



**AUDITORS' REPORT ON FINANCIAL STATEMENTS OF**

**Lucky Cement Limited**

**FOR THE YEAR ENDED 30 JUNE 2011**

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Chartered Accountants  
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**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of **Lucky Cement Limited (the Company)** as at **30 June 2011** 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 conduct 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 as stated in note 4.3 to the accompanying financial statements, 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 30 June 2011 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.

We draw attention to note 14 to the financial statements which explains the reasons for recording an asset representing a claim of refund of excise duty amounting to Rs. 538.812 million (2010: Rs. 538.812 million) in the books of account of the Company. Our opinion is not qualified in respect of this matter.

Chartered Accountants  
Audit Engagement Partner: Shariq Ali Zaidi  
Karachi

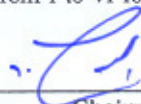


**LUCKY CEMENT LIMITED**  
**BALANCE SHEET**  
**AS AT JUNE 30, 2011**

|   | Note | 2011<br>(Rupees in '000') | 2010       |
|---|------|---------------------------|------------|
| <b>ASSETS</b>                             |      |                           |            |
| <b>NON-CURRENT ASSETS</b>                 |      |                           |            |
| <b>Fixed Assets</b>                       |      |                           |            |
| Property, plant and equipment             | 5    | 31,705,156                | 31,378,255 |
| Intangible assets                         | 6    | 1,685                     | 2,977      |
|   |      | 31,706,841                | 31,381,232 |
| Long term advance                         | 7    | 55,373                    | 55,373     |
| Long term deposits                        |      | 3,175                     | 2,175      |
|   |      | 31,765,389                | 31,438,780 |
| <b>CURRENT ASSETS</b>                     |      |                           |            |
| Stores and spares                         | 8    | 6,313,584                 | 4,008,288  |
| Stock-in-trade                            | 9    | 1,248,538                 | 608,813    |
| Trade debts - considered good             | 10   | 620,961                   | 779,305    |
| Loans and advances                        | 11   | 72,164                    | 86,471     |
| Trade deposits and short term prepayments | 12   | 38,669                    | 48,807     |
| Other receivables                         | 13   | 218,884                   | 204,249    |
| Tax refunds due from the Government       | 14   | 538,812                   | 538,812    |
| Taxation - net                            |      | 41,652                    | 145,151    |
| Sales tax refundable                      |      | -                         | 117,939    |
| Cash and bank balances                    | 15   | 351,202                   | 333,629    |
|   |      | 9,444,466                 | 6,871,464  |
| <b>TOTAL ASSETS</b>                       |      | 41,209,855                | 38,310,244 |
| <b>EQUITY AND LIABILITIES</b>             |      |                           |            |
| <b>SHARE CAPITAL AND RESERVES</b>         |      |                           |            |
| Share capital                             | 16   | 3,233,750                 | 3,233,750  |
| Reserves                                  | 17   | 24,539,079                | 21,862,179 |
|   |      | 27,772,829                | 25,095,929 |
| <b>NON-CURRENT LIABILITIES</b>            |      |                           |            |
| Long term finance                         | 18   | 658,298                   | 1,658,600  |
| Long term deposits                        | 19   | 37,306                    | 31,957     |
| Deferred liability                        | 20   | 391,837                   | 319,217    |
| Deferred tax liability                    | 21   | 1,652,796                 | 1,562,850  |
|   |      | 2,740,237                 | 3,572,624  |
| <b>CURRENT LIABILITIES</b>                |      |                           |            |
| Trade and other payables                  | 22   | 4,043,689                 | 3,043,320  |
| Accrued mark-up                           | 23   | 85,448                    | 155,500    |
| Short term borrowings                     | 24   | 6,302,252                 | 6,267,112  |
| Current portion of long term finances     | 18   | 265,400                   | 175,759    |
|   |      | 10,696,789                | 9,641,691  |
| <b>CONTINGENCIES AND COMMITMENTS</b>      | 25   |                           |            |
| <b>TOTAL EQUITY AND LIABILITIES</b>       |      | 41,209,855                | 38,310,244 |

The annexed notes from 1 to 41 form an integral part of these financial statements.

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Chairman / Director



Chief Executive

**LUCKY CEMENT LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2011**

|  | Note | 2011<br>(Rupees in '000') | 2010         |
|--|------|---------------------------|--------------|
| Gross sales                                    | 26   | 31,767,053                | 29,052,901   |
| Less: Sales tax and excise duty                |      | 5,545,549                 | 4,226,459    |
| Rebates and commission                         |      | 203,985                   | 317,649      |
|  |      | 5,749,534                 | 4,544,108    |
| Net sales                                      |      | 26,017,519                | 24,508,793   |
| Cost of sales                                  | 27   | (17,306,400)              | (16,529,932) |
| <b>Gross profit</b>                            |      | 8,711,119                 | 7,978,861    |
| Distribution cost                              | 28   | (3,236,425)               | (3,433,047)  |
| Administrative expenses                        | 29   | (313,389)                 | (303,244)    |
| Finance cost                                   | 30   | (517,788)                 | (569,184)    |
| Other charges                                  | 31   | (325,482)                 | (257,774)    |
| Other income                                   | 32   | 2,486                     | 1,902        |
| <b>Profit before taxation</b>                  |      | 4,320,521                 | 3,417,514    |
| Taxation                                       |      |                           |              |
| - current                                      | 33   | (260,175)                 | (195,697)    |
| - deferred                                     |      | (89,946)                  | (84,360)     |
|  |      | (350,121)                 | (280,057)    |
| <b>Profit after taxation</b>                   |      | 3,970,400                 | 3,137,457    |
| Other comprehensive income                     |      | -                         | -            |
| <b>Total comprehensive income for the year</b> |      | 3,970,400                 | 3,137,457    |
|  |      | (Rupees)                  |              |
| Earnings per share - basic and diluted         | 34   | 12.28                     | 9.70         |

The annexed notes from 1 to 41 form an integral part of these financial statements.

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Chairman / Director



Chief Executive




**LUCKY CEMENT LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2011**

|  | Note | 2011<br>(Rupees in '000') | 2010               |
|--|------|---------------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |      |                           |                    |
| <b>Cash flows generated from operations</b>                | 35   | 4,842,927                 | 6,087,267          |
| Finance cost paid  |      | (587,841)                 | (647,065)          |
| Income tax paid  |      | (156,677)                 | (164,264)          |
| Gratuity paid  |      | (29,176)                  | (12,300)           |
|  |      | (773,694)                 | (823,629)          |
| Long term deposits   |      | 4,349                     | 3,368              |
| <b>Net cash flows from operating activities</b>            |      | <b>4,073,582</b>          | <b>5,267,006</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |      |                           |                    |
| Fixed capital expenditure                                  |      | (1,905,143)               | (2,320,832)        |
| Sale proceeds on disposal of property, plant and equipment |      | 9,711                     | 5,879              |
| <b>Net cash used in investing activities</b>               |      | <b>(1,895,432)</b>        | <b>(2,314,953)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |      |                           |                    |
| Repayment of long term finance                             |      | (910,661)                 | (2,465,641)        |
| Receipt of short term borrowings                           |      | 35,140                    | 217,372            |
| Dividends paid   |      | (1,285,056)               | (1,281,045)        |
| <b>Net cash used in financing activities</b>               |      | <b>(2,160,577)</b>        | <b>(3,529,314)</b> |
| Net increase / (decrease) in cash and cash equivalents     |      | 17,573                    | (577,261)          |
| Cash and cash equivalents at the beginning of the year     |      | 333,629                   | 910,890            |
| Cash and cash equivalents at the end of the year           | 15   | <b>351,202</b>            | <b>333,629</b>     |

The annexed notes from I to 41 form an integral part of these financial statements.

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 Chairman / Director

  
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 Chief Executive

**LUCKY CEMENT LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2011**

|  | Issued,<br>subscribed<br>and paid up<br>capital | Capital<br>reserve | Revenue reserves   |                           | Total<br>reserves | Total equity      |
|--|---|--------------------|--------------------|---------------------------|-------------------|-------------------|
|  |   | Share<br>premium   | General<br>Reserve | Unappropri<br>ated profit |                   |                   |
| -----Rupees in '000'-----  |   |                    |                    |                           |                   |                   |
| Balance as at June 30, 2009  | 3,233,750                                       | 7,343,422          | 5,000,000          | 7,674,800                 | 20,018,222        | 23,251,972        |
| Transfer to general reserve  | -   | -                  | 5,000,000          | (5,000,000)               | -                 | -                 |
| Final dividend at the rate of Rs. 4/- per share for the year ended June 30, 2009 | -   | -                  | -                  | (1,293,500)               | (1,293,500)       | (1,293,500)       |
| Total comprehensive income for the year  | -   | -                  | -                  | 3,137,457                 | 3,137,457         | 3,137,457         |
| Balance as at June 30, 2010  | 3,233,750                                       | 7,343,422          | 10,000,000         | 4,518,757                 | 21,862,179        | 25,095,929        |
| Transfer to general reserve  | -   | -                  | 2,500,000          | (2,500,000)               | -                 | -                 |
| Final dividend at the rate of Rs. 4/- per share for the year ended June 30, 2010 | -   | -                  | -                  | (1,293,500)               | (1,293,500)       | (1,293,500)       |
| Total comprehensive income for the year  | -   | -                  | -                  | 3,970,400                 | 3,970,400         | 3,970,400         |
| <b>Balance as at June 30, 2011</b>   | <b>3,233,750</b>                                | <b>7,343,422</b>   | <b>12,500,000</b>  | <b>4,695,657</b>          | <b>24,539,079</b> | <b>27,772,829</b> |

The annexed notes from 1 to 41 form an integral part of these financial statements.

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 \_\_\_\_\_  
 Chairman / Director

  
 \_\_\_\_\_  
 Chief Executive



**LUCKY CEMENT LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**1. THE COMPANY AND ITS OPERATIONS**

Lucky Cement Limited (the Company) was incorporated in Pakistan on September 18, 1993 under the Companies Ordinance, 1984 (the Ordinance). The shares of the Company are quoted on all the three stock exchanges in Pakistan. The Company has also issued Global Depository Receipts (GDRs) which are listed and traded on the Professional Securities Market of the London Stock Exchange. The principal activity of the Company is manufacturing and marketing of cement. The registered office of the Company is located at Pezu, District Lakki Marwat in Khyber Pakhtunkhwa. The Company has two production facilities at Pezu, District Lakki Marwat in Khyber Pakhtunkhwa and at Main Super Highway in Karachi, Sindh.

**2. STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revision to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to these financial statements:

**Property, plant and equipment**

The Company has made certain estimations with respect to residual value, depreciation method and depreciable lives of property, plant and equipments. Further, the Company reviews the value of assets for possible impairment on each reporting period.

**Provision for stores and spares**

The Company has made estimation with respect to provision for slow moving, damaged and obsolete items and their net realizable value.

**Staff retirement benefits**

Certain actuarial assumptions have been adopted as disclosed in note 20.1.5 to these financial statements for valuation of present value of defined benefit obligations.

**Income taxes**

In making the estimates for income taxes payable by the Company, the management considers current Income Tax law and the decisions of appellate authorities on certain cases issued in the past.

**Future estimation of export sales**

Deferred tax calculation has been based on estimate of future ratio of export and local sales.

**Contingencies**

The assessment of the contingencies inherently involves the exercise of significant judgment as the outcome of the future events cannot be predicted with certainty. The Company, based on the availability of the latest information, estimates the value of contingent assets and liabilities which may differ on the occurrence / non occurrence of the uncertain future events.

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#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 4.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except for defined benefit obligations which are stated at present value in accordance with the requirements of IAS-19 "Employee Benefits", as referred to in note 20.

##### 4.2 Standards, interpretations and amendments to approved accounting standards that are not yet effective

The following revised standards, amendments and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

|          | Standard or Interpretation   | Effective Date<br>(accounting periods<br>beginning on or after) |
|----------|--|---|
| IAS 1    | Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented        | July 01, 2012   |
| IFRS 7   | Financial Instruments : Disclosures - Amendments enhancing disclosures about transfers of financial assets         | July 01, 2011   |
| IAS 12   | Income Tax (Amendment) – Deferred Taxes : Recovery of underlying assets  | January 01, 2012  |
| IAS 19   | Employee Benefits - Amended Standard resulting from the post-employment benefits and termination benefits projects | January 01, 2013  |
| IAS 24   | Related Party Disclosures (Revised)  | January 01, 2011  |
| IFRIC 14 | Prepayments of a Minimum Funding Requirement (Amendment)   | January 01, 2011  |

The Company expects that the adoption of the above revisions, amendments and interpretations of the standards will not have material affect on the Company's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2011. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

Further, the following new standards have been issued by IASB which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of applicability in Pakistan.

| Standard |   | IASB Effective date<br>(annual periods<br>beginning<br>on or after) |
|----------|---|---|
| IFRS 9   | Financial Instruments                     | January 01, 2015  |
| IFRS 10  | Consolidated Financial Statements         | January 01, 2013  |
| IFRS 11  | Joint Arrangements                        | January 01, 2013  |
| IFRS 12  | Disclosure of Interests in Other Entities | January 01, 2013  |
| IFRS 13  | Fair Value Measurement                    | January 01, 2013  |

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#### 4.3 Standards, amendments and interpretations adopted during the year

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below:

##### New and amended standards and interpretations

The Company has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

|            |   |
|------------|---|
| IFRS - 2   | Group Cash-settled Share-based Payment Arrangements                               |
| IAS - 32   | Financial Instruments: Presentation - Classification of Rights Issues (Amendment) |
| IFRIC - 19 | Extinguishing Financial Liabilities with Equity Instruments                       |

##### Improvements to various standards issued by IASB

###### Issued in 2009

|        |  |
|--------|--|
| IFRS 5 | Non-Current Assets Held for Sale and Discontinued Operations |
| IFRS 8 | Operating Segments   |
| IAS 1  | Presentation of Financial Statements                         |
| IAS 7  | Statement of Cash flows Presentation of Financial Statements |
| IAS 17 | Leases   |
| IAS 36 | Impairment of Assets   |
| IAS 39 | Financial Instruments : Recognition and Measurement          |

###### Issued in May 2010

|        |  |
|--------|--|
| IFRS 3 | Business Combinations                          |
| IAS 27 | Consolidated and Separate Financial Statements |

The adoption of the above standards, amendments / improvements and interpretations did not have any effect on the financial statements.

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

#### 4.4 Property, plant and equipment

These are stated at cost less accumulated depreciation / amortization and impairment losses, if any, except for capital work-in-progress which are stated at cost less impairment, if any.

Cost in relation to certain fixed assets, including capital work-in-progress, signifies historical cost and financial charges on borrowings as stated in note 4.17 to these financial statements.

Depreciation is charged to profit and loss account applying the straight line method on building and quarry equipment and on diminishing balance method on all other assets at the rates mentioned in the note 5.1 to these financial statements. On plant and machinery depreciation is charged on units of production method based on higher of estimated life or production. Depreciation on additions is charged from the date of acquisition / transfer of asset, whereas depreciation on disposals is charged till the date of disposal.

Assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized.

Gains and losses on disposal of assets, if any, are included in profit and loss account.

#### 4.5 Intangible assets

These are stated at cost less accumulated amortization and impairment losses, if any.

Amortization is charged to profit and loss account applying the straight line method.

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**4.6 Stores and spares**

These are valued at lower of weighted average cost and net realizable value, except items in transit, which are stated at cost. Provision for slow moving, damaged and obsolete items are charged to profit and loss account. Value of items is reviewed at each balance sheet date to record provision for any slow moving items, damaged and obsolete items.

Net realizable value signifies the selling price in the ordinary course of business less costs necessarily to be incurred in order to make the sale.

**4.7 Stock-in-trade**

These are stated at the lower of cost and net realizable value. The methods used for the calculation of cost are as follows:

- |  |   |
|--|---|
| i) Raw and packing material            | at weighted average cost comprising of quarrying / purchase price, transportation, government levies and other overheads. |
| ii) Work-in-process and finished goods | at weighted average cost comprising direct cost of raw material, labour and other manufacturing overheads.                |

Net realizable value signifies estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

**4.8 Trade debts and other receivables**

Trade debts and other receivables are stated at original invoice amount less provision for doubtful debts, if any. Provision for doubtful debts / receivable is based on the management's assessment of customers' outstanding balances and creditworthiness. Bad debts are written-off when identified.

**4.9 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 of cash and banks balances.

**4.10 Long term and short term borrowings**

These are recorded at the proceeds received. Finance costs are accounted for on accrual basis and are disclosed as accrued interest / mark-up to the extent of the amount remaining unpaid.

**4.11 Staff retirement benefits**

The Company operates an unfunded gratuity scheme covering all permanent employees. Contribution is made to this scheme on the basis of actuarial recommendations. The actuarial valuation is carried out using the Projected Unit Credit Method.

Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under the scheme. Actuarial gains and losses are recognized as income or expense immediately in the period in which they arise.

**4.12 Compensated absences**

The Company accounts for compensated absences in the accounting period in which these are accrued.

**4.13 Trade and other payables**

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.

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**4.14 Provisions**

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

**4.15 Taxation****Current**

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits available, if any, or minimum tax on turnover whichever is higher and tax paid on final tax regime basis.

**Deferred**

Deferred tax is provided in full using the balance sheet liability method on all temporary differences arising at the balance sheet date, between the tax bases of the assets and the liabilities and their carrying amounts. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which these can be utilized.

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. In this regard, the effects on deferred taxation of the portion of income expected to be subject to final tax regime is adjusted in accordance with the requirement of Accounting Technical Release - 27 of the Institute of Chartered Accountants of Pakistan.

**4.16 Revenue recognition**

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and government levies. The following recognition criteria must be met before revenue is recognized:

- Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods to customers.
- Return on bank deposits is recognized on a time proportion basis on the principal amount outstanding and at the rate applicable.

**4.17 Borrowing costs**

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

**4.18 Foreign currency translations**

Foreign currency transactions are translated into Pakistani Rupee using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupee using the exchange rate ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

**4.19 Financial assets and liabilities**

Financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently remeasured to fair value, amortized cost or cost as the case may be. Any gain or loss on the recognition and de-recognition of the financial assets and liabilities is included in the profit and loss account for the period in which it arises.

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Company loses control of the contractual rights that comprise the financial asset. Financial liabilities are removed from the balance sheet when the obligation is extinguished, discharged, cancelled or expired.

Assets or liabilities that are not contractual in nature and that are created as a result of statutory requirements imposed by the government are not the financial instruments of the Company.

**4.20 Offsetting**

A financial asset and financial liability is off-set and the net amount is reported in the balance sheet when there is a legal enforceable right to set-off the transactions is available and also there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

**4.21 Impairment**

At each balance sheet date, the carrying amount of assets is reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense in the profit and loss account.

**4.22 Dividend and appropriation to reserves**

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

**4.23 Functional and presentation currency**

These financial statements are presented in Pakistani Rupee, which is the Company's functional and presentation currency.

|   | Note | 2011<br>(Rupees in '000') | 2010              |
|---|------|---------------------------|-------------------|
| <b>5. PROPERTY, PLANT AND EQUIPMENT</b> |      |                           |                   |
| Operating assets - tangible             | 5.1  | 30,565,211                | 29,465,134        |
| Capital work-in-progress                | 5.4  | 1,139,945                 | 1,913,121         |
|   |      | <u>31,705,156</u>         | <u>31,378,255</u> |



## 5.1 OPERATING ASSETS - tangible

|   | C O S T          |  |                  | DEPRECIATION / AMORTIZATION |                            | BOOK VALUE       |                  | Rate of depreciation       |
|---|------------------|--|------------------|-----------------------------|----------------------------|------------------|------------------|----------------------------|
|   | At July 01, 2010 | Additions/<br>*transfers/<br>(disposals) | At June 30, 2011 | At July 01, 2010            | For the year / (disposals) | At June 30, 2011 | At June 30, 2011 |                            |
| Rupees in '000'                         |                  |  |                  |                             |                            |                  |                  |                            |
| Land - lease hold                       | 741,922          | 209,191                                  | 951,113          | 14,842                      | 7,977                      | 22,819           | 928,294          | 99 Yrs                     |
| Building on leasehold land              | 5,913,079 *      | 141,890                                  | 6,054,969        | 1,446,861                   | 311,316                    | 1,758,177        | 4,296,792        | 5%                         |
| Plant and machinery                     | 18,884,099       | 4,150                                    | 19,227,409       | 3,159,223                   | 644,049                    | 3,803,272        | 15,424,137       | Units of production method |
| Generators                              | 8,624,076 *      | 310                                      | 10,448,532       | 1,278,000                   | 486,806                    | 1,764,806        | 8,683,726        | Units of production method |
| Quarry equipments                       | 800,927          | -  | 800,927          | 235,889                     | 40,046                     | 275,935          | 524,992          | 5%                         |
| Vehicle including cement bulkers        | 653,534 *        | 28,126                                   | 767,740          | 223,045                     | 54,691                     | 272,222          | 495,518          | 10%-20%                    |
|   |                  | 98,841                                   |                  |                             | -                          |                  |                  |                            |
|   |                  | (12,761)                                 |                  |                             | (5,514)                    |                  |                  |                            |
| Furniture and fixtures                  | 42,559 *         | 706                                      | 43,655           | 16,469                      | 2,695                      | 19,047           | 24,608           | 10%                        |
|   |                  | 543                                      |                  |                             | -                          |                  |                  |                            |
|   |                  | (153)                                    |                  |                             | (117)                      |                  |                  |                            |
| Office equipments                       | 99,928 *         | 2,025                                    | 105,311          | 41,074                      | 6,170                      | 47,244           | 58,067           | 10%                        |
|   |                  | 3,358                                    |                  |                             | -                          |                  |                  |                            |
| Computer and accessories                | 48,341 *         | 2,606                                    | 51,845           | 36,908                      | 4,702                      | 40,840           | 11,005           | 33%                        |
|   |                  | 1,866                                    |                  |                             | -                          |                  |                  |                            |
|   |                  | (968)                                    |                  |                             | (770)                      |                  |                  |                            |
| Other assets (Laboratory equipment etc) | 149,160 *        | 374                                      | 170,343          | 40,180                      | 12,093                     | 52,271           | 118,072          | 10%                        |
|   |                  | 20,830                                   |                  |                             | -                          |                  |                  |                            |
|   |                  | (21)                                     |                  |                             | (2)                        |                  |                  |                            |
| June 30, 2011                           | 35,957,625 *     | 247,488                                  | 38,621,844       | 6,492,491                   | 1,570,545                  | 8,056,633        | 30,565,211       |                            |
|   |                  | 2,430,634                                |                  |                             | -                          |                  |                  |                            |
|   |                  | (13,903)                                 |                  |                             | (6,463)                    |                  |                  |                            |

|   | C O S T          |  |                  | DEPRECIATION / AMORTIZATION |                            | BOOK VALUE       |                  | Rate of depreciation       |
|---|------------------|--|------------------|-----------------------------|----------------------------|------------------|------------------|----------------------------|
|   | At July 01, 2009 | Additions/<br>*transfers/<br>(disposals) | At June 30, 2010 | At July 01, 2009            | For the year / (disposals) | At June 30, 2010 | At June 30, 2010 |                            |
| Rupees in '000'                         |                  |  |                  |                             |                            |                  |                  |                            |
| Land - lease hold                       | 738,922          | 3,000                                    | 741,922          | 7,406                       | 7,436                      | 14,842           | 727,080          | 99 Yrs                     |
| Building on lease hold land             | 5,812,040 *      | 400                                      | 5,913,079        | 1,154,327                   | 292,534                    | 1,446,861        | 4,466,218        | 5%                         |
|   |                  | 100,639                                  |                  |                             | -                          |                  |                  |                            |
| Plant and machinery                     | 18,609,299 *     | 800                                      | 18,884,099       | 2,522,480                   | 636,743                    | 3,159,223        | 15,724,876       | Units of production method |
|   |                  | 274,000                                  |                  |                             | -                          |                  |                  |                            |
| Generators                              | 6,524,898 *      | 29,176                                   | 8,624,076        | 925,289                     | 352,711                    | 1,278,000        | 7,346,076        | Units of production method |
|   |                  | 2,070,002                                |                  |                             | -                          |                  |                  |                            |
| Quarry equipments                       | 792,539 *        | 8,388                                    | 800,927          | 195,843                     | 40,046                     | 235,889          | 565,038          | 5%                         |
| Vehicle including cement bulkers        | 644,868 *        | 14,874                                   | 653,534          | 170,115                     | 56,666                     | 223,045          | 430,489          | 10%-20%                    |
|   |                  | 1,380                                    |                  |                             | -                          |                  |                  |                            |
|   |                  | (7,588)                                  |                  |                             | (3,736)                    |                  |                  |                            |
| Furniture and fixtures                  | 40,406 *         | 1,403                                    | 42,559           | 13,593                      | 2,906                      | 16,469           | 26,090           | 10%                        |
|   |                  | 791                                      |                  |                             | -                          |                  |                  |                            |
|   |                  | (41)                                     |                  |                             | (30)                       |                  |                  |                            |
| Office equipments                       | 96,749 *         | 2,290                                    | 99,928           | 34,619                      | 6,538                      | 41,074           | 58,854           | 10%                        |
|   |                  | 1,020                                    |                  |                             | -                          |                  |                  |                            |
|   |                  | (131)                                    |                  |                             | (83)                       |                  |                  |                            |
| Computer and accessories                | 43,592 *         | 3,223                                    | 48,341           | 31,318                      | 5,631                      | 36,908           | 11,433           | 33%                        |
|   |                  | 1,601                                    |                  |                             | -                          |                  |                  |                            |
|   |                  | (75)                                     |                  |                             | (41)                       |                  |                  |                            |
| Other assets (Laboratory equipment etc) | 115,840 *        | 418                                      | 149,160          | 30,402                      | 9,785                      | 40,180           | 108,980          | 10%                        |
|   |                  | 32,974                                   |                  |                             | -                          |                  |                  |                            |
|   |                  | (72)                                     |                  |                             | (7)                        |                  |                  |                            |
| June 30, 2010                           | 33,419,153 *     | 55,584                                   | 35,957,625       | 5,085,392                   | 1,410,996                  | 6,492,491        | 29,465,134       |                            |
|   |                  | 2,490,795                                |                  |                             | -                          |                  |                  |                            |
|   |                  | (7,907)                                  |                  |                             | (3,897)                    |                  |                  |                            |

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

|                         | Note | 2011<br>(Rupees in '000') | 2010<br>(Rupees in '000') |
|-------------------------|------|---------------------------|---------------------------|
| Cost of sales           | 27   | 1,488,133                 | 1,327,229                 |
| Distribution cost       | 28   | 72,068                    | 73,570                    |
| Administrative expenses | 29   | 10,344                    | 10,197                    |
|                         |      | <u>1,570,545</u>          | <u>1,410,996</u>          |

## 5.3 The details of property, plant and equipments disposed off during the year are as follows:

| Particulars                                       | Cost          | Accumulated Depreciation | Book Value   | Sale Proceeds | Gain / (Loss) | Mode of Disposal | Particulars of Buyers                           |
|---|---------------|--------------------------|--------------|---------------|---------------|------------------|---|
| ----- Rupees in '000' -----                       |               |                          |              |               |               |                  |   |
| Vehicles  |               |                          |              |               |               |                  |   |
| Toyota Corolla, HV-531                            | 1,213         | 895                      | 318          | 397           | 79            | Company policy   | Mr. Shabbir Ahmed, D.I.Khan - Employee          |
| Honda Motorcycle, KED-8508                        | 66            | 13                       | 53           | 63            | 10            | Insurance Claim  | New Jubilee Insurance Company Limited, Karachi. |
| Honda City, AJR-658                               | 808           | 161                      | 647          | 650           | 3             | Company policy   | Syed Mukhtar Ali, Karachi - Employee            |
| Suzuki Mehran, ASN-807                            | 508           | 102                      | 406          | 499           | 93            | Insurance Claim  | New Jubilee Insurance Company Limited, Karachi. |
| Honda City, AHV-791                               | 796           | 159                      | 637          | 400           | (237)         | Company policy   | Mr. Hameed, Karachi - Employee                  |
| Honda City, ARB-078                               | 864           | 311                      | 553          | 800           | 247           | Company policy   | Mr. Amin Ganny, Karachi - Employee              |
| Toyota Corolla, AGY-872                           | 1,219         | 900                      | 319          | 450           | 131           | Company policy   | Mr. Hameed, Karachi - Employee                  |
| Honda Civic, APX-596                              | 1,562         | 762                      | 800          | 850           | 50            | Company policy   | A.R. Thaplawala, Karachi - Employee             |
| Honda Civic, AHQ-962                              | 1,307         | 965                      | 342          | 291           | (51)          | Company policy   | A.R. Thaplawala, Karachi - Employee             |
| Hino truck, TLK-862                               | 3,720         | 1,008                    | 2,712        | 3,595         | 883           | Insurance Claim  | New Jubilee Insurance Company Limited, Karachi. |
| Suzuki Cultus, ARD-928                            | 613           | 221                      | 392          | 704           | 312           | Insurance Claim  | New Jubilee Insurance Company Limited, Karachi. |
| Honda Motorcycle, SR-481                          | 85            | 17                       | 68           | 83            | 15            | Insurance Claim  | New Jubilee Insurance Company Limited, Karachi. |
| Computer and accessories                          | 900           | 719                      | 181          | 900           | 719           | Insurance Claim  | New Jubilee Insurance Company Limited, Karachi. |
| Items having book value less than Rs. 50,000 each | 242           | 170                      | 72           | 29            | (43)          | Company policy   | Various   |
| <b>Total</b>                                      | <b>13,903</b> | <b>6,403</b>             | <b>7,500</b> | <b>9,711</b>  | <b>2,211</b>  |                  |   |
| <b>2010</b>                                       | <b>7,907</b>  | <b>3,897</b>             | <b>4,010</b> | <b>5,879</b>  | <b>1,869</b>  |                  |   |

## 5.4 The following is the movement in capital work-in-progress during the year:

| Note                        | Opening balance  | Additions        | Transferred to operating fixed assets (note 5.1) | Closing balance  |                  |
|-----------------------------|------------------|------------------|--|------------------|------------------|
|                             |                  |                  |  | 2011             | 2010             |
| ----- Rupees in '000' ----- |                  |                  |  |                  |                  |
| Building and civil works    | 121,499          | 233,520          | 141,890  | 213,129          | 121,499          |
| Plant and machinery         | 31,185           | 1,100,949        | 339,160  | 792,974          | 31,185           |
| Generators                  | 1,672,652        | 197,551          | 1,824,146  | 46,057           | 1,672,652        |
| Hydel Power Project         | 61,347           | -                | -  | 61,347           | 61,347           |
| Vehicles including bulkers  | -                | 98,841           | 98,841   | -                | -                |
| Others                      | 26,438           | 26,597           | 26,597   | 26,438           | 26,438           |
|                             | <b>1,913,121</b> | <b>1,657,458</b> | <b>2,430,634</b>                                 | <b>1,139,945</b> | <b>1,913,121</b> |

5.4.1 It includes advance to suppliers and contractor amounting to Rs. 75.786 million (2010: Rs. 17.282 million).

5.5 During the year, the borrowing costs amounting to Rs. 8.274 million (2010: Rs. 154.240 million) have been capitalized in the capital work-in-progress pertaining to the Waste Heat Recovery Projects. Weighted average capitalization rate is 8.41% (2010: 10.28%) per annum.

*Signature*



## 6. INTANGIBLE ASSETS

Represents computer software - Oracle at a cost of Rs. 4.642 million which is amortized on straight line basis over the period of 36 months.

## 7. LONG TERM ADVANCE

This represents advance given to Sui Southern Gas Company Limited carrying interest at the rate of 2.9% (2010: 2.9%) per annum in respect of additional gas line which will be adjusted after commissioning of gas in 48 equal monthly installments.

|  | Note  | 2011<br>(Rupees in '000') | 2010             |
|--|---|---------------------------|------------------|
| <b>8. STORES AND SPARES</b>                              |   |                           |                  |
| Stores   | 8.1   | 4,188,478                 | 1,912,626        |
| Spares   | 8.2   | 2,225,765                 | 2,171,672        |
|  |   | <u>6,414,243</u>          | <u>4,084,298</u> |
| Less: Provision for slow moving spares                   | 8.3   | 100,659                   | 76,010           |
|  |   | <u>6,313,584</u>          | <u>4,008,288</u> |
| 8.1  | This includes stores in transit of Rs. 1,139.823 million (2010: Rs. 549.985 million) as at the balance sheet date.  |                           |                  |
| 8.2  | This includes spares in transit of Rs. 46.053 million (2010: Rs. 107.649 million) as at the balance sheet date.   |                           |                  |
| <b>8.3 Movement in provision for slow moving spares:</b> |   |                           |                  |
| Opening balance  |   | 76,010                    | 50,626           |
| Provision during the year                                | 27  | 24,649                    | 25,384           |
| Closing balance  |   | <u>100,659</u>            | <u>76,010</u>    |
| <b>9. STOCK-IN-TRADE</b>                                 |   |                           |                  |
| Raw and packing materials                                |   | 539,202                   | 315,374          |
| Work-in-process  |   | 484,692                   | 100,813          |
| Finished goods   |   | 224,644                   | 192,626          |
|  |   | <u>1,248,538</u>          | <u>608,813</u>   |
| <b>10. TRADE DEBTS - considered good</b>                 |   |                           |                  |
| Bills receivable - secured                               |   | 406,966                   | 619,776          |
| Others - unsecured                                       |   | 213,995                   | 159,529          |
|  | 10.1  | <u>620,961</u>            | <u>779,305</u>   |
| 10.1   | The ageing of trade debts at June 30 is as follows:   |                           |                  |
|  |   |                           |                  |
| Neither past due nor impaired                            |   | <u>620,961</u>            | <u>779,305</u>   |
| <b>11. LOANS AND ADVANCES</b>                            |   |                           |                  |
| <b>Considered good, secured</b>                          |   |                           |                  |
| Loans and advances due from:                             |   |                           |                  |
| Employees  | 11.1  | 5,516                     | 5,632            |
| Executives   | 11.1&11.2   | 5,946                     | 3,123            |
|  |   | <u>11,462</u>             | <u>8,755</u>     |
| Advances to suppliers and others                         |   | 60,702                    | 77,716           |
|  |   | <u>72,164</u>             | <u>86,471</u>    |
| 11.1   | Represents loans provided as per the Company's employee loan policy. These loans are secured against the gratuity of respective employees. The maximum aggregate balance due from executives at the end of any month during the year was Rs. 10.590 million (2010: Rs. 10.297 million). |                           |                  |

*DFM*

|  | Note | 2011<br>(Rupees in '000') | 2010           |
|--|------|---------------------------|----------------|
| <b>11.2 Reconciliation of carrying amount of loans to executives (key management personnel):</b> |      |                           |                |
| Opening balance  |      | 3,123                     | 7,121          |
| Disbursements  |      | 5,835                     | 642            |
| Repayment  |      | <u>(3,012)</u>            | <u>(4,640)</u> |
| Closing balance  |      | <u>5,946</u>              | <u>3,123</u>   |
| <b>12. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS</b>   |      |                           |                |
| <b>Deposits</b>  |      |                           |                |
| Coal supplier  |      | 1,000                     | 1,000          |
| Utilities  |      | 730                       | 159            |
| Karachi Port Trust   |      | 5,740                     | 3,990          |
| Containers   |      | 60                        | -              |
| Others   |      | 4,908                     | 4,071          |
|  |      | <u>12,438</u>             | <u>9,220</u>   |
| <b>Prepayments</b>   |      |                           |                |
| Insurance  |      | 11,785                    | 16,349         |
| L/c Margin   |      | -                         | 3,454          |
| Rent   |      | 2,187                     | 1,717          |
| Others   |      | 12,259                    | 18,067         |
|  |      | <u>26,231</u>             | <u>39,587</u>  |
|  |      | <u>38,669</u>             | <u>48,807</u>  |
| <b>13. OTHER RECEIVABLES - Unsecured, considered good</b>  |      |                           |                |
| Inland freight subsidy - export  | 13.1 | 135,790                   | 135,790        |
| Rebate on export sales   |      | 45,576                    | 37,865         |
| Due from Collector of Customs  | 13.2 | 19,444                    | 19,444         |
| Others   |      | 18,074                    | 11,150         |
|  |      | <u>218,884</u>            | <u>204,249</u> |

13.1 This represents the amount receivable from the Government on account of inland freight subsidy on exports claimed by the Company pursuant to the inland freight subsidy scheme announced by the Trade Development Authority of Pakistan through public notice advertised on March 26, 2010 covering period from date of advertisement to June 30, 2010.

13.2 The Company imported cement bulkers during October 19, 2006 to December 05, 2006 under SRO 575(1) of 2006 dated June 05, 2006 for export of loose cement which provided concessionary rate of import duty to an industrial concern. The Company claimed exemption of duty at the time of port clearance, however, the Collector of Customs passed order allowing provisional release of consignment subject to final approval from the Federal Board of Revenue (FBR) and deposit of post dated cheques for the differential amount of duty. The Company deposited three post dated cheques aggregating to Rs. 19.444 million for three different consignments of cement bulkers and simultaneously approached to the FBR for giving direction to the Collector of Customs, Karachi.

The FBR moved a summary to the Federal Government / ECC on the representation of the Company and finally issued SRO 41(1) of 2007 on January 07, 2007 which clarified that the imported cement bulkers were also entitled for concessional rate of duty of 5%. The Collector of Customs instead of releasing the post dated cheques encashed the same on the plea that the benefit of SRO will not be given to the Company retrospectively despite the fact that the said clarification was issued on the representation of the Company.

The Company has filed a writ petition before the High Court of Sindh at Karachi in 2007 challenging the illegal and malafide act of encashment of post-dated cheques. The matter is pending before the High Court of Sindh. The management believes that the ultimate outcome of the matter will be in favor of the Company. Hence, no provision has been made against the said advance in these financial statements.

*EFM*



#### 14. TAX REFUNDS DUE FROM THE GOVERNMENT

A dispute with respect to the calculation of excise duty on retail price of cement arose between the Company and the Federal Board of Revenue (FBR) from the very first day the Company started sales of cement in 1996. The FBR's point of view was that excise duty be calculated on the declared retail price inclusive of excise duty whereas the Company contended that the excise duty would not be included in retail price for calculation of the excise duty payable to the Government. In June 2, 1997 the Company filed a writ petition before the Peshawar High Court seeking judgment on this matter. The dispute related to the period from June 26, 1996 to April 19, 1999 after which the FBR changed the mechanism of levying excise duty from percentage of retail price to a fixed amount of duty at the rate of Rs. 1,400 per ton. The Peshawar High Court after hearing both the parties issued a detailed judgment, operating paragraph of which is reproduced as follows:

*"For the reasons we accept the petitions declare, that present system of realization of duties of excise on the "Retail Price" inclusive of excise duty is illegal and without lawful authority, the duties of excise on cement must not form part of retail price and the petitioners are not liable to pay duties of excise forming part of the retail price of cement."*

Simultaneously, a similar nature of dispute arose between various beverage companies operating in the provinces of Sindh and Punjab and accordingly they also filed petitions before the High Courts of Sindh and Lahore respectively. Both the Honorable Courts also decided the case against the method of calculation of excise duty as interpreted by the FBR.

The FBR preferred an appeal before the Honourable Supreme Court of Pakistan against the judgments of all three High Courts of the country. A full bench of the Honourable Supreme Court of Pakistan heard the legal counsel of all the parties and finally announced the judgment on April 14, 2007, upholding the judgments of the High Courts and dismissed the appeal of the FBR.

As a result of the full bench judgment of the Honourable Supreme Court of Pakistan, the Company filed a refund claim of Rs. 538.812 million on May 08, 2007 with the Collector of Central Excise and Sales Tax, Peshawar, who had earlier collected the same due to incorrect interpretation of law. The Company on the basis of legal opinions obtained, recognised this refund claim in the financial statements for the year ended June 30, 2007.

A review petition was also filed by the FBR in the Honourable Supreme Court of Pakistan. The Honourable Supreme Court of Pakistan vide its order dated January 27, 2009 dismissed the review petition filed by the FBR and upheld its earlier decision which was in favour of the Company.

While verifying the refund claim, the Collector of Excise and Sales Tax Peshawar has issued show cause notice to the Company raising certain objections against the release of said refund including an objection that the burden of this levy has been passed on to the end consumer. The Company has challenged this show cause notice in the Honorable Peshawar High Court and taken the stance that this matter has already been dealt with at the Honourable Supreme Court of Pakistan level, based on the doctrine of res judicata. The Honorable Peshawar High Court granted a stay order to the Company against any adverse proceeding by the FBR in this case.

The Company is actively pursuing the matter with the FBR for settlement of the said refund claim.

|                                    | 2011              | 2010    |
|------------------------------------|-------------------|---------|
|                                    | (Rupees in '000') |         |
| <b>15. CASH AND BANK BALANCES</b>  |                   |         |
| Cash in hand                       | 1,330             | 1,031   |
| Sales collection in transit        | 247,146           | 263,940 |
| Cash at bank - on current accounts | 38,869            | 22,286  |
| - on deposit accounts              | 63,857            | 46,372  |
|                                    | 102,726           | 68,658  |
| <i>EVAM</i>                        | 351,202           | 333,629 |



|  | Note | 2011<br>(Rupees in '000') | 2010             |
|--|------|---------------------------|------------------|
| <b>16. SHARE CAPITAL</b>   |      |                           |                  |
| <b>Authorized Capital</b>  |      |                           |                  |
| 500,000,000 (2010: 500,000,000) ordinary shares of Rs.10/- each                      |      | <u>5,000,000</u>          | <u>5,000,000</u> |
| <b>Issued, Subscribed and Paid-up Capital</b>  |      |                           |                  |
| 305,000,000 (2010: 305,000,000) ordinary shares of Rs.10/- each issued for cash      | 16.1 | 3,050,000                 | 3,050,000        |
| 18,375,000 (2010: 18,375,000) ordinary shares of Rs. 10/-each issued as bonus shares |      | <u>183,750</u>            | <u>183,750</u>   |
|  |      | <u>3,233,750</u>          | <u>3,233,750</u> |

- 16.1 During the year ended June 30, 2008, the Company was admitted to the official list of the Financial Services Authority and to the London Stock Exchange for trading of GDRs issued by the Company on the Professional Securities Market of the London Stock Exchange. The GDR issue constituted an offering to qualified institutional buyers in the United States under Rule 144A and to non US persons outside the United States (US) under Regulation - S of the US Securities Act of 1933. The GDRs have also been included for trading on the International Order Book system of the London Stock Exchange, which will make the GDRs issued under Rule 144A to become eligible for trading by qualified institutional buyers in the Portal Market; a subsidiary of the NASDAQ Stock Market, Inc in the United States. The Company has issued 15,000,000 GDRs each representing four ordinary equity shares at an offer price of US\$ 7.2838 per GDR (total receipt being US\$ 109.257 million). Accordingly, based on an exchange rate of Rs. 65.90 = US\$ 1.00 (which was the exchange rate on the date of final offering circular relating to the GDR issue made by the Company) 60,000,000 ordinary equity shares of a nominal value of Rs. 10 each of the Company were issued at a premium of Rs. 110 per ordinary equity share (total premium amount being Rs. 6,600 million).

The holders of GDRs are entitled, subject to the provisions of the Deposit Agreement, to receive dividend, if any and rank pari passu with other equity shareholders in respect of dividend. However, the holders of GDRs have no voting rights or other direct rights of shareholders with respect to the equity shares underlying such GDRs. Subject to the terms and restrictions set out in the offering circular dated May 08, 2008, the deposited equity shares in respect of which the GDRs were issued may be withdrawn from the depository facility. Upon withdrawal, the holders will rank pari passu with other equity shareholders in respect of dividend, voting and other direct rights of shareholders.

|                         | 2011<br>(Rupees in '000') | 2010              |
|-------------------------|---------------------------|-------------------|
| <b>17. RESERVES</b>     |                           |                   |
| <b>Capital reserve</b>  |                           |                   |
| Share premium           | 7,343,422                 | 7,343,422         |
| <b>Revenue reserves</b> |                           |                   |
| General reserve         | 12,500,000                | 10,000,000        |
| Unappropriated profit   | 4,695,657                 | 4,518,757         |
|                         | <u>17,195,657</u>         | <u>14,518,757</u> |
|                         | <u>24,539,079</u>         | <u>21,862,179</u> |

**18. LONG TERM FINANCE – secured**

Long term finance utilized under mark-up arrangements from the following banks:

|   | Installments |              | Note        | 2011              | 2010             |
|---|--------------|--------------|-------------|-------------------|------------------|
|   | Number       | From         |             | (Rupees in '000') |                  |
| Allied Bank Limited                         | 16 quarterly | October 2010 |             | 597,620           | 1,135,620        |
| Allied Bank Limited                         | 16 quarterly | March 2011   |             | 326,078           | 698,739          |
|   |              |              |             | <u>923,698</u>    | <u>1,834,359</u> |
| Less : Current portion of long term finance |              |              |             | <u>(265,400)</u>  | <u>(175,759)</u> |
|   |              |              | 18.1 & 18.2 | <u>658,298</u>    | <u>1,658,600</u> |

- 18.1 The long term finance carries floating mark-up at rates ranging between 7.50% and 8.2% (2010: 10.17% and 10.53%) per annum.

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- 18.2 The above finance is secured by a letter of hypothecation providing charge over plant, machinery, equipment, generators, all tools and spares of the Company and all future modifications and replacement thereof. The finance agreements executed by the Company with the above mentioned financial institutions contain a prepayment clause with no penalty.

|                               | Note | 2011<br>(Rupees in '000') | 2010          |
|-------------------------------|------|---------------------------|---------------|
| <b>19. LONG TERM DEPOSITS</b> |      |                           |               |
| Cement stockists              | 19.1 | 11,976                    | 9,727         |
| Transporters                  | 19.2 | 24,000                    | 21,900        |
| Others                        |      | 1,330                     | 330           |
|                               |      | <u>37,306</u>             | <u>31,957</u> |

- 19.1 These represent interest free security deposits received from stockists and are repayable on cancellation or withdrawal of stockist arrangement and are also adjustable against unpaid amount of sales.

- 19.2 These represent interest free security deposits received from transporters and are repayable on cancellation or withdrawal of contracts.

|                               | Note | 2011<br>(Rupees in '000') | 2010           |
|-------------------------------|------|---------------------------|----------------|
| <b>20. DEFERRED LIABILITY</b> |      |                           |                |
| Staff gratuity                | 20.1 | <u>391,837</u>            | <u>319,217</u> |

- 20.1 The amounts recognized in the balance sheet, based on the recent actuarial valuation carried on June 30, 2011 are as follows:

|  |                |                |
|--|----------------|----------------|
| 20.1.1 Present value of defined benefit obligation | <u>391,837</u> | <u>319,217</u> |
|--|----------------|----------------|

**20.1.2 Movement in the liability recognized in the balance sheet are as follows:**

|                               |                 |                 |
|-------------------------------|-----------------|-----------------|
| Opening balance               | 319,217         | 234,633         |
| Net charge for the year       | <u>101,796</u>  | <u>96,884</u>   |
|                               | 421,013         | 331,517         |
| Payments made during the year | <u>(29,176)</u> | <u>(12,300)</u> |
| Closing balance               | <u>391,837</u>  | <u>319,217</u>  |

**20.1.3 The amount recognized in the profit and loss account is as follows:**

|                                       |                |               |
|---------------------------------------|----------------|---------------|
| Current service cost                  | 57,049         | 51,754        |
| Interest cost                         | 42,649         | 30,502        |
| Actuarial (gains) / losses recognized | <u>2,098</u>   | <u>14,628</u> |
|                                       | <u>101,796</u> | <u>96,884</u> |

**20.1.4 The charge for the year has been allocated as follows:**

|                         |    |                |               |
|-------------------------|----|----------------|---------------|
| Cost of sales           | 27 | 78,951         | 67,155        |
| Distribution cost       | 28 | 3,862          | 3,884         |
| Administrative expenses | 29 | 18,983         | 25,845        |
|                         |    | <u>101,796</u> | <u>96,884</u> |

**20.1.5 Principal actuarial assumptions used are as follows:**

|   |     |     |
|---|-----|-----|
| Expected rate of increase in salary level | 14% | 14% |
| Valuation discount rate                   | 14% | 14% |

**20.1.6 Comparisons for five years:**

| As at June 30                               | 2011              | 2010    | 2009    | 2008    | 2007    |
|---|-------------------|---------|---------|---------|---------|
|   | (Rupees in '000') |         |         |         |         |
| Present value of defined benefit obligation | 391,837           | 319,217 | 234,633 | 174,171 | 147,245 |

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|  | 2011              | 2010             |
|--|-------------------|------------------|
|  | (Rupees in '000') |                  |
| <b>21. DEFERRED TAX LIABILITY</b>                        |                   |                  |
| This comprises of the following :                        |                   |                  |
| Deferred tax liability                                   |                   |                  |
| - Difference in tax and accounting bases of fixed assets | 3,280,809         | 3,351,606        |
| Deferred tax assets                                      |                   |                  |
| - Unabsorbed tax losses                                  | (1,495,783)       | (1,693,176)      |
| - Provisions   | (132,230)         | (95,580)         |
|  | (1,628,013)       | (1,788,756)      |
|  | <u>1,652,796</u>  | <u>1,562,850</u> |

21.1 Deferred tax asset has not been recognised on the tax credit available due to minimum tax provision amounting to Rs. 195.010 million (2010: Rs. 92.597 million) in accordance with the Company's policy as stated in note 4.15 to these financial statements.

|                                     | Note | 2011              | 2010             |
|-------------------------------------|------|-------------------|------------------|
|                                     |      | (Rupees in '000') |                  |
| <b>22. TRADE AND OTHER PAYABLES</b> |      |                   |                  |
| Creditors                           |      | 1,189,188         | 920,236          |
| Bills payable                       |      | 494,999           | 254,170          |
| Accrued liabilities                 |      | 744,209           | 617,667          |
| Advance from customers              |      | 659,047           | 281,052          |
| Retention money                     |      | 121,199           | 373,789          |
| Sales tax payable                   |      | 61,470            | -                |
| Other charges payable               | 22.1 | 512,491           | 342,074          |
| Unclaimed and unpaid dividend       |      | 34,521            | 26,077           |
| Excise duty payable                 |      | 215,967           | 228,201          |
| Others                              |      | 10,598            | 54               |
|                                     |      | <u>4,043,689</u>  | <u>3,043,320</u> |

22.1 It includes Workers' Profit Participation Fund, the movement of which is as follows:

|   |    |                |                |
|---|----|----------------|----------------|
| Balance at July 01,                       |    | 156,942        | 170,136        |
| Allocation for the year                   | 31 | 232,487        | 184,124        |
| Interest on funds utilized by the Company |    | 3,735          | 7,196          |
|   |    | <u>393,164</u> | <u>361,456</u> |
| Payments during the year                  |    | (158,799)      | (204,514)      |
|   |    | <u>234,365</u> | <u>156,942</u> |

**23. ACCRUED MARK-UP**

|                       |  |               |                |
|-----------------------|--|---------------|----------------|
| Long term finance     |  | 18,403        | 49,740         |
| Short term borrowings |  | 67,045        | 105,760        |
|                       |  | <u>85,448</u> | <u>155,500</u> |

**24. SHORT TERM BORROWINGS – secured**

|                                 |             |                  |                  |
|---------------------------------|-------------|------------------|------------------|
| Export refinance                | 24.1 & 24.2 | 350,000          | 4,732,366        |
| Foreign currency import finance | 24.1 & 24.3 | 5,952,252        | 1,534,746        |
|                                 |             | <u>6,302,252</u> | <u>6,267,112</u> |

24.1 The Company has financing facilities of Rs. 14,025 million available from various banks as at June 30, 2011 of which Rs. 7,723 million remained unutilized at the year end. These facilities are renewable and are secured by way of hypothecation on stores and spares, stock-in-trade and trade debts.

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- 24.2 The export refinance facility carries mark-up at a rate ranging between 8.00% and 10.50% (2010: 7.50% and 9%) per annum.
- 24.3 These facilities are payable on various dates by June 30, 2012. The rate of interest on these facilities ranges between 0.60% and 2.50% (2010: 1.25% and 1.75%) per annum.

## 25. CONTINGENCIES AND COMMITMENTS

### CONTINGENCIES

- 25.1 The Honourable Supreme Court of Pakistan while disposing off an appeal of the Collector of Customs, Karachi has issued a judgment on July 28, 2009 whereby it has set aside the earlier order of the Peshawar High Court decided in favour of the Company on the issue of plant and machinery imported under SRO 484(I)/92 dated May 14, 1992 after obtaining approvals from the concerned ministries. In August 20, 2009 the Company has filed a review petition against the referred order which is pending before the Honourable Supreme Court of Pakistan. The amount of disputed levy is not ascertainable at this stage as no order was earlier framed by the Collector of Customs.
- 25.2 The Company was entitled to sales tax exemption on cement produced by it from the date of commissioning to June 30, 2001 vide SROs 580(1)/91 and 561(1)/94 dated 27-06-1991 and 09-06-1994 respectively. In June 1997, the Federal Government withdrew the sales tax from the entire cement industry and deprived the Company from the advantage of its sales tax exemption. Being aggrieved, the Company had filed a writ petition in the Peshawar High Court. Subsequently, the sales tax exemption was restored on September 5, 2000. The writ petition was therefore withdrawn on legal advice but at the same time a suit was filed for compensation. The civil judge Peshawar has granted the ex-parte decree in favor of the Company amounting to Rs. 1,693.61 million along with 14% per annum until the said amount is actually paid. The above would be recorded at the appropriate time in accordance with the requirements of International Accounting Standard-37.
- 25.3 The Income Tax Department levied tax of Rs. 85 million on certain pre- operational earnings for assessment years 1994-95, 1995-96 and 1996-97. The Commissioner Income Tax (CIT) [Appeals] has reversed the order of the assessing officer and decided the case in favour of the Company. The Income Tax Department filed appeals before Income Tax Appellate Tribunal (ITAT) who deleted the order of CIT (Appeals). The Company filed an appeal in Peshawar High Court and the Court has decided the case against the Company. The Company has now filed appeal in the Honourable Supreme Court of Pakistan and also referred the matter to FBR for constitution of Dispute Resolution Committee. The amount of tax has already been deposited with the relevant tax authority.
- 25.4 The Competition Commission of Pakistan has passed a single order on August 27, 2009 against all the cement manufacturers of the country on the alleged ground of formation of cartel for marketing arrangement and thereby imposed a penalty at the rate of 7.5% of total turnover of each company consisting of both local and export sales. The amount of penalty imposed on the Company is Rs. 1,271.84 million which has been challenged in the Courts of Law. The Company's legal counsel is confident that the Company has a good case and there are reasonable chances of success to avoid the penalty, hence, no provision for the above has been made in these financial statements.
- 25.5 Also refer to notes 13.2 and 14 to these financial statements.

|   | 2011              | 2010             |
|---|-------------------|------------------|
|   | (Rupees in '000') |                  |
| <b>COMMITMENTS</b>  |                   |                  |
| 25.6 Capital commitments  |                   |                  |
| Plant and machinery   | <u>304,738</u>    | <u>163,325</u>   |
| 25.7 Other commitments  |                   |                  |
| Stores, spares and packing material under letters of credit     | <u>1,364,705</u>  | <u>1,960,445</u> |
| Bank guarantees issued on behalf of the Company<br><i>Dafan</i> | <u>638,629</u>    | <u>672,940</u>   |



|  | Note  | 2011<br>(Rupees in '000') | 2010              |
|--|---|---------------------------|-------------------|
| 26. Sales - gross                          |   |                           |                   |
| Sales - local                              |   | 20,130,785                | 14,191,487        |
| - export                                   |   | 11,636,268                | 14,861,414        |
|  |   | <u>31,767,053</u>         | <u>29,052,901</u> |
| 27. COST OF SALES                          |   |                           |                   |
| Salaries, wages and benefits               | 20.1.4  | 957,453                   | 881,365           |
| Raw material consumed                      |   | 999,735                   | 959,358           |
| Packing material                           | 27.1  | 1,857,967                 | 1,472,287         |
| Fuel and power                             |   | 10,949,832                | 10,131,354        |
| Stores and spares consumed                 |   | 1,054,096                 | 731,240           |
| Repairs and maintenance                    |   | 86,507                    | 53,675            |
| Depreciation                               | 5.2   | 1,488,133                 | 1,327,229         |
| Insurance                                  |   | 73,165                    | 170,692           |
| Provision for slow moving spares           | 8   | 24,649                    | 25,384            |
| Earth moving machinery                     |   | 122,346                   | 105,212           |
| Vehicle running and maintenance            |   | 31,748                    | 28,380            |
| Communication                              |   | 10,406                    | 9,413             |
| Mess subsidy                               |   | 20,649                    | 16,371            |
| Transportation                             |   | 4,217                     | 10,459            |
| Traveling and conveyance                   |   | 4,692                     | 3,740             |
| Inspection fee for electrical installation |   | 1,049                     | 1,049             |
| Rent, rates and taxes                      |   | 1,708                     | 1,404             |
| Printing and stationery                    |   | 2,659                     | 1,424             |
| Other manufacturing expenses               |   | 31,286                    | 40,931            |
|  |   | <u>17,722,297</u>         | <u>15,970,967</u> |
| Work-in-process:                           |   |                           |                   |
| Opening                                    |   | 100,813                   | 591,659           |
| Closing                                    |   | (484,692)                 | (100,813)         |
|  |   | <u>(383,879)</u>          | <u>490,846</u>    |
| Cost of goods manufactured                 |   | <u>17,338,418</u>         | <u>16,461,813</u> |
| Finished goods:                            |   |                           |                   |
| Opening                                    |   | 192,626                   | 260,745           |
| Closing                                    |   | (224,644)                 | (192,626)         |
|  |   | <u>(32,018)</u>           | <u>68,119</u>     |
|  |   | <u>17,306,400</u>         | <u>16,529,932</u> |
| 27.1                                       | These are net of duty draw back on export sales amounting to Rs. 56.588 million (2010: Rs. 52.857 million). |                           |                   |
| 28. DISTRIBUTION COST                      |   |                           |                   |
| Salaries and benefits                      | 20.1.4  | 47,302                    | 42,490            |
| Logistic and related charges               |   | 3,024,099                 | 3,233,415         |
| Loading and others                         |   | 43,216                    | 28,472            |
| Communication                              |   | 3,377                     | 3,499             |
| Travelling and conveyance                  |   | 2,018                     | 2,518             |
| Printing and stationery                    |   | 855                       | 812               |
| Insurance                                  |   | 7,480                     | 10,897            |
| Rent, rates and taxes                      |   | 7,394                     | 6,537             |
| Utilities                                  |   | 1,565                     | 1,298             |
| Vehicles running and maintenance           |   | 8,655                     | 7,002             |
| Repairs and maintenance                    |   | 1,715                     | 8,597             |
| Fees, subscription and periodicals         |   | 563                       | 606               |
| Advertisement and sales promotion          |   | 11,262                    | 9,713             |
| Entertainment                              |   | 727                       | 580               |
| Depreciation                               | 5.2   | 72,068                    | 73,570            |
| Others                                     |   | 4,129                     | 3,041             |
|  |   | <u>3,236,425</u>          | <u>3,433,047</u>  |



|   | Note  | 2011<br>(Rupees in '000') | 2010           |
|---|---|---------------------------|----------------|
| <b>29. ADMINISTRATIVE EXPENSES</b>                                    |   |                           |                |
| Salaries and benefits   | 20.1.4  | 124,224                   | 110,914        |
| Communication   |   | 6,626                     | 6,503          |
| Travelling and conveyance   |   | 14,153                    | 9,353          |
| Insurance   |   | 1,050                     | 1,268          |
| Rent, rates and taxes   |   | 2,777                     | 2,298          |
| Vehicles running and maintenance                                      |   | 11,109                    | 10,034         |
| Printing and stationery   |   | 4,599                     | 6,731          |
| Fees and subscription   |   | 6,309                     | 7,102          |
| Security services   |   | 2,423                     | 1,708          |
| Legal and professional  |   | 15,097                    | 8,638          |
| Transportation and freight  |   | 67                        | 329            |
| Utilities   |   | 4,603                     | 5,542          |
| Repairs and maintenance   |   | 6,722                     | 6,870          |
| Advertisement   |   | 1,741                     | 1,238          |
| Donations   | 29.1  | 89,822                    | 104,046        |
| Auditors' remuneration  | 29.2  | 1,483                     | 1,481          |
| Other auditors' remuneration  | 29.3  | 6,103                     | 5,279          |
| Depreciation  | 5.2   | 10,344                    | 10,197         |
| Amortization  |   | 1,491                     | 1,466          |
| Others  |   | 2,646                     | 2,247          |
|   |   | <u>313,389</u>            | <u>303,244</u> |
| <b>29.1</b>   | No directors or their spouses have any interest in any donee's fund to which donations were made. |                           |                |
| <b>29.2 Auditors' Remuneration</b>                                    |   |                           |                |
| <b>Statutory auditors (Ernst &amp; Young Ford Rhodes Sidat Hyder)</b> |   |                           |                |
| Audit fee   |   | 1,000                     | 1,000          |
| Half yearly review fee  |   | 300                       | 275            |
| Fee for the review of compliance with Code of Corporate Governance    |   | 75                        | 75             |
| Out of pocket expenses  |   | 108                       | 131            |
|   |   | <u>1,483</u>              | <u>1,481</u>   |
| <b>29.3 Other Auditors' Remuneration</b>                              |   |                           |                |
| <b>Internal Auditors (M.Yousuf Adil Saleem &amp; Co.)</b>             |   |                           |                |
| Remuneration  |   | 5,400                     | 4,650          |
| Others  |   | 518                       | 487            |
|   |   | <u>5,918</u>              | <u>5,137</u>   |
| <b>Cost auditors (KPMG Taseer Hadi &amp; Co.)</b>                     |   |                           |                |
| Cost audit fee  |   | 170                       | 130            |
| Out of pocket expenses  |   | 15                        | 12             |
|   |   | <u>185</u>                | <u>142</u>     |
|   |   | <u>6,103</u>              | <u>5,279</u>   |
| <b>30. FINANCE COST</b>   |   |                           |                |
| Mark-up on long term finance - net                                    |   | 45,984                    | 21,280         |
| Mark-up on short term borrowings                                      |   | 447,181                   | 510,121        |
| Interest on Workers' Profits Participation Fund                       |   | 3,735                     | 7,196          |
| Bank charges and commission   |   | 20,888                    | 30,587         |
|   |   | <u>517,788</u>            | <u>569,184</u> |

|   | Note | 2011<br>(Rupees in '000') | 2010           |
|---|------|---------------------------|----------------|
| <b>31. OTHER CHARGES</b>                |      |                           |                |
| Workers' Profits Participation Fund     | 22.1 | 232,487                   | 184,124        |
| Others                                  |      | 92,995                    | 73,650         |
|   |      | <u>325,482</u>            | <u>257,774</u> |
| <b>32. OTHER INCOME</b>                 |      |                           |                |
| <b>Income from non-financial assets</b> |      |                           |                |
| Gain on disposal of fixed assets        | 5.3  | 2,211                     | 1,869          |
| Others                                  |      | 275                       | 33             |
|   |      | <u>2,486</u>              | <u>1,902</u>   |

**33. TAXATION**

33.1 This represents minimum tax on local turnover and on income chargeable under Final Tax Regime (FTR), therefore, no numerical tax reconciliation is given.

33.2 The tax assessments of the Company have been finalized upto and including the tax year 2010.

**34. EARNINGS PER SHARE - Basic and diluted**

There is no dilutive effect on the basic earnings per share of the Company, which is based on :

|   | 2011             | 2010             |
|---|------------------|------------------|
| Profit after tax (Rupees in '000')                        | <u>3,970,400</u> | <u>3,137,457</u> |
| Weighted average number of ordinary shares (in thousands) | <u>323,375</u>   | <u>323,375</u>   |
| Earnings per share - (Rupees)                             | <u>12.28</u>     | <u>9.70</u>      |

**35. CASH GENERATED FROM OPERATIONS**

|   | Note   | 2011<br>(Rupees in '000') | 2010             |
|---|--------|---------------------------|------------------|
| Profit before taxation                            |        | 4,320,521                 | 3,417,514        |
| Adjustments for non cash charges and other items  |        |                           |                  |
| Depreciation                                      | 5.2    | 1,570,545                 | 1,410,996        |
| Gain on disposal of property, plant and equipment | 5.3    | (2,211)                   | (1,869)          |
| Provision for slow moving spares                  | 8.3    | 24,649                    | 25,384           |
| Provision for gratuity                            | 20.1.2 | 101,796                   | 96,884           |
| Amortization on intangible assets                 | 29     | 1,491                     | 1,466            |
| Finance cost                                      |        | 517,788                   | 569,184          |
| Profit before working capital changes             |        | <u>6,534,579</u>          | <u>5,519,559</u> |

**(Increase) / decrease in current assets**

|   |                    |                |
|---|--------------------|----------------|
| Stores and spares                         | (2,329,945)        | (622,123)      |
| Stock-in-trade                            | (639,725)          | 587,795        |
| Trade debts                               | 158,344            | 487,943        |
| Loans and advances                        | 14,307             | 2,961          |
| Trade deposits and short term prepayments | 10,138             | (39,046)       |
| Other receivables                         | (14,635)           | (125,554)      |
| Sales tax payable / refundable            | 117,939            | (77,777)       |
|   | <u>(2,683,577)</u> | <u>214,199</u> |

**Increase in current liabilities**

|                          |                  |                  |
|--------------------------|------------------|------------------|
| Trade and other payables | 991,925          | 353,509          |
|                          | <u>4,842,927</u> | <u>6,087,267</u> |

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## 36. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

36.1 Aggregate amounts charged in these financial statements are as follows :

|                                       | Chief Executive |               | Director(s)  |              | Executives     |                | Total          |                |
|---------------------------------------|-----------------|---------------|--------------|--------------|----------------|----------------|----------------|----------------|
|                                       | 2011            | 2010          | 2011         | 2010         | 2011           | 2010           | 2011           | 2010           |
| ----- Rupees in '000' -----           |                 |               |              |              |                |                |                |                |
| Remuneration                          | 12,000          | 9,147         | 3,401        | 3,401        | 84,296         | 67,412         | 99,697         | 79,960         |
| House rent allowance                  | 4,800           | 3,659         | 1,360        | 1,360        | 37,930         | 30,335         | 44,090         | 35,354         |
| Utility allowance                     | 1,200           | 914           | 339          | 340          | 8,429          | 6,741          | 9,968          | 7,995          |
| Conveyance allowance                  | -               | -             | -            | -            | 8,429          | 6,741          | 8,429          | 6,741          |
| Charge for defined benefit obligation | 1,500           | 1,370         | 425          | 425          | 23,344         | 21,817         | 25,269         | 23,612         |
|                                       | <b>19,500</b>   | <b>15,090</b> | <b>5,525</b> | <b>5,526</b> | <b>162,428</b> | <b>133,046</b> | <b>187,453</b> | <b>153,662</b> |
| Number of persons                     | <b>1</b>        | <b>1</b>      | <b>2</b>     | <b>2</b>     | <b>85</b>      | <b>71</b>      | <b>88</b>      | <b>74</b>      |

36.2 In addition to the Chief Executive, Director and some Executives are provided with Company maintained cars.

36.3 An aggregate amount of Rs. 300,000/- was paid to 9 directors during the year as fee for attending board meetings (2010: 9 directors were paid Rs. 280,000/-).

## 37. TRANSACTIONS WITH RELATED PARTIES

37.1 Related parties comprise companies with common directorship, directors and key management personnel. Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

|                                |           | 2011              | 2010   |
|--------------------------------|-----------|-------------------|--------|
|                                |           | (Rupees in '000') |        |
| <b>Associated Companies</b>    |           |                   |        |
| Lucky Paragon ReadyMix Limited | Sales     | 60,512            | 80,163 |
|                                | Purchases | 55                | 22     |
| Fazal Textile Mills Limited    | Sales     | 13,323            | 4,768  |
| Yunus Textile Mills Limited    | Sales     | 2,173             | 1,650  |
| Lucky Textile Mills            | Sales     | 7,384             | 717    |
| Gadoon Textile Mills Limited   | Sales     | 23,270            | 614    |
| Aziz Tabba Foundation          | Sales     | 1,469             | 2,278  |

37.2 There are no transactions with key management personnel other than under the terms of employment.

## 38. PRODUCTION CAPACITY

|                                | Metric Tons      |                  |
|--------------------------------|------------------|------------------|
|                                | 2011             | 2010             |
| Production Capacity - (Cement) | <u>7,750,000</u> | <u>7,750,000</u> |
| Actual Production Clinker      | <u>5,658,353</u> | <u>6,054,713</u> |
| Actual Production Cement       | <u>5,779,710</u> | <u>6,461,726</u> |

38.1 Production capacity utilization is 74.58% (2010: 83.38%) of total installed capacity.

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### 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk. Taken as a whole, the Company is exposed to market risk (including interest rate risk, currency risk and other price risk), credit risk and liquidity risk. The Company's principal financial liabilities comprise bank loans, short term borrowings and trade and other payables. The main purpose of these financial liabilities is to raise finance for Company's operations. The Company has various financial assets such as loans, deposits, trade and other receivables and cash and bank balances, which are directly related to its operations. The Company's finance and treasury departments oversee the management of these risks and provide assurance to the Company's senior management that the Company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company policies and risk appetite. No changes were made in the objectives, policies or processes and assumptions during the year ended June 30, 2011. The policies for managing each of these risks are summarized below:

#### 39.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk. Financial instruments susceptible to market risk include deposits, loans and borrowings. The sensitivity analysis in the following sections relate to the position as at June 30, 2011 and 2010.

##### 39.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on long term finance and short term borrowings at variable rates as disclosed in notes 18 and 24 to these financial statements respectively and bank balances carrying interest at rates ranging between 5% % and 11.5 % (2010: 5 % and 11.5 %). The Company mitigates its risk against exposure through focusing on short term borrowings that are available at lower rates to the Company and maintaining bank balances.

##### 39.1.1.1 Interest rate sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Company's profit before tax (through impact on floating rate borrowings). This analysis excludes the impact of movement in market variables on non-financial assets and liabilities of the Company. Further, interest rate sensitivity does not have an asymmetric impact on the Company's result.

|             | Increase /<br>decrease in<br>basis points | Effect on<br>profit before<br>tax<br>(Rupees in '000') |
|-------------|---|--|
| <b>2011</b> |   |  |
| Pak Rupee   | +100                                      | (73,114)   |
| Pak Rupee   | -100                                      | 73,114   |
| <b>2010</b> |   |  |
| Pak Rupee   | +100                                      | (67,222)   |
| Pak Rupee   | -100                                      | 67,222   |

##### 39.1.2 Currency risk

Currency risk arises mainly due to fluctuation in foreign exchange rates. The Company also has transactional currency exposure. Such exposure arises from sales and purchases of certain materials by the Company in currencies other than Rupee. Approximately 37% (2010: 51%) of the Company's sales are denominated in currencies other than Pakistani Rupee, while almost 63% (2010: 49%) of sales are denominated in local currency.

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The following table demonstrates the sensitivity to a reasonably possible change in the USD exchange rate. As at June 30, 2011, if Pakistani Rupee (Pak Rupee) had weakened / strengthened by 5% against the USD, with all other variables held constant, the effect on the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities) at June 30, 2011 and 2010 would have been as follows:

|             | Increase /<br>decrease in<br>US Dollars to<br>Pak Rupee | Effect on<br>profit<br>before tax<br>(Rupees in '000') |
|-------------|---|--|
| <b>2011</b> |   |  |
| Pak Rupee   | +5%   | (301,218)  |
| Pak Rupee   | -5%   | 301,218  |
| <b>2010</b> |   |  |
| Pak Rupee   | +5%   | (63,370)   |
| Pak Rupee   | -5%   | 63,370   |

### 39.1.3 Other price risk

Other price risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate because of changes in market prices such as equity price risk. Equity price risk is the risk arising from uncertainties about future values of investment securities. As at the balance sheet date, the Company is not materially exposed to other price risk.

### 39.2 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. The Company credit risk is primarily attributable to its trade debts and bank balances. The Company manages credit risk by limiting significant exposure to any individual customers, by obtaining advance against sales and does not have significant exposure to any individual customer. The carrying values of financial assets which are neither past due nor impaired are as under:

|                    | Note | 2011<br>(Rupees in '000') | 2010<br>(Rupees in '000') |
|--------------------|------|---------------------------|---------------------------|
| Long term deposits |      | 3,175                     | 2,175                     |
| Trade debts        | 10   | 620,961                   | 779,305                   |
| Loans              | 11   | 11,462                    | 8,755                     |
| Trade deposits     | 12   | 12,438                    | 9,220                     |
| Other receivables  | 13   | 18,074                    | 11,150                    |
| Bank balances      | 15   | 102,726                   | 68,658                    |
|                    |      | <u>768,836</u>            | <u>879,263</u>            |

#### Credit quality of financial assets

The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The credit quality of cash at bank (in current and deposit accounts) as per credit rating agencies are as follows:

|     | 2011<br>(Rupees in '000') | 2010<br>(Rupees in '000') |
|-----|---------------------------|---------------------------|
| A1+ | 349,526                   | 332,310                   |
| A1  | 346                       | 288                       |
|     | <u>349,872</u>            | <u>332,598</u>            |

### 39.3 Liquidity risk

Liquidity risk reflects the Company's inability in raising fund to meet commitments. Management closely monitors the Company's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customer.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

|                           | On demand      | Less than<br>3 months | 3 to 12<br>months | 1 to 5<br>years  | More than<br>5 years | Total             |
|---------------------------|----------------|-----------------------|-------------------|------------------|----------------------|-------------------|
| -----Rupees in '000'----- |                |                       |                   |                  |                      |                   |
| <b>June 30, 2011</b>      |                |                       |                   |                  |                      |                   |
| Long term finance         | -              | 66,350                | 199,050           | 658,298          | -                    | 923,698           |
| Long term deposit         | -              | -                     | -                 | 37,306           | -                    | 37,306            |
| Trade and other payables  | 307,392        | 2,953,054             | 783,243           | -                | -                    | 4,043,689         |
| Accrued mark-up           | -              | 82,346                | 3,102             | -                | -                    | 85,448            |
| Short term borrowings     | -              | 3,302,614             | 2,999,638         | -                | -                    | 6,302,252         |
|                           | <u>307,392</u> | <u>6,404,364</u>      | <u>3,985,033</u>  | <u>695,604</u>   | <u>-</u>             | <u>11,392,393</u> |
| <b>June 30, 2010</b>      |                |                       |                   |                  |                      |                   |
| Long term finance         | -              | -                     | 175,759           | 1,658,600        | -                    | 1,834,359         |
| Long term deposit         | -              | -                     | -                 | 31,957           | -                    | 31,957            |
| Trade and other payables  | 26,077         | 1,792,127             | 715,863           | -                | -                    | 2,534,067         |
| Accrued mark-up           | -              | 155,500               | -                 | -                | -                    | 155,500           |
| Short term borrowings     | -              | 544,834               | 5,722,278         | -                | -                    | 6,267,112         |
|                           | <u>26,077</u>  | <u>2,492,461</u>      | <u>6,613,900</u>  | <u>1,690,557</u> | <u>-</u>             | <u>10,822,995</u> |

### 39.4 Fair values of financial assets and liabilities

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

### 39.5 Capital management

The primary objective of the Company's capital management is to maintain healthy capital ratios, strong credit rating and optimal capital structures in order to ensure ample availability of finance for its existing and potential investment projects, to maximise shareholder value and reduce the cost of capital.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies and processes during the year ended June 30, 2011.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company includes within net debt, interest bearing loans and borrowings including any finance cost thereon, trade and other payables, less cash and bank balances. Capital signifies equity as shown in the balance sheet plus net debt.

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During the year, the Company's strategy was to minimize leveraged gearing. The gearing ratios as at June 30, 2011 and 2010 were as follows:

|                                      | Note | 2011<br>(Rupees in '000') | 2010<br>(Rupees in '000') |
|--------------------------------------|------|---------------------------|---------------------------|
| Long term finance                    | 18   | 658,298                   | 1,658,600                 |
| Trade and other payables             | 22   | 4,043,689                 | 3,043,320                 |
| Accrued interest                     | 23   | 85,448                    | 155,500                   |
| Current portion of long term finance | 18   | 265,400                   | 175,759                   |
| Short term borrowings                | 24   | 6,302,252                 | 6,267,112                 |
| Total debt                           |      | 11,355,087                | 11,300,291                |
| Cash and bank balances               | 15   | (351,202)                 | (333,629)                 |
| <b>Net debt</b>                      |      | <b>11,003,885</b>         | <b>10,966,662</b>         |
| Share capital                        | 16   | 3,233,750                 | 3,233,750                 |
| Reserves                             | 17   | 24,539,079                | 21,862,179                |
| <b>Equity</b>                        |      | <b>27,772,829</b>         | <b>25,095,929</b>         |
| <b>Capital</b>                       |      | <b>38,776,714</b>         | <b>36,062,591</b>         |
| Gearing ratio                        |      | <b>28.38%</b>             | <b>30.41%</b>             |

The Company finances its expansion projects through equity, borrowings and management of its working capital with a view to maintaining an appropriate mix between various sources of finance to minimise risk.

#### 40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on \_\_\_\_\_ by the Board of Directors of the Company.

#### 41. GENERAL

##### 41.1 Corresponding figures

For better presentation certain prior year's figures have been reclassified consequent to certain changes in the current year's presentation. However, there was no material reclassification except that due from collector of customs of Rs. 19.44 million from loans and advances (note 11.3) to other receivables (note 13).

##### 41.2 Figures have been rounded off to the nearest thousand of Rupees, unless otherwise stated.

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Chairman / Director

*Signature*

Chief Executive