# CONTENTS

# COMPANY INFORMATION

| | | |
|---|---|---|
| **BOARD OF DIRECTORS** | Farrukh V. Junaidy | (Chief Executive) |
| | Syed Muhammad Ali Khan | (Director) |
| | Khursheed Anwer Jamal | (Director) |
| | Ather Naqi | (Director) |
| | Azizul Haque | (Director) |
| | Muhammad Qasim | (Director) |
| | Syed Moonis Abdullah Alvi | (Director) |
| | Javed Mahmood | (Nominee Director of Creditors) |
| | Khalid S. Tirmizey | (Nominee Director of Creditors) |
| **CHIEF OPERATING OFFICER** | Syed Muhammad Ali Khan | |
| **COMPANY SECRETARY** | Syed Moonis Abdullah Alvi | |
| **AUDIT COMMITTEE** | Khalid S. Tirmizey | (Chairman) |
| | Ather Naqi | (Member) |
| | Azizul Haque | (Member) |
| **CH!EF FINANCIAL OFFICER** | Khursheed Anwer Jamal | |
| **MANAGEMENT** | Tariq Muhammad Khan | (Director Treasury & Commercial) |
| | Zafar Abdullah | (Chief Compliance Officer) |
| | Chaudhry M. Saeed | (Resident Director) |
| | S.N. Jaffri | (GM Marketing & Admin.) |
| **REGISTERED OFFICE** | Dewan Centre<br>3-A Lalazar<br>Beach Hotel Road<br>Karachi | |
| **FACTORY** | Kamilpur<br>Near Hattar<br>Dist. Haripur<br>N.W.F.P. | |
| **AUDITORS** | Rafaqat Babar & Co.<br>Chartered Accountants | |
| | Ford Rhodes Sidat Hyder & Co.<br>Chartered Accountants | |
| **LEGAL ADVISORS** | Sardar M. Ajaz Khan (Advocate)<br>Shareef & Co. (Advocates) | |
| **Website** | www.dewangroup.com.pk/sdcl.htm | |

# DIRECTORS' REPORT

## IF YE GIVE THANKS, I WILL GIVE YOU MORE (AL-QURAN)

The Directors of your company are pleased to present the un-audited financial results for the six months ended December 31, 2005.

During the six months under review, net sales was Rs.1,369 million (2004: Rs.553 million). This net sales revenue was generated from 446,080 tons (2004: 200.830 tons) of cement sold during the period under review.

### Industry Overview and Future Outlook

Growth trend in consumption of cement in the local market has continued in the half-year ended December 31, 2005. Dispatches to the local market have registered 13.5% increase over same period of previous year and close to 8 million tones were dispatched to the local market. This sizable growth has been achieved inspite of a relative slow down in construction activity due to an exodus of labour force to the Northern Areas, post October, 2005 earthquake. Now with the return of most of the labour force to the main consumption centers, pace of construction activity has further increased. It is expected that the industry will achieve 18.5 million tons for the full fiscal year, since traditionally cement consumption increases during the second half of the fiscal year, with most being consumed in the last quarter.

Export sales in the half-year ended December, 2005 have remained at nearly the same level as of last year. However, quarter under review has registered a modest increase of 4% over previous year of same quarter. Export is expected to show a sizably higher growth rate, as with the arrival of warms weather construction activity in Afghanistan picks and the new production capacities in Pakistan would ensure availability of product for both Afghanistan and local market.

The under implementation capacity expansion projects (including new capacities) in the cement industry are at different levels of completion. Most of them are expected to be on stream in year 2006-07, as a result the current installed capacity of 20 million tons per annum is projected to gradually increase to 25-30 million tons by the end of next financial year. Part of this additional capacity will cater to the growth of local market and the remaining is expected to fill in the supply gap in Afghanistan. However, to achieve capacity utilization of 80% and above the industry will have to fully exploit the potential of exports by sea to the Middle East and other adjoining markets.

### Marketing

Your company has dispatched a total of 446,080 tons during the half-year under review. Dispatches to the local market were 433,400 tons, an increase of 116% over the same period last year. This big leap was made possible by the second production line coming in operation and coordinated efforts of the marketing team, including the distribution channel, whereby the higher availability of product was effectively marketed. Of-course, the superior quality of the product has also played its role in building brand loyalty among the customers. The total exports were 12,680 tons, which are expected to increase from March onwards. By the Grace of Allah Almighty, product of the second line of production has captured its share in the market long before the under implementation capacity enhancements of other manufacturers come in production. The marketing team of your company is focusing on consolidating its share in the local market as well as expanding it in the export market of Afghanistan.

## Operations

As you already know that the second production line has been commissioned, resultantly total clinker production during the half year under review rose to 437,886 tons (194,995 tons half-year ended December 31, 2004). Similarly cement production has also increased to 449,397 tons during this half year (202,753 tons half-year ended December 31, 2004). This has helped to bring your company in profit and in this half-year the company has earned Rs.43.5 million net profit before taxation. Alhamodolillah, as both lines of production have now been stabilized and become more efficient, we expect further improvements in the operations of the company.

## Financial Obligations

By the grace of Al-mighty Allah, your company has met all the financial obligations matured during the period under review.

The Board would like to draw your attention to the grave situation the company is faced with due to continued rise in markup rates. At the time the management of Dewan Hattar Cement Limited formerly Saadi Cement Limited was taken over by new sponsors the KIBOR was hovering around 3.6%. The banks and financial institutions reposed confidence on DMG and restructured the debt at a markup rate of six months KIBOR +2.5%. It may however be noted that KIBOR has since then increased drastically to 9.13% putting unsustainable pressure on the profitability of the company.

This can be evident from the fact that during the half year ended 31st December, 2005. The company is able to earn profit after financial charges at Rs.43.527 million whereas the financial charges stood at Rs.151.652 million.

The Management would like to take up this issue with Banks and Financial Institutions who have always supported new sponsors in reviving this sick unit which would only be possible had there been a cap on the interest rate.

## Acknowledgement

The Board of Directors places on record its gratitude to its valued customers, Federal and Provincial Governments, banks & financial institutions, dealers and employees of the company, for their continued co-operation & support.

In conclusion, we bow, beg and pray to **Almighty Allah**, **Rahman-o-Ar-Rahim**, in the name of our beloved Prophet **Muhammad** (peace be upon him), for the continued showering of his blessings, guidance, strength, health, and prosperity to us, our Company, Country and Nation; and also pray to Almighty Allah to bestow peace, harmony, brotherhood, and unity in true Islamic spirit to whole of the Muslim Ummah, Ameen, Summa Ameen.

**LO-MY LORD IS INDEED HEARER OF PRAYER (AL-QURAN)**

**For and on behalf of the Board of Directors**

**FARRUKH V. JUNAIDY**
Chief Executive Officer

Karachi: February 27, 2006

**RAFAQAT BABAR & CO.**
Chartered Accountants
Suit 113, 3rd Floor, A/34
Hafeez Centre, KCHS Block 7/8
Karachi - 75350

# REVIEW REPORT TO THE MEMBERS

We have reviewed the annexed balance sheet of **Dewan Hattar Cement Limited** as at **December 31, 2005**, and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the " financial statements "), for the half-year then ended. These financial statements are the responsibility of the Company`s management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderates assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of the Company`s personnel and analytical procedures applied to financial data and thus provides less assurance than an audit . We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the annexed financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

Without qualifying our review report, we draw attention to note 1.2 to the financial statements, which states that the accumulated loss of the Company amounts to Rs. 162.843 million and its current liabilities exceed its current assets by Rs. 838.802 million as of the balance sheet date. These matters my cast a doubt about the Company`s ability to continue as a going-concern. These financial statements have been prepared on a going concern basis, the validity of which is largely dependent on the outcome of mitigating factors as described in the said note.

RAFAQAT BABAR & CO.
Chartered Accountants

Karachi

# BALANCE SHEET
# AS AT DECEMBER 31, 2005

| | Note | (Un-audited) December 31, 2005 Rs.'000' | (Audited) June 30, 2005 Rs.'000' |
|---|---|---|---|
| **ASSETS** | | | |
| **NON CURRENT ASSETS** | | | |
| Fixed assets | | | |
| - Property, plant and equipment | 4 | 6,690,398 | 6,705,822 |
| - Intangible assets | | 4,990 | 3,503 |
| | | 6,695,388 | 6,709,325 |
| **CURRENT ASSETS** | | | |
| Stores and spares | | 169,945 | 193,862 |
| Stock-in-trade | | 88,196 | 35,539 |
| Trade debts | | 118,552 | 70,387 |
| Due from related parties | | - | 6,604 |
| Loans and advances | | 130,258 | 103,365 |
| Trade deposits and short-term prepayments | | 83,530 | 22,561 |
| Other receivables | | 271 | 7,914 |
| Cash and bank balances | | 88,110 | 87,491 |
| | | 678,862 | 527,723 |
| **TOTAL ASSETS** | | 7,374,250 | 7,237,048 |
| **EQUITY AND LIABILITIES** | | | |
| **SHARE CAPITAL AND RESERVES** | | | |
| Issued, subscribed and paid-up capital | | 1,850,000 | 1,850,000 |
| Accumulated loss | | (162,843) | (199,279) |
| | | 1,687,157 | 1,650,721 |
| **SURPLUS ON REVALUATION OF FIXED ASSETS-net of tax** | | 450,705 | 456,652 |
| **NON-CURRENT LIABILITIES** | | | |
| Subordinated loans | | - | 500,000 |
| Long-term financing | | 974,342 | 622,867 |
| Redeemable capital - secured | 5 | 2,437,245 | 2,634,720 |
| Long-term deposits and retention money | | 173,551 | 73,124 |
| Deferred taxation | | 133,586 | 127,402 |
| | | 3,718,724 | 3,958,113 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | | 532,102 | 549,066 |
| Mark-up payable | | 177,631 | 108,307 |
| Due to an associated company | | 371,699 | 239,079 |
| Current portion of redeemable capital | 5 | 422,140 | 267,870 |
| Provision for taxation | | 14,092 | 7,240 |
| | | 1,517,664 | 1,171,562 |
| **CONTINGENCIES AND COMMITMENTS** | 6 | - | - |
| **TOTAL EQUITY AND LIABILITIES** | | 7,374,250 | 7,237,048 |

The annexed notes from 1 to 11 form an integral part of these financial statements.

**Farrukh V. Junaidy**
Chief Executive

**Khursheed Anwer Jamal**
CFO/Director

# PROFIT AND LOSS ACCOUNT
# FOR THE HALF YEAR ENDED DECEMBER 31, 2005
# (UN-AUDITED)

| | Half-year Ended | | Quarter Ended | |
|---|---|---|---|---|
| | Dec 31, 2005 | Dec 31, 2004 | Dec 31, 2005 | Dec 31, 2004 |
| | -----'(Rs. '000')------- | | -----'(Rs. '000')------- | |
| **TURNOVER - NET** | **1,369,263** | 553,666 | **725,562** | 268,120 |
| **COST OF SALES** | **(1,092,096)** | (521,380) | **(565,294)** | (251,647) |
| **GROSS PROFIT** | **277,167** | **32,286** | **160,268** | **16,473** |
| Distribution cost | **(3,986)** | (6,421) | **(1,647)** | (4,340) |
| Administrative expenses | **(16,480)** | (20,305) | **(9,167)** | (11,675) |
| Other operating expenses | **(17,625)** | (5,958) | **(15,091)** | (1,761) |
| Other operating income | **1,071** | - | **1,071** | - |
| **OPERATING PROFIT/(LOSS)** | **240,147** | **(398)** | **135,434** | **(1,303)** |
| Finance cost | **(196,620)** | (52,343) | **(117,674)** | (22,647) |
| **PROFIT/(LOSS) BEFORE TAXATION** | **43,527** | **(52,741)** | **17,760** | **(23,950)** |
| Taxation | **(16,237)** | 15,574 | **(5,512)** | 17,001 |
| **NET PROFIT/(LOSS) AFTER TAXATION** | **27,290** | **(37,167)** | **12,248** | **(6,949)** |
| **BASIC AND DILUTED EARNING / (LOSS) PER SHARE (Rs./Share)** | **0.15** | (0.20) | **0.07** | (0.04) |

The annexed notes from 1 to 11 form an integral part of these financial statements.

**Farrukh V. Junaidy**
Chief Executive

**Khursheed Anwer Jamal**
CFO/Director

# CASH FLOW STATEMENT
# FOR THE HALF YEAR ENDED DECEMBER 31, 2005
# (UN-AUDITED)

| | December 31, 2005 Rs.'000' | December 31, 2004 Rs.'000' |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash generated from operations | 199,825 | 101,530 |
| Financial charges paid | (119,279) | (2,292) |
| Income tax paid | (5,999) | (2,100) |
| **Cash generated from / (used in) operating activities** | **74,547** | **97,138** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Fixed capital expenditure | (107,228) | (204,270) |
| **Cash (used in) / generated from investing activities** | **(107,228)** | **(204,270)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Long-term loans | 351,475 | 341,961 |
| Redeemable capital | (51,222) | (171,183) |
| Deposits from dealers and retention money | 100,427 | (12,552) |
| Subordinated loan | (500,000) | - |
| Receipt from / (payments to) associated companies | 132,620 | (22,984) |
| **Net cash generated from / (used in) financing activities** | **33,300** | **135,242** |
| **Net increase/ (decrease) in cash and cash equivalents** | **619** | **28,110** |
| **Cash and cash equivalents at the beginning of the period** | 87,491 | 37,614 |
| **Cash and cash equivalents at the end of the period** | **88,110** | **65,724** |

The annexed notes from 1 to 11 form an integral part of these financial statements.

**Farrukh V. Junaidy**
Chief Executive

**Khursheed Anwer Jamal**
CFO/Director

# STATEMENT OF CHANGES IN EQUITY
# FOR THE HALF YEAR ENDED DECEMBER 31, 2005
# (UN-AUDITED)

| | Issued subscribed & paid up capital | Accumulated Profit/(Loss) | Total |
|---|---|---|---|
| | | Rupees '000' | |
| **Balance as at June 30, 2004 - as previously reported** | **1,850,000** | **(391,195)** | **1,458,805** |
| Effect of restatement with regard to change in policy for deferred taxation as already reported in the most recent annual financial statements | - | **272,872** | **272,872** |
| **Balance as at July 01, 2004 - restated** | **1,850,000** | **(118,323)** | **1,731,677** |
| (Loss) after taxation for the period July 01, 2004 to December 31, 2004 | - | **(37,167)** | **(37,167)** |
| Incremental depreciation due to revaluation of fixed assets | - | **8,246** | **8,246** |
| **Balance as at December 31, 2004** | **1,850,000** | **(147,244)** | **1,702,756** |
| **Balance as at July 01, 2005** | **1,850,000** | **(199,279)** | **1,650,721** |
| Profit after taxation for the period July 01, 2005 to December 31, 2005 | - | **27,290** | **27,290** |
| Incremental depreciation due to revaluation of fixed assets | - | **9,146** | **9,146** |
| **Balance as at December 31, 2005** | **1,850,000** | **(162,843)** | **1,687,157** |

The annexed notes from 1 to 11 form an integral part of these financial statements.

**Farrukh V. Junaidy**
Chief Executive

**Khursheed Anwer Jamal**
CFO/Director

# NOTES TO THE ACCOUNTS
# FOR THE HALF YEAR ENDED DECEMBER 31, 2005
# UN-AUDITED

**1. Status and Nature of Business**

**1.1 Corporate Information**

The company was incorporated in Pakistan in March 1994 as a public limited company for the establishment and operation of a cement plant at Kamilpur, Near Hattar, Dist. Haripur, N.W.F.P. The company was listed on the Karachi and Islamabad Stock Exchanges in March 1997. The principal activity of the company is manufacturing and selling of cement. The Company started commercial production in January 2004. The registered office of the company is situated at Dewan Centre, 3-A Lalazar, Beach Hotel Road, Karachi.

**1.2 Going Concern Assumption**

As of the balance sheet date, the accumulated losses of the company amount to Rs. 162.843 million (June 30, 2005: Rs. 199.279 million) and its current liabilities exceed its current assets by Rs. 838.802 million (June 30, 2005 Rs. 643.839 million).

Followed by a continued upsurge in the cement industry in the country, the price and demand of cement has improved during the period. To capitalize on this trend, Line-II has become operative during the current period and a significant improvement in operational result is evidenced. All significant financial liabilities have been restructured under the second scheme of arrangement. Further, the new sponsors have advanced loans to the company and providing continuous financial support. Accordingly, the company has prepared these financial statements on the basis of going concern assumption.

**2. Basis of Preparation of the Financial Statements**

These financial statements are un-audited but subject to limited scope review by auditors and are being submitted to the shareholders as required under section 245 of the Companies Ordinance, 1984. These have been prepared in accordance with the requirements of International Accounting Standard -34 'Interim Financial Reporting' as applicable in Pakistan.

**3. Accounting Policies**

The accounting policies and methods of computation followed for the preparation of these financial statements are same as those applied in preparing the financial statements for the year ended June 30, 2005.

**4. Property, Plant and Equipment**

Fixed capital expenditure during the period amounted to Rs. 105.833 million (June 30, 2005: Rs. 862.003 million). Book value of fixed assets disposed off during the period amounted to Rs. 0.863 million (June 30, 2005: Rs. Nil). Plant and machinery capitalized during the period from capital-work-in-progress amounted to Rs. 1,900 million (June 30, 2005: Rs. Nil).

**5. Redeemable Capital**

The installment due during the period amounting to Rs. 51.222 million was paid

| | December 31, 2005 | June 30, 2005 |
|---|---|---|
| **6. Contingencies and Commitments** | (Rs.'000') | |
| Capital commitments outstanding | - | 767 |
| Letters of credit issued by commercial banks | 162,564 | - |

| | December 31, 2005 | June 30, 2004 |
|---|---|---|
| **7. Capacity-Clinker** | (Metric Tons) | |
| Installed capacity for the half year | 540,000 | 270,000 |
| Actual production for the half year | 437,886 | 194,995 |

8. **Related Party Transactions**

Related parties comprises related group companies, local associated companies, directors and executives. The company in the normal course of business carries out transactions with various related parties.

| | | December 31, 2005 | June 30, 2005 |
|---|---|---|---|
| | | (Rs.'000') | |
| **9. Relationship** | **Nature of Transactions** | | |
| Associated Company | Shared expenses | 3,493 | 30,425 |
| | Finance cost on current account | 20,164 | 14,169 |
| | Funds received | 119,939 | 184,249 |
| Employee benefit fund | Contribution to staff retirement fund | 3,706 | 6,621 |
| other related parties | Fund received | - | 30,219 |
| | Loan received | - | 890,000 |
| | Loan repayment | 182,400 | - |
| | Interest accrued | 11,862 | 12,599 |
| | Purchases | 7,338 | 40,197 |
| | Sales | 1,206 | 26,210 |

10. **Date of Authorization for Issue**

The Board of Directors of the Company has authorized these financial statements for issue on February 27, 2006

11. **General**

- Figures have been re-arranged and regrouped wherever necessary to facilitate comparison.
- Figures have been rounded off to the nearest thousand rupees.

**Farrukh V. Junaidy**
Chief Executive

**Khursheed Anwer Jamal**
CFO/Director