

# **ZEALPAK Cement Factory Limited**

**Annual Report 1997**

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## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

SIKANDAR ALI JATOI	Chairman
M. A. JAMEEL	Chief Executive
A.K.M. SAYEED	
MAZHAR ALI JATOI	
MALIK MOHAMMAD ASLAM	
MUSHTAQ ALI SHAH BUKHARI	
S. NAYYAR RAZA KAZMI	
ABDUL LATIF UQAILI	

### **COMPANY SECRETARY**

S. JARRAR HUSAIN

### **AUDITORS**

FARUQ ALI & CO.  
Chartered Accountants  
Karachi.

### **BANKERS**

MUSLIM COMMERCIAL BANK LTD.  
ALLIED BANK OF PAKISTAN LTD.  
NATIONAL BANK OF PAKISTAN.  
PRIME COMMERCIAL BANK LTD.  
PLATINUM COMMERCIAL BANK LTD.

**REGISTERED OFFICE**

4th Floor, Panorama Centre,  
Building No.2,  
Raja Ghazanfar Ali Khan Road,  
Saddar, Karachi.

**FACTORY**

Tando Mohammad Khan Road,  
S.I.T.E.  
Hyderabad.

**NOTICE OF MEETING**

Notice is hereby given to the Members that the Forty First Annual General Meeting of the 'Company will be held on 28th February 1998 at 4.00 P.M. at FTC Auditorium,, Karachi to transact the following business:-

- 1) To confirm the Minutes of 40th Annual General Meeting of the Company held on March 29, 1997.
- 2) To receive, consider and adopt the Audited Accounts of the Company for the year ended 30 June, 1997 and the Report of Directors and Auditors thereon.
- 3) To appoint Auditors for the year 1997-98 and to fix their remuneration. The present Auditors, Faruq Ali & Co., Chartered Accountants stand retired and, being eligible, offer themselves for re-appointment.
- 4) To transact, with the permission of the chair, any other business which may be transacted at Annual General Meeting.

**Note:-**

- 1) The Share Transfer Books of the Company will remain closed from Saturday the 21st February, 1998 to Saturday the 28th February, 1998 (both days inclusive.)
- 2) A member entitled to attend and vote at this meeting is entitled to appoint another member as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must be received at the Registered Office of the Company not less than 48 hours before the time appointed for the meeting.
- 3) Members should quote their folio number in all correspondence with the Company and at the time of attending the Annual General Meeting.
- 4) Members are requested to notify the change in address, if any, immediately

## **DIRECTOR'S REPORT TO THE SHAREHOLDERS**

### **Dear Shareholders**

Your directors take pleasure in placing before you the 41st Annual Report together with audited accounts of the Company and auditors report on the accounts for the year ending 30th June, 1997.

### **OVERVIEW**

For the last few years, cement sector of Pakistan, as a whole, is facing serious crisis firstly because of shrinking demand of cement due to lack of construction activities in Private as well as in the Government Sector due to unstable economic condition of the country.

Secondly, establishment of new plants and expansion in production capacity of some of the existing plants resulting in over supply of cement as compared to demand is causing downward trend in cement selling price and a cut throat competition among the manufacturers. The policy of heavy taxation on cement, ever increasing trend in cost of inputs, specially in energy and packing material cost has dragged profitable industry into financial losses.

### **ILLEGAL STRIKE BY THE WORKERS**

As discussed above, like other cement units, Zeal Pak was already facing worst ever crisis and because of old technology of manufacturing, based on Wet Process, had an inherent draw back of heavier cost of energy, as compared to new cement units, stood at a disadvantageous position. In view of higher cost of its products and persistent declining trend in sale volume, the Company adopted a scheme of reorganisation to make it economically viable. This resulted in retrenchment of the work force, permissible under labour laws. The retrenched workers were offered Golden Hand Shake payment by the Management but C.B.A. refused to accept the offer and went on strike from 4th December, 1996. The Honourable National Industrial Relations Commission, Karachi declared the strike illegal, vide its order of 13-02-1997 and directed the remaining workers, other than those retrenched, to resume duty but the workers did not comply with the above orders. However, the management held negotiations with the CBA and made every effort to resolve the dispute by offering Golden Hand Shake and other incentives. Unfortunately the office bearers of CBA were under the influence of an Industrial Group namely the Dewan Salman Group and on their behest they prolonged the strike. The Govt. of Sindh also attempted to resolve the issue. By the grace of God and with the kind intervention of Mr. Syed Shoaib Bukhari, Minister Labour, Sindh an agreement has been arrived with CBA on 04-02-1998 and the strike has been called off by them. The company is in the process of re-starting of its activities and it is hoped that the factory shall re-start within a couple of days.

### **PRODUCTION**

During the year, under discussion, the production activities of the plant stopped from 04-12-96

due to illegal strike by the workers. Consequently the production for five months and three days is not representative one for its comparison with the last financial year. However, during the year

production of clinker was 224690 M. Tonnes as compared to 840090 M. Tonnes of last year. Similarly the production of cement, during the year, under review, stood at 370080 M. Tonnes (inclusive of 70,505 M. Tonnes of cement processed through PSCIL) as compared to 790560 M. Tonnes of last year (inclusive of 6800 It/I. Tonnes cement processed through PSCIL).

#### **SALES**

As discussed in the "Overview" section of this report the cement industry of Pakistan is facing crisis due to lack of demand and over supply of cement, massive taxation and overall inflationary trend on its inputs.

In addition to these common adverse factors, Zeal Pak had to face closure of its plant during the year under discussion, due to the illegal strike by the workers. As a result of strike the Company could not despatch cement after 3rd December 1996 from the factory at Hyderabad.

As reported in the Directors Report of last year, the Company had made an arrangement with Pakistan Slag Cement Industries Ltd, Karachi (PSCIL) for grinding of its clinker for despatches to its Karachi dealers. Consequently about 71,416 M. Tonnes of cement was sold to dealers during the year, under review. Moreover, to save the cancellation of a valuable contract for supplies to Defence Consignees the Company arranged despatch of 22,060 M. Tonnes of cement upto June 1997 through above manufacturer.

During the year, under review, sale of Cement remained 406,782 M. Tonnes (Inclusive of 93476 M. T. sold through PSCIL)) as compared to 789,392 M. Tones of last year, (inclusive of 5762 M. T. sold through PSCIL).

#### **FINANCIAL**

The year under review can be termed as an abnormal and bad year in the history of your Company, due to the above prolonged illegal strike. Out of twelve month in a year the Company could operate its plant for about five months only. Beside, normal losses due to many odd factors, discussed above the fixed cost of: strike period remained completely un-absorbed. Thus the Company suffered a net loss of Rs. 172.427 million during the year under review as compared to loss of Rs. 60.059 million of last year.

#### **DIRECTORS**

There has been few changes in the composition of the Board of Directors the Company since last Annual General Meeting. Mr. Muhammad Munawar was co-opted as director in place of Mr. Muhammad Aslam. Mr. Muhammad Munawar also resigned and in his place Mr. Abdul Latif Uqaili has been co-opted as director. Mr. M. A. Jameel has been appointed as chief executive in place of Brig. (Retd.) Ishtiaq Bashir The Board wishes to place on record its' appreciation for the

valuable services rendered to the Company by these gentlemen.

#### **AUDITORS**

The present auditors, Faruq All & Co., Chartered Accountants, stand retired and, being eligible, offer themselves for re-appointment as auditors of the Company for the financial year ending 30-06-98.

#### **DIVIDEND**

In view of losses, no dividend has been recommended by our Board for the year 1996-97.

#### **PATTERN OF SHARE HOLDING**

A statement showing pattern of share-holding in the Company is included in the report.

#### **AUDITORS OBSERVATION**

The auditors of the Company Without qualifying their report have observed that the accounts have been prepared on the concept that the Company is a going concern, the validity of this concept depends upon the ending of the strike and restart of commercial operation. The Directors of the Company are pleased to inform the Share-holders that the strike has been called off by the workers and the company has started commercial operation. Thus the preparation of the accounts on going concern basis remains valid.

#### **ACKNOWLEDGMENT**

I, on my behalf and on behalf of my colleague directors wish to place on record our appreciation for our officers who inspite of odd circumstances, due to strike, pleaded the case of management on various forums like Provincial Government, Labour Department and Local Administration of Hyderabad. We also acknowledge the cooperation extended to us by our dealers, bankers and various government agencies during the period of the crisis.

#### **PATTERN OF HOLDING OF SHARES FOR THE YEAR ENDED 30TH JUNE 1997**

<b>No. of Shares Holders</b>	<b>Shares Holdings</b>		<b>Total Shares Held</b>	<b>Percentage</b>
1095 From	1	To	100 26,782	0.31
514 From	101	To	500 131,126	1.51
117 From	501	To	1000 88,891	1.02
119 From	1001	To	5000 243,636	2.80
11 From	5001	To	10000 80,928	0.93
7 From	10001	To	15000 85,964	0.98
1 From	25001	To	30000 27,225	0.31
2 From	30001	To	35000 65,046	0.75
1 From	35001	To	40000 39,130	0.45

1 From	340001	To	345000	342,508	3.93
1 From	985001	To	990000	988,344	11.34
1 From	2015001	To	2020000	2,018,066	23.16
1 From	4570001	To	4575000	4,574,354	52.51
-----			-----		
1,871			8,712,000		100.00
=====			=====		=====

**Category Wise Summary of Share Holders 30-06-1997**

Categories of Share Holders	Number	Share Hel	Percentage
1. Individuals	1,840	615,357	7.06
2. Investment Companies	2	3,006,410	34.51
3. Insurance Companies	6	441,100	5.06
4. Joint Stock Companies	11	25,256	0.29
5. Financial Institution	1	1,815	0.02
6. Others			
i) M/s. Sardar M. Ashraf D. Balouch (Pvt) Ltd.	1	4,574,454	52.51
ii) Administrator Abandoned Property Government of Pakistan	1	32,864	0.38
iii) Non Residents	9	14,744	0.17
	-----	-----	-----
TOTAL	1,871	8,712,000	100.00
	=====	=====	=====

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of ZEAL-PAK CEMENT FACTORY LIMITED as at 30th June 1997 and the related profit and loss account and cash flow statement, 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 and, after due verification thereof, we report that:

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

b) in our opinion:

i) the balance sheet and profit and loss account, together with the notes thereon, have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and cash flow statement, together with the notes forming part thereof, 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 30th June 1997 and of the loss and cash flows for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

e) Without qualifying our report we would like to draw attention of the share holders to the fact that these accounts have been prepared on the concept that the Company is going concern. Validity of this concept depends upon ending of labour strike and re-start of commercial operations discontinued since 4th December 1996.

**Karachi: February 06, 1998**

**FARUQ ALI & CO.**  
Chartered Accountants

**BALANCE SHEET AS AT 30TH JUNE 1997**

	Note	(Rupees in '000')	1997	1996
<b>SHARE CAPITAL AND RESERVES</b>				
<b>SHARE CAPITAL</b>				
Authorised 15,000,000 ordinary shares of Rs. 10/- each			150,000	150,000
		=====	=====	=====
Issued, subscribed and paid-up	3		87,120	87,120
<b>RESERVES</b>	4		239,000	415,282
		-----	-----	-----
			326,120	502,402
<b>LONG -TERM LOANS - SECURED</b>	5		81,408	83,737

DEFERRED LIABILITIES	6	123,927	120,973
<b>LONG - TERM DEPOSITS</b>	7	11,609	19,214
<b>CURRENT LIABILITIES</b>			
Current portion of long-term loans	5	34,164	34,164
Short - term running finances under mark-up arrangements - Secured	8	256,542	277,054
Creditors, accrued expenses and other liabilities	9	393,748	373,561
Provision for taxation	10	10,585	6,730
Dividend	11	1,824	1,829
		696,863	693,338
<b>CONTINGENCIES AND COMMITMENTS</b>	12		
		-----	-----
		1,239,927	1,419,664
		=====	=====

These accounts should be read in conjunction with the attached notes.

**TANGIBLE FIXED ASSETS**

Operating assets	13	562,120	616,046
Stores and spares held for capital expenditure		7,673	7,822
		-----	-----
		569,793	623,868
<b>LONG - TERM LOANS</b>	14	--	20,751
<b>LONG - TERM DEPOSITS</b>		181	181
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools	15	227,459	199,572
Stock-in-trade	16	126,516	263,697
Trade debts	17	146,811	116,073
Loans, advances, deposits, short-term pre - payments and other receivables	18	163,603	181,558
Cash and bank balances	19	5,564	13,964
		-----	-----
		669,953	774,864
		-----	-----
		1,239,927	1,419,664
		=====	=====



**PROFIT AND LOSS ACCOUNT**

FOR THE YEAR ENDED 30TH JUNE 1997

		(Rupees in '000')	
	Note	1997	1996
Sales- net	20	771,063	1,321,014
Cost of Sales	21	818,982	1,308,552
		-----	-----
Gross (Loss) / Profit		(47,919)	12,462
Administrative and general expenses	22	16,622	15,377
Selling and distribution expenses	23	6,918	10,282
Financial charges	24	71,823	56,396
		-----	-----
		95,363	82,055
		-----	-----
		(143282)	(69,593)
Other income	25	2,712	9,535
Other charges	26	(53,654)	(1)
Prior year adjustment	27	21,797	--
		-----	-----
		(29,145)	9,534
		-----	-----
(Loss)/Profit before taxation		(172,427)	(60,059)
Taxation			
-- Current year		3,855	6,861
		3,855	6,861
		-----	-----
(Loss) after taxation		(176,282)	(66,920)
Un - appropriated (Loss) / profit brought forward		(61,504)	5,416
		-----	-----
Balance Carried over to general reserves		(237,786)	(61,504)
		=====	=====

These accounts should be read in conjunction with the attached notes.

**CASH FLOW  
STATEMENT**

FOR THE YEAR ENDED 30TH JUNE 1997

		(Rupees in '000')	
	Note	1997	1996
<b>Cash flow from operating activities</b>			

Cash generated from operations	37,337	(91,664)
Financial charges paid	(35,081)	(44,820)
Taxes paid	--	(11,257)
Employees' retiring benefits paid	(46,949)	(4,253)
	-----	-----
Net cash inflow/(outflow) from operating activities	(44,693)	(151,994)
<b>Cash flow from investing activities</b>		
Fixed capital expenditure	(10,677)	(27,419)
Sale proceeds of fixed assets	2,053	--
Long-term loans (net)	24,462	(1,071)
Long-term deposits (net)	--	(10)
Net cash inflow/(outflow) from investing activities	15,838	(28,500)
<b>Cash flow from financing activities</b>		
Re-payment of long - term loans	--	(22,064)
Refund of long - term deposits	(7,605)	(9,716)
Dividend paid	(5)	(17,301)
Received from Gratuity Fund	48,577	--
	-----	-----
Net cash inflow/(outflow) from financing activities	20,967	(49,081)
Net increase/(decrease) in cash and cash equivalents	12,112	(229,575)
Cash and cash equivalents at the beginning of the year	(263,090)	(33,515)
Cash and cash equivalents at the end of the year	28.2 (250,978)	(263,090)
	=====	=====

These accounts should be read in conjunction with the attached notes.

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 30TH JUNE 1997**

**1. STATUS AND NATURE OF BUSINESS**

1.1 The company was incorporated in Pakistan as a public limited company on 9th May 1957 under the Companies Act, 1913 (now Companies Ordinance, 1984) and its shares are quoted on Karachi and Lahore Stock Exchanges. The company is principally engaged in the manufacture and sale of cement.

## **1.2 PRIVATIZATION OF STATE OWNED ENTERPRISES**

Under the sale agreement executed on 14 September 1992 between State Cement Corporation of Pakistan (Private) Limited, Investment Corporation of Pakistan and National Investment Trust, through the Privatisation Commission, Ministry of Finance, Government of Pakistan, collectively called "the seller" and M/s. Sardar Mohammad Ashraf D. Baluch (Private) Limited as "the buyer", 2,221,560 ordinary shares of the face value of Rs. 10/- each, being 51% of the company's capital, were sold and transferred to the buyer alongwith the right of management of the company.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Accounting convention**

These accounts have been prepared under the historical cost convention, as modified by capitalisation of certain exchange differences.

### **2.2 Staff retirement benefits**

The company operates approved funded gratuity scheme covering all its employees who have completed their minimum qualifying period of service with the company.

Provision is made annually in the accounts to cover obligations under the scheme.

The company also operates approved funded contributory provident fund scheme for all its employees.

### **2.3 Taxation**

#### **-- Current**

The charge for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any.

#### **Deferred**

The company accounts for deferred taxation on all major timing differences, that are likely to reverse in the foreseeable future, under the liability method.

### **2.4 Tangible fixed assets and depreciation**

#### **Owned assets**

(a) Operating assets are stated at cost (including related borrowing costs and exchange differences) less accumulated depreciation/depletion, except free hold land which is stated at cost.

(b) Capital work-in-progress is stated at cost (including related borrowing costs). These costs are transferred to operating assets as and when assets are available for use.

(c) Depreciation on operating assets is charged to income applying the reducing balance method at the rates specified in note 13.1.

(d) A full year's depreciation is charged on assets capitalised during the year, whereas no depreciation is charged on assets disposed off/retired during the year.

(e) Normal repairs and maintenance are charged to expenses as and when incurred. Major renewals and replacements are capitalised and the assets so replaced, if any, are retired.

(f) Profit or loss on sale or retirement of assets is included in income currently.

#### **Leased assets**

Assets subject to finance lease are accounted for by recording the assets and the related liability. The amounts are determined on the basis of discounted value of minimum lease payments, Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is provided in the same way as on owned assets,

#### **2.5 Stores, spares and loose tools**

These are valued at moving average cost less provision for obsolescence. Goods in transit at the balance sheet date are valued at invoice value plus other charges paid thereon.

#### **2.6 Stock-in-trade**

These are valued at lower of average cost and net realisable value. Physical quantities of cement and clinker stocks are based on volumetric measurement carried out by the technical experts of the company. Costs in relation to finished goods and work-in-process includes prime cost and appropriate proportion of production overheads.

Net realisable value signifies the selling price less costs necessarily to be incurred in order to make the sale.

#### **2.7 Trade debts**

Known bad debts are written off, while provisions are made against debts considered doubtful.

## 2.8 Short-term investments

These are valued at the lower of cost or market value.

## 2.9 Revenue recognition

Cement sales are recorded on despatch of goods to the customers, whereas clinker sales are recorded on receipt of goods by the customers.

## 2.10 Foreign currencies

Transactions in foreign currencies are translated into rupees at the rate of exchange prevailing on the date of transaction. Assets and liabilities in foreign currencies, if any, are translated into rupees at the rate of exchange prevailing on the balance sheet date.

Exchange gains and losses are included in income currently.

	(Rupees in '000')	
	1997	1996
<b>3, ISSUED, SUBSCRIBED AND PAID-UP CAPITAL</b>		
2,400,000 Ordinary shares of Rs. 10/- each		
fully paid in cash	24,000	24,000
1,956,000 Ordinary shares of Rs. '10/- each		
issued as fully paid bonus shares	19,560	19,560
4,356,000 Ordinary right shares of Rs. 10/- each		
fully paid in cash	43,560	43,560
	-----	-----
	-	-
8,712,000	87,120	87,120
	=====	=====

3.1 At 30 June 1997, M/s. Sardar Mohammed Ashraf D. Baluch (Pvt.) Limited and its nominees held 4,574,454 ordinary shares of Rs. 10/- each (1996: 4,443,120).

## 4. RESERVES

Movement in and composition of reserves is as follows:

Capital reserve

Tax holiday

-- Third kiln	(4.1)	1,007	1,007
-- Fourth kiln		9,897	9,897
		-----	-----
		10,904	10,904
Share premium	(4.2)	217,800	217,800

	-----	-----
	228,704	228,704
<b>Revenue reserve</b>		
General		
-- At 01 July	248,082	248,082
-- Accumulated		
Loss	(237,786)	(61,504)
	-----	-----
	239,000	415,282
	=====	=====

4.1 Capital reserve represents reserve created under Section 15(BB) of the Income Tax Act, 1922.

4.2 Premium on issue of right share @ Rs. 50/- per share.

**5. LONG- TERM LOANS- SECURED**

Note	Name of Agency	Financing Rate	Repayable by	Sanctioned Amount	Balance 1997	Outstanding 1996
USS (Rupees in '000')						
Foreign currency loan (rupee converted)						
-- Secured (5.1)		IBRD14% (including through exchange SCCP	April 2001	8,015,000	102,758	105,088
- do - (5.2)		IBRD14% (including exchange risk fee)	September 1999	156,186	12,814	12,813
					-----	-----
					<b>115,572</b>	117,901
Less: Current portion - shown under current liabilities					34,164	34,164
					-----	-----
					81,408	83,737
					=====	=====

5.1 The International Bank for Reconstruction and Development (IBRD) sanctioned a foreign currency loan equivalent to USS 152.4 million (1996: USS 152.4 million) to the Government of Pakistan. A portion equivalent to USS 8.02 million (1996: USS 8.02 million) has been allocated to the company through State Cement Corporation of Pakistan (Private) Limited (SCCP) for modernisation of cement plant and machinery. The loan was converted into rupee at the respective rates of disbursement. The loan was originally payable to SCCP, but as per clause 6.1 of the sale agreement' dated 14 September, 1992, the loan now stands transferred in favour of Economic Affairs Division, Government of Pakistan. The loan is repayable

in seventeen semi-annual installments commencing from 1st April 1993 and is subject to interest at the rates of 14 percent, per annum, inclusive of exchange risk coverage fee. The above loan is secured by bank guarantees equivalent to Rs. 236.36 million issued on the request of Directors of M/s. Sardar Mohammad Ashraf D. Baluch (Private) Limited (the Holding Company), in favour of Economic Affairs Division, Government of Pakistan.

5.2 This represents amount disbursed as loan from IBRD to cover supervisory services of BMR provided by foreign consultants, other conditions being same, the loan is repayable in ten semi - annual installments commencing from April, 1996.

5.3 The Company has not paid Semi-annual installments of IBRD loan, payable during the year to Economic Affairs Division, Government of Pakistan, as it has obtain an order the Hon'ble High Court of Sindh to maintain status quo.

	(Rupees in '000')	
	1997	1996
<b>6. DEFERRED LIABILITIES</b>		
Deferred taxation	63,548	63,548
Employees' retireme (6.1)	60,379	57,425
	-----	-----
	123,927	120,973
	=====	=====
<b>6.1 Employees' retirement benefits:</b>		
-- Employees' gratuity		
At beginning of the year	50,861	47,965
Provision made / receipt for gratuity during the year	49,903	5,406
Payment to the outgoing employees on behalf of gratuity fund	(44,420)	(2,510)
	5,483	2,896
	-----	-----
	56,344	50,861
-- Leave Salary	4,035	6,564
	-----	-----
	<b>60,379</b>	57,425
	=====	=====
<b>7. LONG - TERM DEPOSITS</b>		

These represent interest free security deposits from cement stockists and are re-payable on cancellation or withdrawal of the dealership. The company in terms of Section 226 of the Companies Ordinance, 1984 has kept an amount of Rs. 1\_021 million (1996 : Rs.

5.650 million), as referred to in note 19.1. Further, for remaining deposits, the company is in the process of complying with Section 226, whereby the agreements with stockists are being suitably amended.

**8. SHORT - TERM RUNNING FINANCES UNDER  
MARK-UP ARRANGEMENTS - SECURED**

The company has short-term finance facilities from various banks amounting to Rs. 200.00 million (1996: 200 million). The rate of mark - up ranges between 18.6 percent to 21.9 percent per annum (1996: 18.6% to 21.9%). The above financings are secured by registered hypothecation of stock-in-trade, stores and spares and book debts of the company.

The excess overdraft against sanctioned limit represents cheques issued but un-presented upto 30th June, 1997.

	(Rupees in '000')	
Note	1997	1996
<b>9. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES</b>		
Trade creditors	36,438	33,704
Accrued expenses	103,980	169,855
Workers' profit par (9.1)	485	485
Payable on account of CEM and other loan (9.2)	7,816	7,816
Workers' welfare fund	383	383
Accrued interest on long-term loan - secured	32,933	13,969
Accrued mark - up on short-term running finances - secured	23,603	3,496
Royalty and excise duty on lime stone	10,511	20,801
Commitment charges on foreign currency loan	2,551	2,551
Deposits - interest free	4,193	11,858
Advance from customers	39,967	39,426
Sales tax	77,123	20,658
Claims from customers	3,976	3,976
Due to M/s. S. M. Ashraf D. Balouch (Pvt.) Ltd. (Holding Company)	16,528	18,593
Board of Revenue, Sindh for purchase of land	2,278	2,278
Local Council taxes	558	451
Service charges payable	28,254	20,130
Income tax deducted at source	680	603
Others	1,491	2,528



	----- 393,748 =====	----- 373,561 =====
9.1 Workers' Profit participation Fund		
Balance as at 01 July	485	438
Add: Interest paid on fund utilized in company's business	--	204
	----- 485	----- 642
Less: Amount paid to workers on behalf of the fund or deposited with the Government	--	157
	----- 485	----- 485
Add: Allocation for the year	--	--
	----- 485 =====	----- 485 =====

9.2 This represents balance of principal and interest thereon of CEM France foreign currency loan and other loan received from Government of Pakistan. The loan is unsecured and interest has been provided at the rate of 6.5 percent and 10.5 percent respectively upto 30 June 1990. The terms of repayment have not yet been determined.

#### 10. TAXATION

The income tax assessments of the company have been finalised upto and including assessment year 1995-96. However, appeal for the assessment year 1991-92 is pending with the Income Tax Appellate Tribunal. In case of adverse decision of appeal, no further tax liability will arise.

<b>(Rupees in '000')</b>	
1997	1996

#### 11. DIVIDEND

##### Unclaimed

<b>1,824</b>	<b>1,829</b>
=====	=====

#### 12. CONTINGENCIES AND COMMITMENTS

Aggregate commitments in respect of capital expenditure contracted for but not incurred amounted to Rs. Nil (1996 · Rs. 29.033 million)

Contingent liabilities in respect of claims against the company, not acknowledged as

debt, pending outcome of litigation Rs. 14.000 million (1996 · Rs. 13.627 million).

Guarantees issued on behalf of company by commercial banks Rs. 68.893 million (1996 ' 59.545 million).

### 13. OPERATING ASSETS

#### AT COST LESS ACCUMULATED DEPRECIATION / DEPLETION

#### 13.1 The following is a statement of operating assets ·

(Rupees in '000')

	COST		As at 30 June 1997	Rate %	DEPRECIATION			Written down	
	As at 01 July 1996	Additions (Disposals)			As at 01 July 1996	For the Year	On (Disposals June 1997	As at 30 June 1997	value as at 30 June 1997
OWNED:									
Free hold land	3,661	--	3,661	--	--	--	--	--	3,661
Free hold quarry land	7,561	--	7,561	--	4,338	--	--	4,338	3,223
Building on free hold land	63,587	--	63,587	5 to 10	46,997	1,147	--	48,144	15,443
Office premises	4,498	--	4,498	5	2,294	110	--	2,404	2,094
Road and Railway sidings	3,414	--	3,414	5 to 10	2,776	43	--	2,819	595
Plant and machinery	1,019,930	10,073	1,030,003	10	452,600	57,740	--	510,340	519,663
Locomotives, dumpers, shovels and trucks	82,461	--	82,461	20	71,860	2,119	--	73,979	8,482
Cars and jeeps	16,656	--	12,235	20	10,865	779	(2,524)	9,120	3,115
Library books	4	--	4	10	3	--	--	3	1
Furniture, fixtures and equipments	21,092	754	21,846	10 to 15	15,085	918	--	16,003	5,843
	-----	-----	-----		-----	-----	-	-	-
	1,222,864	10,827	1,229,270		606,818	62,856	(2,524)	667,150	562,120
	=====	=====	=====		=====	=====	=	=	=
1996	1,196,278	26,586	1,222,864		537,327	69,491	(18,420)	606,818	616,046
		39,525					18,420		
	=====	=====	=====		=====	=====	=	=	=

	1997	1996
13.2 Depreciation charge for the year has been allocated as follows'		
Cost of sales	31,109	68,414
Administrative and general expenses	425	718
Selling and distribution expenses	213	359
Other charges	31,109	--
	-----	-----
	62,856	69,491
	=====	=====

### 13.3 DISPOSAL OF OPERATING ASSETS

Details of certain assets sold during the year are as under:

Description	Cost	Accumulated Depreciation	Book Value	(Rupees in '000')		
				Sale Proceeds	Mode of Disposal	Sold To
Toyota Crolla XE	609	297	312	337	By Negotiation	Midway Motors Karachi
Toyota - Land Cruiser	1,640	968	672	725	"	Mehran Motors Karachi.
Pajero	1,359	802	557	601	"	Mehran Motors Karachi.
Mitsubihi Lancer	756	446	310	335	"	Raza Motors Karachi.
Honda Motor Cycle	57	11	46	55	Insurance	Adamj.ee Claim Insurance
	-----	-----	-----	-----		
1997	4,421	2,524	1,897	2,053		
	=====	=====	=====	=====		
1996		Nil				
	=====	=====	=====	=====		

(Rupees in '000')

1997

1996

### 14. LONG - TERM LOANS- SECURED CONSIDERED GOOD

Loans for	No. of installments	Rate of interest (percent)	Security		
House building	120		4 Retirement	--	15,413

		benefits		
Marriage	24 to 50	4 - do -	--	1,477
Motor car	50	4 - do -	--	2,022
Motor cycle	48	4 - do -	--	7,463
Home appliances	20 to 50	4 - do-	--	444
				-----
			--	26,819
Less: Receivable within one year - note 18			--	(6,068)
				-----
			--	20,751
				=====

(Rupees in '000')

1997            1996

14.1 The above may be re-classified as under:

Outstanding for periods exceeding three years	--	13,272
Others	--	7,479
		-----
	--	20,751
		=====

14.2 The above loans include an amount of Rs. Nil (1996: Rs. 6.408 million) due from Executives of the company.

The maximum aggregate amount of loans due from Executives of the company at the end of any month during the year was Rs. 6.463 (1996: Rs. 2.075 million).

#### 15. STORES, SPARES AND LOOSE TOOLS

Stores	88,434	69,231
Spares	131,198	117,508
Stores and spares in transit	10,615	15,592
Loose tools	1,212	1,241
		-----
	231,459	203,572
Less: Provision for obsolescences	4,000	4,000
		-----
	227,459	199,572
		=====

#### 16. STOCK-IN-TRADE

Raw and packing material	11,430	5,883
Work-in-process	83,690	211,915
Finished goods	31,396	45,899
		-----
	126,516	263,697
		=====

**17. TRADE DEBTS**

Considered good-- Secured	8,425	11,417
-- Unsecured	138,386	104,656
Considered doubtful	677	677
Less: Provision for doubtful debts	677	677
	-----	-----
	--	--
	-----	-----
	146,811	116,073
	=====	=====

(Rupees in '000')

1997	1996
------	------

**18. LOANS, ADVANCES, DEPOSITS, SHORT- TERM PRE-PAYMENTS, AND OTHER RECEIVABLES**

Loans	2,357	6,068
Advances - considered good		
- Employees	5,546	6,037
- Suppliers & contractors	72,595	48,866
- Excise duty	3,754	7,722
- Taxation	15,843	11,053
- Octroi deposits	10,598	10,598
Advances - Considered doubtful	4,036	4,036
Less: Provision for doubtful advances	4,036	4,036
	--	--
	-----	-----
	110,693	90,344
Deposits		
- Margin against bank guarantees	22,739	60,158
- Others	2,013	728
	-----	-----
	24,752	60,886
Short-term pre-payments	363	673
Other receivables		
- Due from SCCP & other Cement units	2,711	3,918
- Accrued interest on bank deposits	26	29
- Income tax refundable	16,140	16,140
- Insurance claims recoverable	2,297	2,199
- Octroi recoverable	2,588	4,830
Others		
- Considered good	4,033	2,539
- Considered doubtful	659	659

Less: Provision for doubtful receivables	659	659
	-----	-----
	--	--
	27,795	29,655
	-----	-----
	163,603	181,558
	=====	=====

#### 19. CASH AND BANK BALANCES

Cash in hand	362	425
With Banks:		
-- Current accounts	4,181	7,889
-- Deposit accounts	(19.1) 1,021	5,650
	-----	-----
	5,564	13,964
	=====	=====

19.1 This includes amounts earmarked against security deposits of Rs. 1.021 million (1996: Rs. 5.650 million).

#### 20. SALES- NET

Gross Sales	1,350,658	2,204,660
Less:		
-- Excise duty	411,481	514,271
-- Sales tax	211,618	299,936
-- Rebate, Commission, Freight subsidy and service charges	(20.1) 17,880	69,439
	-----	-----
	640,979	883,646
	-----	-----
	709,679	1,321,014
Purchased of cement	61,384	--
	-----	-----
	771,063	1,321,014
	=====	=====

20.1 Service charges represent amount payable to M/s. Sardar Mohammad Ashraf D. Baluch (Pvt.) Ltd. (the holding Company) @ Rs. 20/= per ton.

#### 21. COST OF SALES

Raw and packing material consumed		
Opening stock	5,883	16,081
Purchases	147,038	358,297
	-----	-----

	152,921	374,378
Closing stock	(11,430)	(5,883)
	-----	-----
	141,491	368,495
	=====	=====
Stores and spare parts consumed	56,923	114,120
Power	90,048	235,482
Fuel	150,494	495,909
Salaries, wages and benefits	70,669	151,497
Repairs and maintenance	8,206	23,653
Insurance	764	1,199
Rent, rates and taxes	453	506
Depreciation	31,109	68,414
Other expenses	49,767	12,772
	-----	-----
	458,433	1,103,552
	599,924	1,472,047
Work-in-process		
Opening	211,915	53,894
Closing	(83,690)	(211,915)
	-----	-----
Cost of goods manufactured	728,149	1,314,026
Finished goods		
Opening	45,899	40,425
Closing	(31,397)	(45,899)
	-----	-----
	742,651	1,308,552
Purchased of cement	76,331	--
	-----	-----
	818,982	1,308,552
	=====	=====

21.1 During the year 70505 M. Tons (1996: 6,800 M. Tons) of Cement was processed at Pakistan Slag Cement Industries Limited, Karachi, (PSClL) paying them Rs. 400 p. t. of Cement as lump-sum charges for supply of gypsum, grinding of clinker and providing packing, loading and despatch documentation services upto PSClL factory's gate.

(Rupees in '000')

1997 1996

**22. ADMINISTRATIVE AND GENERAL EXPENSES**

Salaries, wages and benefits	6,078	8,108
Rent, rates and taxes	92	46

Insurance		664	348
Repairs and maintenance		318	375
Legal and professional charges		2,225	288
Auditors' remuneration	(22.1)	148	112
Depreciation	(13.2)	425	718
Communications		2,081	1,598
Stationery and general expenses		850	1,036
Donations	(22.2)	68	26
Others		3,673	2,722
		-----	-----
		16,622	15,377
		=====	=====

**22.1 AUDITORS' REMUNERATION**

Audit fee		45	45
Out of pocket expenses		83	42
Tax services		--	25
Other services		20	--
		-----	-----
		148	112
		=====	=====

22.2 Recipients of donations do not include any donee in whom a director or his spouse had any interest.

**23. SELLING AND DISTRIBUTION EXPENSES**

Salaries, wages and benefits		2,413	3,336
Rent, rates and taxes		188	310
Insurance		67	166
Repairs and maintenance		165	189
Depreciation	(13.2)	213	359
Advertisement		328	1,092
Communications		726	883
Stationery and general expenses		150	509
Others		2,668	3,438
		-----	-----
		6,918	10,282
		=====	=====

(Rupees in '000')

1997 1996

**24. FINANCIAL CHARGES**

Mark-up on short - term running finances		52,480	33,562
Interest on:			
-- Long-term loans		16,634	18,549
-- Workers' profit participation fund		--	204
Finance lease charges		--	13



Bank charges	951	480
Guarantees' commission	1,758	3,588
	-----	-----
	71,823	56,396
	=====	=====

**25. OTHER INCOME**

Return on bank deposits	1,075	633
Interest on long - term loans	--	636
Sale of scrap	6	7,608
Profit on sale of fixed assets	156	--
Registration, tender fees and fines	--	227
Royalty	50	--
Others	1,425	431
	-----	-----
	2,712	9,535
	=====	=====

**26. OTHER CHARGES**

Zakat		1	1
Depreciation	13.2	31,109	--
Power		22,544	--
		-----	-----
		53,654	1
		=====	=====

Depreciation and Power charges subsequent to labour strike at factory, hence stoppage of operations, being extra ordinary and unusual in nature have not been charged to manufacturing cost.

(Rupees in '000')

1997 1996

**27. PRIOR YEAR ADJUSTMENT**

Excess provision return back	10,209	--
Royalty	10,401	--
Income due to refund of Sales Tax & Excise Duty	1,187	--
	-----	-----
	21,797	--
	=====	=====

**28. CASH GENERATED FROM OPERATIONS**

(Loss) before taxation	(172,427)	(60,059)
Adjustment for non cash charges and other items		
Depreciation	62,856	69,491
(Profit) on sale of fixed assets	(156)	-
Provision for retirement benefits of employees	1,325	7,171
Financial charges	71,823	52,316

Working capital changes	(28.1)	73,916	(160,583)
		209,764	(31,605)
		-----	-----
		37,337	(91,664)
		=====	=====

### 28.1 WORKING CAPITAL CHANGES

(Increase)/decrease in current assets			
Stores, spares and loose tools		(27,887)	(11,806)
Stock-in-trade		137,181	(153,297)
Trade debts		(30,738)	(89,556)
Loans, advances, deposits, short-term pre-payments and other receivables		14,244	3,155
		-----	-----
		92,800	(251,504)
Increase/(Decrease) in current liabilities			
Creditors, accrued and other liabilities (net)		(18,884)	90,921
		-----	-----
		73,916	(160,583)
		=====	=====

### 28.2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises of the following items as included in the balance sheet:

Cash and bank balances		5,564	13,964
Short-term finance under markup - arrangements		(256,542)	(277,054)
		-----	-----
		(250,978)	(263,090)
		=====	=====

### 29. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amount charged in the accounts for remuneration, including all benefits, to the Chief Executive and Executives of the company was as follows .

	CHIEF EXECUTIVE		EXECUTIVES		T O T A L		
	1997	1996	1997	1996	1997	1996	
Fee	1		1	--	--	1	1
Managerial remuneration	180	440	1,427	3,078	1,607	3,518	
Housing	81	198	384	623	465	821	
Conveyance	--	--	101	201	101	201	
Leave passage	--	--	--	108	--	108	

(Rupees in '000')

Medical expenses	--	37	40	--	40	37
Utilities	--	106	32	23	32	129
Entertainment	18	--	--	--	<b>18</b>	--
Allowances	21	86	169	307	190	393
Retirement benefits	--	--	2,922	704	2,922	704
	-----	-----	-----	-----	-----	-----
		301				
		868	5,075	5,044	<b>5,376</b>	5,912
	=====	=====	=====	=====	=====	=====
No. of persons	1	1	25	25	26	26
	=====	=====	=====	=====	=====	=====

In addition to the above, the Chief Executive and Executives are provided with company maintained cars (monthly petrol ceiling).The residential telephone, gas and electric bills' by the company.

(Metric tons)

1997                      1996

**30. PRODUCTION**

Actual cement production	370,080	790,560
	=====	=====

The fall in production has been due to labour strike at factory causing stoppage of production from December 04, 1996 and onward.

**31. TRANSACTION WITH HOLDING COMPANIES**

(Rupees in '000')

Service charges	7,694	15,673
	=====	=====

**32. GENERAL**

-- Figures have been rounded off to nearest thousand of rupees.

-- Previous year's figures have been re-arranged, wherever necessary to facilitate comparison