemable preference shares		35,984	35,354
Workers' profit participation fund	- note 13.2	83,058	60,946
Sales tax payable		61,903	56,703
Custom duties payable		1,131	1,131
Retention money		4,073	620
Unclaimed dividend		2,101	1,360
Advances against sale of scrap		381	373
Other payables		33,657	36,035
		1,154,426	493,968

13.1 These relate to normal business of the company and interest @ 4% per annum is charged on the balance outstanding.

13.2 Worker's profit participation fund

		2005	2004
		(Rupees in thousand)	
Opening balance		60,946	18,822
Provision for the year	- note 30	83,058	60,829
Interest for the year	- note 32	83	90
		144,087	79,741
Less: Payments during the year		61,029	18,795
Closing balance		83,058	60,946

14. Contingencies and commitments

14.1 Contingencies

(i) The Income Tax Officer, while framing the assessments for the assessment years 1984-85 to 1990-91, has taxed the income of the company on account of interest on deposits and sale of scrap etc. The Appellate Tribunal on appeal filed by the company issued an order in favour of the company for the assessment years 1984-85 to 1990-91. The Income Tax Department filed reference before the Lahore High Court. Pending final outcome of such reference, no adjustment has been made in these financial statements for the relief granted by the Appellate Tribunal aggregating Rs 35.090 million.

(ii) During the period 1994 to 1996, the company imported plant and machinery relating to expansion unit, for which exemption was claimed under various SROs from the levy of custom duty and other duties including sales tax. As per the provisions of SRO 484 (l)/92, 978 (l)/95 and 569 (l)/95, the exemption from the statutory duty etc. would be available only if the said plant and machinery was not manufactured locally. However, the Custom Authorities rejected the claim of the company by arguing that the said machinery was on the list of locally manufactured machinery, published by the Central Board of Revenue. Consequently, the company appealed before the Lahore High Court, Multan Bench, which allowed the company to release the machinery on furnishing indemnity bonds with the Custom Authorities.

Collector of Customs and Central Excise, Multan has passed an order dated November 26, 1999, against the company on the grounds that the said machinery was being manufactured locally during the time when it was imported. The total demand as raised against the company amounts to Rs 715.372 million out of which Rs 200.645 million has been paid.

An appeal against the order was filed with the Lahore High Court, which has been decided in favour of the company. However, the Custom Authorities have filed an appeal with the Supreme Court of Pakistan against the orders of the Lahore High Court. Hence, no provision for the balance amount of Rs 514.727 million has been made in the financial statements as according to the management of the company there are meritorious grounds that the ultimate decision would be in its favour.

(iii) The company has issued following guarantees in favour of:

Collector of Customs, Excise and Sales Tax against levy of sales tax, custom duty and excise duty amounting to Rs 22.330 million (2004: Rs 22.027 million).
Insurance guarantee in favour of Collector of Customs, Excise and Sales Tax, Multan against export of cement amounting to Rs 40 million (2004: Rs 40 million).
Director, Excise Collection Office, Sindh Development and Maintenance against recovery of infrastructure fee amounting to Rs 31 million (2004: Rs 18.5 million).
Director General, Mines and Minerals, Punjab against installation of cement factory near Khairpur, District Chakwal amounting to Rs 3 million (2004: Rs 3 million).
The President of the Islamic Republic of Pakistan against the performance of a contract and against advance payment to Frontier Works Organisation amounting to Rs 11.847 million (2004: Rs 12.347 million) and Rs 19.542 million (2004: Rs 56.737 million) respectively.
The Mines Labour Welfare Commissioner, Lahore against the construction of E type quarters amounting to Rs Nil (2004: Rs 0.132 million).
Insurance guarantee in favour of Collector of Customs, Excise and Sales Tax, Peshawar against export of cement amounting to Rs 20 million (2004: Rs Nil).
Managing Director, Pakistan Railways against the performance of a contract amounting to Rs 0.735 million (2004: Rs Nil).

14.2 Commitments

(i) Contracts for capital expenditure Rs 4,931.991 million (2004: Rs 3,890.667 million).
(ii) Letters of credit other than capital expenditure Rs 112.221 million (2004: Rs 146.385 million).
(iii) The amount of future payments under operating leases and the period in which these payments will become due are as follows:

	2005	2004
	(Rupees in thousand)	
Net later than one year	268	152
Later than one year and not later than five years	1,073	607
Later than five years	2,795	152
	4,136	911

15. Property, plant and equipment

(Rupees in thousand)

Description	Cost as at June 30, 2004	Additions/ (deletions)	Transfer in/ (out)	Cost as at June 30, 2005	Accumulated depreciation as at June 30, 2004	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at June 30, 2005	Book value as at June 30, 2005	Annual rate of depreciation %
Freehold land	78,724	69,136	-	147,860	-	-	-	147,860	-
Building on freehold land									
- Factory building	999,855	11,755	-	1,011,610	524,166	48,744	572,910	438,700	10
- Office building and housing colony	231,840	14,827	-	246,667	104,844	7,091	111,935	134,732	5
Roads	111,201	-	-	111,201	54,973	5,623	60,596	50,605	10
Plant and machinery	8,492,343	638,536	-	9,130,879	3,335,248	218,830	3,554,078	5,576,801	4-4.35
Quarry equipment	305,956	54,482 (9,133)	-	351,305	183,765	35,334 (8,949)	210,150	141,155	20
Furniture, fixture and office equipment	92,757	16,168	-	108,925	46,896	6,205	53,101	55,824	10
Vehicles	61,108	11,852 (4,296)	2,567	71,231	37,266	7,463 (3,350)	41,379	29,852	20
Aircraft	38,185	-	-	38,185	17,121	6,319	23,440	14,745	30
Power and water supply lines	58,449	31,788	-	90,237	38,056	5,218	43,274	46,963	10
2005	10,470,418	848,544 (13,429)	2,567	11,308,100	4,342,335	340,827 (12,299)	4,670,863	6,637,237	
2004	10,162,181	230,947 (12,928)	90,218	10,470,418	4,014,746	330,480 (2,891)	4,342,335	6,128,083	

Freehold land and building include book values of Rs 12 million and Rs 10.169 million respectively which are held in the name of Chief Executive of the company. This property is located in the locality of Defence Housing Authority whose by-laws restrict transfer of title of the residential property in the name of the company.

15.1 The depreciation charge for the year has been allocated as follows:

		2005	2004
		(Rupees in thousand)	
Cost of sales	- note 27	330,100	317,155
Administrative expenses	- note 28	9,742	12,425
Selling and distribution expenses	- note 29	985	900
		340,827	330,480

15.2 Disposal of property, plant and equiment

Detail of property, plant and equipment disposed off during the year is as follows:

(Rupees in thousand)

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sales proceeds
Quarry equipment	Outsiders				
	Alif Engineering	8,709	8,582	127	1,800
	Abdul Nasir & Co.	424	367	57	275
Vehicles	Related party				
	Security General Insurance Company Limited	549	490	59	350
	Employees				
	- Mr. Chaudhary Anwar	315	232	83	140
	- Mansoor Ahmed	337	227	110	170
	Outsiders				
	- Mr. nasir Habib	323	238	85	170
	- Ines Ikram	440	324	116	255
	- Tariq Aziz	444	299	145	250
	- Mrs. Raja Arshad	903	607	296	341
Other assets with book value less than Rs. 50,000		985	933	52	586
		13,429	12,299	1,130	4,337

16. Assets subject to finance lease

(Rupees in thousand)

Description	Cost as at June 30, 2004	Additions/ (deletions)	Cost as at June 30, 2005	Accumulated depreciation as at June 30, 2004	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at June 30, 2005	Book value as at June 30, 2005	Rate%
Vehicles	11,563	31,502 (5,013)	38,052	3,755	7,347 (2,446)	8,656	29,396	20
Plant and machinery	170,000	138,000	308,000	11,225	8,909	20,134	287,866	4.55 - 4.67
2005	181,563	169,502 (5,013)	346,052	14,980	16,256 (2,446)	28,790	317,262	
2004	271,705	6,550 (96,692)	181,563	13,061	8,393 (6,474)	14,980	166,583	

16.1 Depreciation charge for the year has been allocated as follows:

		2005	2004
		(Rupees in thousand)	
Cost of sales	- note 27	11,311	6,923
Administration expenses	- note 28	4,945	1,382
Selling and distribution expenses	- note 29	-	88
		16,256	8,393

	Note	2005	2004
		(Rupees in thousand)	

17. Capital work in progress

	Note	2005	2004
Civil works		-	685
Plant and machinery [including in transit Rs 277.306 million (2004: Rs Nil)]		284,530	203,975
Others		54	8,492
Expansion project:			
- Civil works [including in transit Rs 1.747 million (2004: Rs Nil)]		963,589	-
- Plant and machinery [including in transit Rs 341.147 million (2004: Rs Nil)]		2,302,081	882,142
- Others		89,146	-
- Advances	- note 17.1	199,687	19,650
- Unallocated expenditure	- note 17.2	144,088	11,164
		3,698,591	912,956
		3,983,175	1,126,108

17.1 Advances

	2005	2004
Civil works	63,992	5,000
Plant and machinery	133,282	-
Others	2,413	14,650
	199,687	19,650

17.2 Unallocated expenditure

	2005	2004
Finance costs	75,437	2,945
Technical and other staff salaries	32,606	4,638
Others	36,045	3,581
	144,088	11,164

18. Investments

Available-for-sale

	Note	2005	2004
Related parties	- note 18.1	1,125,702	647,805
Others	- note 18.2	1,365	1,243
		1,127,067	649,048
Revaluation surplus		1,483,567	738,633
		2,610,634	1,387,681

	2005	2004
	(Rupees in thousand)	
18.1 Related parties		
Quoted		
Umer Fabrics Limited		
Nil (2004: 4,680,000) fully paid ordinary shares of Rs 10 each Equity held Nil (2004: 19.5%) Market value - Rs Nil (2004: Rs 161.460 million)	-	85,296
Nishat Mills Limited - Associated company		
16,619,757 (2004: 12,178,437) fully paid ordinary shares of Rs 10 each Market value - Rs 1,263.101 million (2004: Rs 643.021 million)	893,664	446,202
Nishat (Chunian) Limited		
6,288,565 (2004: 3,953,697) fully paid ordinary shares of Rs 10 each Market value - Rs 598.043 million (2004: Rs 233.268 million)	48,872	18,559
MCB Bank Limited (Formerly Muslim Commercial Bank Limited)		
8,714,709 (2004: 6,889,099) fully paid ordinary shares of Rs 10 each Market value - Rs 691.076 million (2004: Rs 348.588 million)	125,834	97,416
Adamjee Insurance Company Limited		
3,967 (2004: 3,967) fully paid ordinary shares of Rs 10 each Market value - Rs 0.265 million (2004: Rs 0.267)	332	332
Un-quoted		
Associated Companies		
Nishat Shuaiba Paper Products Company Limited		
4,400,000 (2004: Nil) fully paid ordinary shares of Rs 10 each Break-up value - Rs 44 million	44,000	-
Pakistan Aviators & Aviation (Private) Limited		
4,000 (2004: Nil) fully paid ordinary shares of Rs 10 each Break-up value - Rs 13 million	13,000	-
	1,125,702	647,805

	Note	2005	2004
		(Rupees in thousand)	
18.2 Others			
Quoted			
Maple Leaf Cement Factory Limited			
9,999 (2004: 6,666} fully paid ordinary shares of Rs 10 each Market value - Rs 0.218 million (2004: Rs 0.253 million)		247	187
1,999 (2004: Nil) fully paid preference shares of Rs 10 each Market value - Rs 0.018 million (2004: Rs Nil)		20	-
First Capital Mutual Fund			
98,000 (2004: 98,000) certificates of Rs 10 each Market value - Rs 0.539 million (2004: Rs 0.671 million)		980	980
Oil and Gas Development Company Limited			
2,353 (2004: 2,353) fully paid ordinary shares of Rs 10 each Market value - Rs 0.248 million (2004: Rs 0.152)		76	76
Pakistan Petroleum Limited			
500 (2004: Nil) fully paid ordinary shares of Rs 10 each Market value - Rs 0.108 million (2004: Rs Nil)		27	-
Kot Addu Power Company Limited			
500 (2004: Nil) fully paid ordinary shares of Rs 10 each Market value - Rs 0.019 million (2004: Rs Nil)		15	-
		1,365	1,243

18.3 Investments with a face value of Rs 17 million are pledged as security against bank guarantees.

19. Long term loans and deposits

	Note	2005	2004
Loans to employees - considered good			
- Executives	- note 19.1	118	309
- Others		6,476	6,269
		6,594	6,578
Less: Receivable within one year			
- Executives		118	194
- Others		1,697	1,427
		1,815	1,621
		4,779	4,957

	Note	2005	2004
		(Rupees in thousand)	
Loan to related party - considered good	-note 19.2	245,795	-
Security deposits		20,854	20,064
		271,428	25,021

19.1 Executives

Opening balance	309	483
Interest accrued	3	20
	312	503
Less: Repayment during the year	194	194
	118	309

These represent secured loans given to executives and other employees for house building and purchase of motor vehicles and are recoverable in equal monthly instalments over a period of 24 to 96 months. The loans given to executives and other employees carry interest ranging from 7% to 10% per annum except for loans given to workers which are interest free.

The loans of Rs 2.94 million are secured against the employees' respective retirement benefits.

The maximum aggregate amount due from executives at any time during the year was Rs 0.293 million (2004: Rs 0.467 million).

19.2 This represents an un-secured loan given to Sui Northern Gas Pipelines Limited for the development of infrastructure for supply of natural gas to the plants at D.G.Khan and Khairpur. Mark-up is charged at rates ranging from 1.5% to 2% per annum and is receivable annually. This amount is receivable in 10 annual instalments commencing December 31, 2007.

20. Stores, spares and loose tools

Stores [including in transit Rs 135.313 million (2004: Rs 165.387 million)]	617,694	591,532
Spares	413,447	343,446
Loose tools	3,940	3,869
	1,035,081	938,847

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

21. Stock-in-trade

Raw materials	8,280	11,199
Packing material	23,041	37,740
Work-in-process	50,205	210,983
Finished goods	19,468	38,616
	100,994	298,538

	Note	2005	2004
		(Rupees in thousand)	

22. Trade debts

Unsecured and considered good

Related parties	- note 22.1	24,886	52
Others		51,352	52,570
		76,238	52,622

22.1 Due from related parties

Umer Fabrics Limited	-	21
Nishat Mills Limited	24,095	11
Nishat Chunian Limited	455	-
Sui Northern Gas Pipelines Limited	-	20
MCB Bank Limited (formerly Muslim Commercial Bank Limited)	336	-
	24,886	52

These are in the normal course of business and are interest free.

23. Investments

Available-for-sale

Related parties	-note 23.1	661,666	402,969
Add: Revaluation surplus		2,107,468	983,847
		2,769,134	1,386,816

23.1 Related parties

Quoted

Umer Fabrics Limited		
Nil (2004: 1,796,780) fully paid ordinary shares of Rs 10 each Equity held Nil (2004: 7.48%) Market value Nil (2004: Rs 61.989)	-	32,737
Nishat Mills Limited-Associated company		
1,705,144 (2004: Nil) fully paid ordinary shares of Rs 10 each Market value - Rs 129.591 million (2004: Rs Nil)	171,794	-
Nishat (Chunian) Limited		
137,454 (2004: Nil) fully paid ordinary shares of Rs 10 each Market value - Rs 13.072 million (2004: Rs Nil)	11,638	-
MCB Bank Limited (Formerly Muslim Commercial Bank Limited)		
33,120,682 (2004: 26,182,360) fully paid ordinary shares of Rs 10 each Market value Rs 2,626.470 million (2004: Rs 1,324.827 million)	478,234	370,232
	661,666	402,969

24. Advances, deposits, prepayments and other receivables

	Note	2005	2004
		(Rupees in thousand)	
Loans to employees- considered good		1,815	1,621
Advances - considered good			
- to employees	- note 24.1	2,920	2,770
- to suppliers		3,258	5,385
		6,178	8,155
Due from related parties	- note 24.2	8,214	3,220
Mark-up receivable from related party	- note 24.3	2,002	-
Profit receivable on bank deposits		105	80
Prepayments		174	256
Letters of credit - margins, deposits, opening charges, etc.		396	2,192
Claims recoverable from government			
- Income tax		38,453	37,837
- Sales tax	- note 24.4	43,480	43,480
- Excise duty		3,036	13,820
- Export rebate		12,171	-
		97,140	95,137
Dividend receivable		4	4,699
Other receivables		5,458	4,969
		121,486	120,329

24.1 Included in advances to employees are amounts due from executives of Rs 0.208 million (2004: Rs 0.095 million).

24.2 Due from related parties

	2005	2004
Nishat Mills Limited	1,036	3,220
Security General Insurance Company Limited	1,656	-
Adamjee Insurance Company Limited	1,898	-
Nishat Shuaiba Paper Products Limited	3,624	-
	8,214	3,220

These relate to normal business of the company and are interest free.

24.3 This represents mark-up receivable from Sui Northern Gas Pipelines Limited against the loan as referred to in note 19.2.

24.4 Sales tax recoverable includes an amount of Rs 43.480 million (2004: Rs 43.480 million) which represents amounts which have been recovered by the sales tax department against miscellaneous demands raised by it. The company has filed appeals against the demands at different forums.

Pending the outcome of the appeals, the amount has been shown as recoverable in the financial statements as according to the management of the company, there are meritorious grounds that the ultimate decision would be in its favour.

	Note	2005	2004
		(Rupees in thousand)	

25. Cash and bank balances

At banks			
Saving accounts			
- Pak rupee		36,568	50,985
- Foreign currency US $ 22.22 (2004: US $ 22.22)		1	1
Current accounts		56,990	32,159
		93,559	83,145
Cash in hand		277	846
		93,836	83,991

25.1 The balances in saving accounts bear mark-up which ranges from 0.10% to 2.75% per annum.

25.2 Included in balances at banks on saving accounts are Rs 14.615 million (2004: Rs 10.953 million) which are under lien to secure bank guarantees as referred to in note 11.2.

26. Sales

Local sales		6,730,756	5,392,393
Export sales		641,351	305,191
		7,372,107	5,697,584
Less: Excise duty		1,141,756	990,124
Sales tax		877,924	766,497
Commission to stockists		72,867	58,207
		2,092,547	1,814,828
		5,279,560	3,882,756

26.1 Export sales include rebate on exports amounting to Rs 18.798 million (2004: Rs Nil).

27. Cost of sales

Raw and packing materials consumed		374,287	330,535
Salaries, wages and other benefits	- note 27.1	185,914	161,919
Electricity		322,979	217,911
Furnace oil/coal		1,493,514	1,123,716
Stores and spares consumed		357,762	338,970
Repair and maintenance		9,997	9,637
Insurance		23,642	42,235
Depreciation on property, plant and equipment	- note 15.1	330,100	317,155
Depreciation on leased assets	- note 16.1	11,311	6,923
Royalty		31,652	30,284
Excise duty		10,450	5,909
Vehicle running		5,724	5,118
Postage, telephone and telegram		1,831	1,374
Printing and stationery		1,581	1,276
Legal and professional charges		548	507
Estate development		3,930	3.179
Rent, rates and taxes		3,091	6,150
Freight charges		4,139	4,573
Other expenses		4,896	6,742
		3,177,348	2,614,113

	Note	2005	2004
		(Rupees in thousand)	
Opening work-in-process		210,983	88,603
Closing work-in-process		(50,205)	(210,983)
		160,778	(122,380)
Cost of goods manufactured		3,338,126	2,491,733
Opening stock of finished goods		38,616	44,145
Closing stock of finished goods		(19,468)	(38,616)
		19,148	5,529
Less: Own consumption capitalised		26,505	-
		3,330,769	2,497,262

Stores and spares consumed during the year include Rs 0.849 million (2004: Rs 0.854 million) being stores and spares written off.

27.1 Salaries, wages and other benefits

Salaries, wages and other benefits include following in respect of gratuity:

	2005	2004
Current service cost	2,080	1,887
Interest cost for the year	1,763	1,513
Past service cost	213	-
	4,056	3,400

In addition to above, salaries, wages and other benefits include Rs 3.137 million (2004: Rs 2.784 million) and Rs 2.482 million (2004: Rs 0.872 million) respectively, in respect of provident fund contribution by the company and staff compensated absences.

28. Administrative expenses

	Note	2005	2004
Salaries, wages and other benefits	- note 28.1	31,056	27,342
Electricity		2,566	3,125
Repair and maintenance		1,243	1,461
Insurance		3,099	1,992
Depreciation on property, plant and equipment	- note 15.1	9,742	12,425
Depreciation on leased assets	- note 16.1	4,945	1,382
Vehicle running		2,678	1,752
Postage, telephone and telegram		3,103	3,841
Printing and stationery		1,913	1,256
Legal and professional charges		1,365	2,471
Travelling and conveyance		2,410	2,448
Rent, rates and taxes		872	439
Auditors' remuneration	- note 28.2	735	704
Entertainment		795	766
School expenses		6,177	5,944
Fee and subscription		1,855	937
Other expenses		1,926	360
		76,480	68,645

	Note	2005	2004
		(Rupees in thousand)	

28.1 Salaries, wages and other benefits

Salaries, wages and other benefits include following in respect of gratuity:

Current service cost		594	539
Interest cost for the year		504	432
Past service cost		61	-
		1,159	971

In addition to above, salaries, wages and other benefits include Rs 0.567 million (2004: Rs. 0.518 million) and Rs 0.709 million (2004: Rs 0.249 million) respectively, in respect of provident fund contribution by the company and staff compensated absences.

28.2 Auditors' remuneration

Statutory audit		565	513
Half yearly review		125	125
Certification charges		22	-
Out of pocket expenses		23	66
		735	704

29. Selling and distribution expenses

Salaries, wages and other benefits	- note 29.1	17,474	14,616
Electricity		345	383
Repair and maintenance		121	40
Insurance		1,397	306
Depreciation on property, plant and equipment	- note 15.1	985	900
Depreciation on leased assets	- note 16.1	-	88
Vehicle running		814	765
Postage, telephone and telegram		855	944
Printing and stationery		913	643
Rent, rates and taxes		981	495
Travelling and conveyance		1,045	1,432
Entertainment		398	358
Advertisement and sales promotion		1,919	2,213
Freight charges		31,239	13,572
Other expenses		2,419	1,805
		60,905	38,560

29.1 Salaries, wages and other benefits

Salaries, wages and other benefits include following in respect of gratuity:

Current service cost		297	269
Interest cost for the year		252	216
Past service cost		30	-
		579	485

	Note	2005	2004
		(Rupees in thousand)	

In addition to above, salaries, wages and other benefits include Rs 0.465 million (2004: Rs 0.419 million) and Rs 0.355 million (2004: Rs 0.125 million) respectively, in respect of provident fund contribution by the company and staff compensated absences.

30. Other operating expenses

Workers' profit participation fund		83,058	60,829
Loss on disposal of property, plant and equipment		-	206
Loss on sale and lease back transactions		6,198	-
Donation		4,530	700
		93,786	61,735

None of the directors and their spouses had any interest in any of the donees.

31. Other operating income

Income from financial assets

Income on bank deposits		582	535
Interest on loans to employees		276	290
Gain on derecognition of investment	-note 31.1	543,173	-
Dividend income from:			
- Related parties	- note 31.2	152,284	34,460
- Others		26	85,730
		152,310	120,190
		696,341	121,015

Income from non-financial assets

Rental income		2,002	1,980
Profit on sale of property, plant and equipment		3,207	-
Scrap sales		2,911	3,827
Mark-up on loan/advances to related parties		2,002	1,351
Provisions and unclaimed balances written back		729	289
Others		500	-
		11,351	7,447
		707,692	128,462

31.1 This includes an amount of Rs 529.645 million being fair value gain on derecognition of investment in shares of Umer Fabrics Limited upon its merger with Nishat Mills Limited and Nishat (Chunian) Limited through Lahore High Court order dated December 13, 2004.

31.2 Dividend income from related parties

Umer Fabrics Limited	9,715	16,192
Nishat Mills Limited	24,357	18,268
Nishat (Chunian) Limited	4,942	-
MCB Bank Limited (Formerly Muslim Commercial Bank Limited)	113,270	-
	152,284	34,460

	Note	2005	2004
		(Rupees in thousand)	

32. Finance cost

Interest and mark-up on:			
- Long term finances			
- Long term loans		186,267	141,701
- Non-participatory redeemable capital		329	20,049
- Preferred dividend		35,351	35,351
- Finances under mark-up arrangements		42,655	12,341
- Finance lease		12,439	9,860
- Workers' profit participation fund		83	90
- Provident fund		-	37
Exchange loss		10,601	-
Loss on foreign currency forward options	- note 12	7,804	-
Guarantee commission		1,405	871
Mark-up on balances with related parties		247	66
Bank charges		6,860	4,235
		304,041	224,601

33. Provision for taxation

For the year		
- Current	40,000	28,700
- Deferred	464,000	297,000
	504,000	325,700
Prior year		
- Current	193	10,222
- Deferred	(65,000)	(10,000)
	(64,807)	222
	439,193	325,922

33.1 In view of available tax losses, the provision for current taxation represents the minimum tax due under section 113 of the Income Tax Ordinance, 2001, which is available for set off against normal tax liability that may arise in five succeeding years.

For purposes of current taxation, the tax losses available for carry forward as at June 30, 2005 are estimated approximately at Rs 2,293 million (2004: Rs 3,299 million), including assessed tax losses of Rs 2,293 million (2004: Rs 3,299 million).

33.2 Tax charge reconciliation

Numerical reconciliation between the average effective tax rate and the applicable tax rate

Applicable tax rate	35.00	35.00
Tax effect of:		
- Deductible expenses	-	(2.82)
- Non-deductible expenses	0.58	1.10
- Income including deemed income taxed at reduced rates	(3.53)	(5.72)
- Income exempt for tax purposes	(8.96)	-
Effect of change in prior year's tax	(3.06)	0.02
Others	0.67	1.51
	(14.30)	(5.91)
Average effective tax rate charged to profit and loss account	20.70	29.09

	Note	2005	2004
		(Rupees in thousand)	

34. Cash flow from operating activities

		2005	2004
Profit before tax		2,121,271	1,120,415
Adjustment for:			
- Depreciation on property, plant and equipment		340,827	330,480
- Depreciation on leased assets		16,256	8,393
- (Profit)/loss on disposal of property, plant and equipment		(3,207)	206
- Dividend income		(152,310)	(120,190)
- Gain on derecognition of investment		(543,173)	-
- Retirement and other benefits accrued		9,340	6,102
- Finance cost		304,041	224,601
Profit before working capital changes		2,093,045	1,570,007
Effect on cash flow due to working capital changes:			
(Increase)/decrease in current assets			
- Stores, spares and loose tools		(96,234)	(270,002)
- Stock in trade		197,544	(112,574)
- Trade debts		(23,616)	(37,437)
- Advances, deposits, prepayments and other receivables		(5,236)	18,383
Increase in creditors, accrued and other liabilities		603,061	25,168
		675,519	(376,462)
Cash generated from operations		2,768,564	1,193,545

35. Cash and cash equivalents

		2005	2004
Finances under mark-up arrangements	- note 11	(960,620)	(1,360,677)
Cash and bank balances	- note 25	93,836	83,991
		(866,784)	(1,276,686)

36. Remuneration of Chief Executive, Directors and Executives

36.1 The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the chief executive, full time working directors and executives of the company is as follows:

	Chief Executive		Directors		Executives	
	2005	2004	2005	2004	2005	2004
	(Rupees in thousand)		(Rupees in thousand)		(Rupees in thousand)	
Managerial remuneration	3,097	2,323	2,636	2,194	17,857	10,195
Contributions to provident and gratuity funds	-	-	504	1,587	2,487	5,020
Housing	1,393	1,045	1,186	987	8,036	4,588
Utilities	310	232	251	525	1,650	1,939
Leave passage	-	-	40	37	479	240
Medical expenses	87	1,454	39	186	765	205
Others	1,816	1,345	521	1,137	4,091	2,458
	6,703	6,399	5,177	6,653	35,365	24,645
Number of persons	1	1	2	2	22	13

The Company also provides the chief executive and some of the directors and executives with free transport and residential telephones.

36.2 Remuneration to other directors

Aggregate amount changed in the financial statements for the year for fee to 2 directors (2004: 2 directors) was Rs Nil (2004: Rs Nil).

37. Transactions with related parties

The related parties comprise associated undertakings, other related companies and key management personnel. The directors of the related companies are close members of the family of the directors of the company. The company in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payable and remuneration of the key management personnel is disclosed in note 36. Other significant transactions with related parties are as follows:

	2005	2004
	(Rupees in thousand)	
Purchase of services	48,485	1,006
Purchase of property, plant and equipment	347	1,025
Sale of goods	94,443	24,339
Mark-up income on balances with related parties	2,002	1,351
Mark-up expense on balances with related parties	247	66
Rental income	2,002	1,980
	147,526	29,767

All transactions with related parties have been carried out on commercial terms and conditions.

38. Proposed dividend

The Board of Directors have proposed a final dividend for the year ended June 30, 2005 of Rs 1.50/- per share, amounting Rs 276.590 million at their meeting held on September 19, 2005 for approval of the members at the Annual General Meeting to be held on October 31, 2005. These financial statements do not reflect this dividend payable, as explained in note 2.3.

39. Plant capacity and actual production

	Capacity		Actual production	
	2005	2004	2005	2004
Clinker (M. Tons)	1,675,000	1,650,000	1,590,808	1,478,071

The shortfall in production is due to plant shutdown for optimisation.

40. Financial assets and liabilities

(Rupees in thousand)

	Interest/mark-up bearing			Non interest bearing			Total		Credit risk	
	Maturity up to one year	Maturity after one year	Sub total	Maturity up to one year	Maturity after one year	Sub total	2005	2004	2005	2004
Financial assets										
On balance sheet										
Investments	-	-	-	2,639,543	1,290,533	3,930,076	3,930,076	1,908,027	3,930,076	1,908,027
Long term loans and deposits	998	247,737	248,735	817	4,185	5,002	253,737	9,642	253,737	9,642
Trade debts	-	-	-	76,238	-	76,238	76,238	52,622	76,238	52,622
Advances, deposits, prepayments and other receivables										
- To employees	-	-	-	2,920	-	2,920	2,920	2,770	2,920	2,770
- Mark-up receivable from related party	-	-	-	2,002	-	2,002	2,002	-	2,002	-
- Profit receivable on bank deposits	-	-	-	105	-	105	105	80	105	80
- Dividend receivable	-	-	-	4	-	4	4	4,699	4	4,699
- Other receivable	-	-	-	3,788	-	3,788	3,788	3,220	3,788	3,220
Cash and bank balances	36,569	-	36,569	57,267	-	57,267	93,836	83,991	93,559	83,145
	37,567	247,737	285,304	2,782,684	1,294,718	4,077,402	4,362,706	2,065,051	4,362,429	2,064,205
Off balance sheet	-	-	-	-	-	-	-	-	-	-
Total	37,567	247,737	285,304	2,782,684	1,294,718	4,077,402	4,362,706	2,065,051	4,362,429	2,064,205
Financial liabilities										
On balance sheet										
Long term finances	511,428	4,899,225	5,410,653	-	-	-	5,410,653	2,828,492		
Liabilities against assets subject to finance lease	88,246	131,985	220,231	-	-	-	220,231	119,312		
Long term deposits	-	-	-	-	28,674	28,674	28,674	30,365		
Finances under mark up arrangements	960,620	-	960,620	-	-	-	960,620	1,360,677		
Creditors, accrued and other liabilities	-	-	-	783,087	-	783,087	783,087	168,252		
	1,560,294	5,031,210	6,591,504	783,087	28,674	811,761	7,403,265	4,507,098		
Off balance sheet										
Contracts for capital expenditure	-	-	-	4,931,991	-	4,931,991	4,931,991	3,890,667		
Guarantees	-	-	-	148,454	-	148,454	148,454	152,743		
Letters of credit other than For capiial expenditure	-	-	-	112,221	-	112,221	112,221	146,385		
	-	-	-	5,192,666	-	5,192,666	5,192,666	4,189,795		
Total	1,560,294	5,031,210	6,591,504	5,975,753	28,674	6,004,427	12,595,931	8,696,893		
On balance sheet gap	(1,522,727)	(4,783,473)	(6,306,200)	1,999,597	1,266,044	3,265,641	(3,040,559)	(2,442,047)		
Off balance sheet gap	-	-	-	(5,192,666)	-	(5,192,666)	(5,192,666)	(4,189,795)		

The effective Interest/mark-up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

40.1 Financial risk management objectives

The company finances its operations through equity, borrowings and management of working capital with a view to maintaining a reasonable mix between the various sources of finance to minimise risk. Taken as a whole, risk arising from the company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

(a) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The company's credit risk is primarily attributable to its trade debts and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The company has no significant concentration of credit risk as exposure is spread over a large number of counter parties in the case of trade debts. Out of the total financial assets of Rs 4,362.706 million (2004: Rs 2,065.051 million) financial assets which are subject to credit risk amount to Rs 4,362.429 million (2004: Rs 2,064.205 million). To manage exposure to credit risk, the company applies credit limits to its customers and also obtains collaterals, where considered necessary.

(b) Interest rate risk management

Interest rate risk is the risk that the value of a 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 contracting floor and cap of interest rates as referred to in note 5.

(c) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The company, where considered necessary, uses forward contracts and foreign currency forward options against payables exposed to foreign currency risks.

(d) Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

40.2 Fair value of financial assets and liabilities

The carrying value of financial assets and liabilities reflected in the financial statements approximates their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

41. Earnings per share

41.1 Basic earnings per share

		2005	2004
Profit for the year	Rupees in thousand	1,682,078	794,493
Weighted average number of ordinary shares	Number	184,393,569	184,393,569
Basic earnings per share	Rupees	9.12	4.31

			2005	2004

41.2 Diluted earnings per share

		2005	2004
Profit attributable to the ordinary shareholders	Rupees in thousand	1,682,078	794,493
Add: Preferred dividend	Rupees in thousand	35,351	35,351
		1,717,429	829,844
Weighted average number of ordinary shares in issue during the year		184,393,569	184,393,569
Adjustment for assumed conversion of preference shares		35,351,015	35,351,015
Weighted average number of ordinary shares for diluted earnings per share	Number	219,744,584	219,744,584
Diluted earnings per share	Rupees	7.82	3.78

42. Number of employees

The company employed 665 employees as at June 30, 2005 (2004: 607)

43. Date of authorisation

These financial statements were authorised for issue on September 19, 2005 by the Board of Directors of the company.

44. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. Significant re-arrangements made are as follows:

(i) The definition of executives under the Companies Ordinance, 1984 was revised during the year with respect to minimum basic salary requirement from Rs. 100,000 to Rs. 500,000. Therefore, the figures of the previous year have been restated for the purposes of comparison.

The above figures have been re-arranged as the re-classification made is considered more appropriate for purposes of presentation.

Chief Executive Director

D.G. KHAN CEMENT COMPANY LIMITED

PROXY FORM

Folio No. ______________________ CDC Participant I.D. No. ______________________

CDC Participant's Name ______________________ A/C, Sub A/C No. ______________________

Shares Held ______________________

I/We ____

of ____

being a member of D.G. KHAN CEMENT COMPANY LIMITED hereby appoint

____

(NAME)

of ____

or falling him/her ____

(NAME)

____

of ____

who is also a member of the Company, vide Registered Folio No./CDC A/C Sub A/C No.__________________as my/our proxy to vote for me / us and on my / our behalf at the 27th Annual General Meeting of the Company to be held on 31st October 2005 at 10:30 a.m. at Registered Office, Nishat House, 53-A, Lawrence Road, Lahore and at any adjournment thereof.

As witness my/our hand this______________day of ______________2005

Witness

Signature ______________________________

Name ______________________________

Dated

Place

Signature on Five Rupees Revenue Stamp

Note: Proxies , in order to be effective, must be received at the Company's Registered Office not less than forty eight hours before the time for holding the meeting and must be stamped, signed and witnessed. Proxies of the members through CDC shall be accompanied with attested copies of thier NIC. The shareholders through CDC are requested to bring their original NIC, Sub Account Number and Participant I.D. No. to produce at the time of attending the meeting.