# ZEALPAK CEMENT FACTORY LIMITED
# ANNUAL REPORTS 2003

## CONTENTS



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

| | |
|---|---|
| Mazhar Ali Jatoi | Chairman |
| M. A. Jameel | Chief Executive |
| Shahzad Ali Jatoi | Director |
| Muhammad Abdul Samad | Director |
| Mushtaq Ali Shah Bukhari | Director |
| Nawab Ahmed Khanzada | Director |
| Allah Rakha Jatoi | Director |
| Muhammad Moosa | Director |

### AUDIT COMMITTEE

| | |
|---|---|
| Mazhar Ali Jatoi | Chairman |
| Shahzad Ali Jatoi | Member |
| Mushtaq Ali Shah Bukhari | Member |

### COMPANY SECRETARY

S. Jarrar Husain

### CHIEF FIANCIAL OFFICER

Shakil Hasan

### STATUTORY AUDITORS

Faruq Ali & Company
Chartered Accountants

### COST AUDITORS

Siddiqi & Company
Cost & Management Accountants

### BANKERS

Allied Bank of Pakistan Limited
National Bank of Pakistan
Muslim Commercial Bank Limited
Prime Commercial Bank Limited
Industrial Development Bank of PakistaN
PICIC Commercial Bank Limited

Saudi Pak Commercial Bank

REGISTERED OFFICE
4th Floor, Panorama Centre, Building No. 2,
Raja Ghazanfar Ali Khan Road, Saddar, Karachi.
Tel. : (02 1)567029 1-92
FACTORY
Tando Mohammad Khan Road,
S.I.T.E. Hyderabad.
Tel. (0221)880151,880227

## NOTICE OF MEETING

NOTICE is hereby given to the Members that Forty Seventh Annual General Meeting of the Company will be held on 29lh November, 2003 at 2:00 p.m. at Haji Abdullah Haroon Muslim Gymkhana, Aiwan-e-Sadar Road, Karachi to transact the following business:-

1) To confirm the Minutes of Extra Ordinary General Meeting of the Company held on March 31,2003.

2) To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30,2003 together with the Directors' and Auditors' reports thereon.

3) To appoint Auditors for the year 2003-2004 and fix their remuneration. The present Auditors M/s. Faruq Ali & Company, Chartered Accountants, Karachi, retire 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

By order of the Board

(S. JARRAR HUSAIN)
Karachi: ***Company Secretary***

November 7, 2003

## NOTES

1) The Share Transfer Books of the Company will remain closed and no transfer of shares will be accepted for registration from Saturday, November 22, 2003 to Saturday, November 29, 2003 (both days inclusive).

2) A member entitled to attend and vote at this meeting shall be 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 of the Meeting and must be duly, stamped and witnessed.

3) Members are requested to notify the change in address, if any, immediately.

4) Guidelines for CDC Account Holders issued by Securities & Exchange Commission of Pakistan.
For Personal Attendance:

i) In case of individuals, the account holder or sub-account holder and /or the person whose securities are in group account and their registration details are uploaded as the Regulations, shall authenticate his/her identity by showing his/her original National Identity Card (NIC) at the time of attending the meeting.

ii) In case of corporate entity, the Board of Directors 'resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

*Dear Shareholders,*

The directors of your Company take pleasure in placing before you 47th Annual Report together with tli audited accounts of the Company for the year ended June 30, 2003 and auditors report thereon.

1. Production

During the year under review the Company produced 273,410 tonnes clinker and 193,170 tonnes cement *i* against 251,150 tonnes and 193,850 tonnes in the last financial year respectively. Due to low demand *tic,* production was kept in line with the demand in the cement market.

The position of production of Clinker, Cement and Pure Slag stands as under:

| | 2002-2003 | 2001-2002 |
|---|---|---|
| | Tonnes | Tonnes |
| Clinker | 273,410 | 251,150 |
| Cement | 193,170 | 193,850 |
| Pure Slag | 33,676 | 19,961 |

2. Marketing

The supply of cement during the year under review stood at 188,794 tonnes as against 197,872 tonnes in the last year. The sale of Pure Slag improved to a figure of 33,676 tonnes as compared to 19,861 tonnes of the last financial year. Similarly the Sale of Clinker also improved as the Company sold 82,912 tonnes of Clinker during the year as compared to 68,993 tonnes in the last year.

The following table shows sale of Company's Products, duly compared with the last financial year.

| | 2002-2003 | 2001-2002 |
|---|---|---|
| | Tonnes | Tonnes |
| Cement | 188,794 | 197,872 |
| Clinker | 82,912 | 68,993 |
| Pure Slag | 33,676 | 19,861 |

3. Operating Results:-

During the year Company reported Loss before taxation for the year of Rs.193.227 million as compared to Rs.l 12.506 million in the last year. The factors contributing for the increase in loss were the fall in the selling price, decrease in dispatch of cement, inflationary trend of input cost.

4. Directors

In pursuance of section 178(2) of the Companies Ordinance 1984, the election of company's directors was held in March, 2003 and Mr.Mazhar Ali Jatoi, Mr.Shahzad Ali Jatoi, Mr.Muhammad Moosa, Mr.Mushtaq Ali Shah Bukhari, Mr.Muhammad Abdul Samad, Mr.Nawab Ahmed Khanzada and Mr.Allah Rakha were declared elected as Company's Directors at the Extra Ordinary General Meeting held on 31st March 2003. Since there has been no change in the composition of your Board of Directors except that Mr. Allah Rakha has resigned and the Board has co-opted Mr.Izhar ul Haq as director in his place.

5. Future Outlook

The management of the company is taking certain major steps to improve efficiency in overall operations of the plant, marketing etc. to reduce the losses and eventually to make the company a profitable project. The Company has made Right Issue of 161,288,000 shares at a discount of 60%. The object of issuance of further shares, as above, is to meet cost of coal firing system and to reduce the borrowings of the Company. The generation of funds from the issue of right shares, subsequent to balance sheet date, would be conducive of decrease in Company's financial expenses in the years to come.

Zeal Pak has a basic and inherent disadvantage of operating on wet process as compared to other cement units. Under wet process 7.2MMCFD of Gas units are consumed to produce one tonne of clinker as compared to 3.5MMCFD tonnes in Dry process. As a result of higher cost of fuel the cost of producing cement of this Company remains much higher than other cement units. Consequent upon conversion of one kiln of 1000 tonnes per day on coal firing, the Company will be in a position to utilize maximum production capacity on much lesser cost. The Company is also in the process of installing ISO 9001-2000 which would ensure high quality of our products and better performance at all levels.

### 6. **Auditor's Qualification**

So far as Auditor's qualification on payment of additional sales tax is concerned the management has not expensed out Rs.50.857 million to Profit & Loss Accounts as an appeal against levy of above tax is lying before the honourable Custom, Central Excise and Sales Tax Appellate Tribunal. The Company feels that it has valid grounds for appeal of waiver of the above levy and is expecting a favourable outcome of the appeal.

As regards outstanding balances of more than 3 years management is in the process of taking concrete steps for their recovery and is confident to recover such balances in due course of time. It is therefore management's considered opinion that in view of efforts being made there is no need to make provision against these balances.

### 7. Auditor's Observation

As regards auditor's observation on going concern concept the same is based on Company's Losses and existing liquidity position whereas the future prospects as reported above in the Director's Report have not been taken into account. Your Directors are hopeful that considerable reduction in labour cost, conversion of one large kiln from wet process to semi dry process, implementation of Company plan of coal firing of its above mentioned kiln and expected improvement in cement market will go a long way to improve Company's performance and profitability. The liquidity position would also improve, as the company would receive funds from Right Share's subscription shortly. The results of the above measures will be reflected in the over all performance in near future. In view of this the preparation of accounts on going concern concept is proper.

### 8. Dividend

In view of losses no dividend has been recommend for the year 2002-2003, by your Board of Directors.

### 9. Statement on Corporate and Financial Reporting Framework

a) The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

b) Proper books of accounts, of the Company have been maintained.

c) Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statement and there has been no departure therefrom.

e) The system of internal control is being continuously reviewed by internal audit and other such procedures the process of review will continue and any weaknesses in controls will be removed.

f) In view of the market glut lower sale is been faced by the cement units of the Country, the sale of Company is also facing lower sale. Due to higher cost of fuel the Company is in the process of converting its Kilns on Coal Firing. On completion of this process the cost of fuel would reduce drastically. Eventually, the Company will be having margin of profit on sale. Therefore, there are no significant doubts upon Company's ability to continue as a going concern in future.

g) There has been no material departure from the best practices of corporate governance as defined in the listing regulations.

h) The company maintains gratuity fund account for its employees. Stated below is the value of the investment of the fund as on 30th June 2003.

Gratuity Fund: 1.752 million

i) Key operating and financial data for last six years in summarized form is annexed,

j) The number of board meeting held during the year July 01, 2002 to June 30, 2003 was Four.

The attendance of directors was as under:

| Name of Director | Meetings attended |
|---|---|
| Mr.Mazhar Ali Jatoi | 4 |
| Mr.Shahzad Ali Jatoi | 4 |
| Mr.Muhammad Moosa | 2 |
| Mr.Mushtaq Ali Shah Bukhari | 4 |
| Mr.Shamsuddin Khan (NIT) | 2 |
| Mr.Mumtaz Ali Memon (ICP) | 2 |
| Mr.Shahid Mehmood (ICP) | 3 |
| Mr.Muhammad Abdul Samad (NIT) | 2 |
| Mr.Nawab Ahmed Khanzada | — |
| Mr.Allah Rakha | 1 |

## 10. Pattern of Shareholding

The pattern of shareholding is annexed.

## 11. Auditors

The present auditors M/s. Faruq Ali & Co., Chartered Accountants, stand retired and being eligible, havs offered themselves for re-appointment as auditor of the Company for the year 2003-2004. The Audi Committee has also recommended their name for re-appointment.

## 12. Acknowledgement

I, on my behalf and on behalf of the Board of Directors of the Company wish to place on record th< appreciation for our officer and staff for their devotion to their duties. I also wish to convey appreciation tc our stockiest that have been extending cooperation to the Company.

For and on Behalf of the Board

## VISION

To be a premier manufacturing concern engaged in the nation building through optimum utilization of resources for the benefits of its stakeholders.

## MISSION

To build on our core competencies by making regular investment in the field of technology to bring about improvements in the quality of our product We strive to develop an organization having a strong team of dedicated professionals with satisfied customers and shareholders.

## CORE VALUES

Achieve excellence in business

Sustain development through technological advancements.

Commitment to quality

Continuous development of work force.

Compliance to the practices of ISO 9001:2000

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code ofCorporate Governance contained in the listing regulations of the Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1) The Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. At present the Board includes six independent non-executive directors.

2) The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3) All the resident directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DPI or an NBFI.

4) The Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by the employees of the Company.

5) The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the company.

6) All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

7) The meeting of the Board were presided over by the Chairman and in his absence by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated well in time before the meetings. The minutes of the meeting were appropriately recorded and circulated.

8) The Company Secretary and Head of Internal Audit department were appointed prior to the enforcement of the Code of Corporate Governance. However such next appointment if any including their remuneration and terms and conditions of employment as determined by the CEO will be referred to the Board for approval.

9) The Directors' report for this year has been prepared in compliance with requirement of the Code and fully describes the salient matters required to be disclosed.

10) The financial statements of the company were duly endorsed by the CEO and CFO before approval of the Board.

11) The directors, CEO and executives do not hold any interest in the shares on the company other than that disclosed in the pattern of shareholding.

12) The company has complied with all the corporate and financial reporting requirements of the code.

13) The Board has formed an Audit Committee. It presently comprises three members all of whom are non executive directors including the chairman of the committee.

14) The meeting of the audit committee were held at least once every quarter prior to approval of the interim and final results of the company and as required by the Code.

15) The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute Of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation Accountants (IFAC) guidelines on code of ethics as adopted by Institute Of Chartered Accountants of Pakistan.

16) The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed lhat they have observed IFAC guidelines in this regard.

17) We confirm that all other material principles contained in the Code ofCorporate Governance have been complied with.

## REVIEW REPORT TO THE MEMBERS ON STATEMENT OF

## COMPLIANCE WITH BEST PRACTICES OF CODE OF

## CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Zeal Pak Cement Factory Limited to comply with the Listing Regulation No.37 of the Karachi Stock Exchange where the Company is listed.

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

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

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

## STATEMENT OF ETHICS & BUSINESS PRACTICES

The business policy of the company is based on the principles of honesty, integrity and professionalism at every stage.

### Product Quality

Regularly update ourselves with technological advancements in the field of cement production to produce cement under higher standards and maintain all relevant technical and professional standards.

### Dealing with Employees

Provide congenial work atmosphere where all employees are treated with respect and dignity. Recognize and reward employees based on their performance and their ability to meet goals and objectives.

### Financial Reporting & Internal Controls

To implement an effective and transparent system of financial reporting and internal control to safeguard the interest of shareholders and fulfill the regulatory requirements

### Adherence to laws of the land

To fulfil all statutory requirements of the government and its regulatory bodies and follow relevant and applicable laws of the country

### Environmental protection

To protect environment and ensure health and safety of the workforce and well being of the people living in the adjoining areas of our plant

We recognize the need for working with optimum efficiency to attain desired levels of performance. We endeavour to conduct our business with honesty and integrity and produce and supply cement with care and competence, so that customers receive the quality they truly deserve

## YEAR WISE STATISTICAL SUMMARY

| | 2,003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|
| | | | | | | (in Metric Tons ) |
| Clinker Production | 273,410 | 251,150 | 253,850 | 275,760 | 280,680 | 139,210 |
| Cement Production | 193,170 | 193,850 | 219,960 | 260,270 | 300,290 | 171,810 |
| Cement Dispatched | 188,794 | 197,872 | 217,468 | 272,811 | 312,002 | 160,528 |
| | | | | | | (Rs. in '000) |
| ASSETS EMPLOYED | | | | | | |
| Fixed Assets | 361,506 | 377,312 | 387,619 | 425,609 | 467,642 | 516,454 |
| Investment and Long Term | | | | | | |
| Advances & Deposits | 920 | 920 | 181 | 181 | 181 | 181 |
| Current Assets | 834,942 | 768,340 | 751,560 | 567,008 | 543,346 | 588,398 |
| Total Assets Employed | 1^197,368 | 1,146,572 | 1,139,360 | 992,798 | 1,011,169 | 1,105,033 |
| FINANCED BY | | | | | | |
| Shareholders Equity | -353,663 | -160,718 | -45,305 | 32,931 | 100,298 | 195,421 |
| Long Term Liabilities | 7,619 | 7,686 | 5,791 | 6,006 | 6,311 | 9,270 |
| Deferred Liabilities | 393,168 | 323,446 | 205,300 | 254,654 | 285,799 | 314,663 |
| Current Liabilities | 1,150,244 | 976,158 | 973,574 | 699,207 | 618,761 | 585,679 |
| Total Funds Invested | 1,197,368 | 1,146,572 | 1,139,360 | 992,798 | 1,011,169 | 1,105,033 |
| TURNOVER & LOSS | | | | | | |
| Turnover (Net) | 549,634 | 581,300 | 711,399 | 719,690 | 712,965 | 340,831 |
| Operating Loss | 116,343 | 70,278 | 16,204 | 60,733 | 63,816 | 41,274 |
| Loss before Taxation | 193,224 | 112,506 | 82,121 | 119,947 | 116,585 | 139,089 |
| Loss after Taxation | 192,943 | 115,413 | 78,236 | 91,545 | 120,153 | 140,793 |
| Loss c/f | 669,485 | 476,542 | 361,129 | 530,975 | 463,608 | 368,485 |
| RATIOS & STATISTICS | | | | | | |
| Loss to sales in % | 21 | 12 | 2 | 8 | 9 | 12 |
| Current Ratio | 0.72588 | 0.78711 | 0.77196 | 0.81093 | 0.87812 | 1.00464 |
| Paid up value per share (Rs.) | 10 | 10 | 10 | 10 | 10 | 10 |
| Loss per share (Rs.) | 22.15 | 13.25 | 8.98 | 10.51 | 13.79 | 16.16 |

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Zeal Pak Cement Factory Limited, as at June 30, 2003 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 purpose 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 statement. 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:

Trade debts amounting to Rs.71.106 million are stagnant since proceeding years, for which in our opinion provision is required to be made. Further, additional sales tax of Rs.50.875 million has also been reflected as recoverable in note 18.1 of the notes to the accounts, in our opinion, this should be expensed out after the adverse decision by Central Board of Revenue on the case remanded by High Court of Sindh. Thus increasing losses for the year and accumulated losses by these amounts.

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 change in accounting policy as described in note 3.3 and 3.4 to the accounts with which we concur;

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

iii) the business conducted, investment 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, except for the financial effect of the matter mentioned above and to the extent to which this may effect the financial results of the company, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30,2003, and of the Loss, its cash flows and changes in equity for the year then ended; and

d) In our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

e) Without qualifying our opinion, we draw attention of members to note 2 to the financial statements, which indicates that the company incurred a net loss of Rs. 192.945 million during the year ended June 30,2003 and as of that date, its accumulated losses exceeded its capital by Rs.353.663 million and its current liabilities exceeded its current assets by Rs.315.302 million. These Condition alongwith other matter as set forth in note 2, indicate the existence of a material uncertainty, which may cast a significant doubt about the company's ability to continue as a going concern. . ,

## BALANCE SHEET

AS AT JUNE 30, 2003

| | Notes | 2003 | 2002 |
|---|---|---|---|
| | | (Rupees in '000) | |
| EQUITY AND LIABILITIES | | | |
| SHARE CAPITAL AND RESERVES | | | |
| Authorized capital | | 1,800,000 | 500,000 |
| 180,000,000 (2002: 50,000,000) | | | |
| Ordinary shares of Rs.10/- each | | | |
| Issued, subscribed and paid-up-capital | | 87,120 | 87,120 |
| Reserves | 5 | 228,704 | 228,704 |
| Accumulated (loss) | | -669,487 | -476,542 |
| | | -353,663 | -160,718 |
| NON-CURRENT LIABILITIES | | | |
| Long-term deposits | 6 | 7,619 | 7,686 |
| Deferred liabilities | 7 | 393,168 | 323,446 |
| CURRENT LIABILITIES | | | |
| Short-term finances | 8 | 866,402 | 719,240 |
| Trade creditors | 9 | 147,650 | 131,759 |
| Accrued expenses and other liabilities | 10 | 123,610 | 115,326 |
| Provision for taxation | 11 | 12,582 | 9,833 |
| | | 1,150,244 | 976,158 |
| CONTINGENCIES AND COMMITMENTS | 12 | — | — |
| | | 1,197,368 | 1,146,572 |
| ASSETS | | | |
| NON CURRENT ASSETS | | | |
| Tangible fixed assets | | | |
| Operating assets | 13 | 309,677 | 343,736 |
| Capital work-in-progress | 14 | 51,829 | 33,576 |
| | | 361,506 | 377,312 |
| Long-term deposits | | 920 | 920 |
| CURRENT ASSETS | | | |
| Stores, spares and loose tools | 15 | 171,203 | 195,688 |
| Stock-in-trade | 16 | 158,661 | 130,574 |

| | | | |
|---|---|---|---|
| Trade debts | 17 | 321,726 | 221,975 |
| Loans, advances, deposits, short-term pre-payments and other receivables | 18 | 174,045 | 214,410 |
| Cash and bank balances | 19 | 9,307 | 5,693 |
| | | 834,942 | 768,340 |
| | | 1,197,368 | 1,146,572 |

## PROFIT AND LOSS ACCOUNT

## FOR THE YEAR ENDED JUNE 30, 2003

| | Notes | 2003 | 2002 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Sales - Net | 20 | 549,635 | 581,300 |
| Cost of sales | 21 | -645,680 | -636,644 |
| Gross (loss) | | -96,045 | -55,344 |
| Administrative and general expenses | 22 | -15,083 | -10,581 |
| Selling and distribution expenses | 23 | -5,217 | -4,353 |
| | | -20,300 | -14,934 |
| Operating (loss) | | -116,345 | -70,278 |
| Financial charges | 24 | -88,948 | -98,473 |
| | | -205,293 | -168,751 |
| Other income . | 25 | 12,066 | 900 |
| Loss before un-usual and prior period adjustments | | -193,227 | -167,851 |
| Un-usual and prior period adjustment | 26 | — | 55,345 |
| Loss before taxation | | -193,227 | -112,506 |
| Taxation | | | |
| — Current year | | -2,748 | -2,907 |
| — Prior year | | -100 | — |
| — Deferred | | 3,130 | — |
| | | 282 | -2,907 |
| Loss after taxation | | -192,945 | -115,413 |
| Accumulated loss brought forward | | -476,542 | -361,129 |
| Balance carried over to balance sheet | | _(669,487l | -476,542 |
| Loss per share - Basic (Rupees) | 27 | -22.15 | -13.25 |

| | Notes | 2003 | 2002 |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Cash used in operations | 28 | -112,842 | -114,161 |
| Payments for: | | | |
| Financial charges | | -79,660 | -99,106 |
| Income tax | | -4,837 | -3,946 |
| Net cash (used in) operating activities | | -197,339 | -217,213 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Fixed capital expenditure | | -18,809 | -28,156 |
| Sale proceed of fixed assets | | 500 | 400 |
| Net cash (used in) investing activities | | -18,309 | -27,756 |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Refund of long-term deposits | | -67 | -280 |
| Receipt / (refund) of holding company loan - Net | | 72,167 | 173,272 |
| Net cash generated from financing activities | | 72,100 | 172,992 |
| Net (decrease) in cash and cash equivalents | | -143,548 | -71,977 |
| Cash and cash equivalents at the beginning of the yea | | -713,547 | -641,570 |
| Cash and cash equivalents at the end of the year | 29 | -857,095 | -713,547 |

*The annexed notes form an integral part of these account*

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2003

### 1. THE COMPANY AND ITS OPERATIONS

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 Exchange. The Company is principally engaged in the manufacturing and sale of Cement and Clinker.

## 2. GOING CONCERN ASSUMPTION

During the year, Company has sustained a net loss of Rs. 192.945 million (2002: Rs. 115.413 million) and as of that date its accumulated losses exceeded its capital by Rs.353.663 million (2002: Rs. 160.718 million) and its current liabilities exceeded its current assets by Rs.315.302 million (2002: Rs.207.818 million). However the financial statements have been prepared under going concern assumption as the Company is making a significant right share issue subsequent to year end, which will improve its adverse capital position and will have a positive impact on profitability of the company.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Accounting convention

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

### 3.2 Statement of compliance

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

In the current year, the following International Accounting Standards became applicable to the company:

— IAS 12 Income Taxes (Revised 2000)

— IAS 39 Financial Instruments: Recognition and measurement

— IAS 40 Investment Property

In accordance with the application of revised IAS 12 the Company has changed its accounting policy for deferred taxation as disclosed in note 3.4 to the accounts. IAS 39 and IAS 40 will not have any material impact on the financial statements of the company.

### 3.3 **Staff retirement benefits**

***Funded***

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

All liabilities of the fund have been settled and the fund is in the process of being closed.

***Unfunded***

The Company operates an unfunded gratuity scheme for the staff. Provisions are made based on actuarial recommendations. During the year actuarial valuation was carried out for the first

time with effective date of 30 June 2003 using the projected unit of credit method as required by International Accounting Standard 19 "Employee Benefits". Had the policy not been changed the Loss for the year would have decreased by Rs. 0.295 million.

The transitional liability arising out of change in accounting policy is recognized over a period of five years on straight line basis.

### 3.4 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, or minimum tax at 0.5 percent of turnover, whichever is higher.

***Deferred***

During the year Company has changed its accounting policy in respect of deferred taxation in order to comply with the requirements of the revised International Accounting Standard 12 "Income Taxes" which became applicable for the financial statements covering periods beginning on or after 01 January 2002. Accordingly, deferred tax is now recognized on all major timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes.

The change in accounting policy has been applied prospectively and the comparative information has not been restated as change will not have a material effect on the prior years.

### 3.5 Trade and other payables

Short term liabilities for trade and other payables are carried at cost.

### 3.6 **Tangible fixed assets and depreciation**

Operating assets are stated at cost less accumulated depreciation, except freehold land and capital work-in-progress which are stated at cost. Cost of certain fixed assets and capital work-in-progress comprises of historical cost, exchange differences in respect of foreign currency transactions and the cost of borrowings during construction period in respect of loans taken specifically for the projects.

Depreciation on operating assets is charged to income applying the reducing balance method at the rates specified in note 13 to the financial statements.

Full year's depreciation is charged on assets capitalized during the year, whereas no depreciation is charged on assets disposed off/ retired during the year.

Normal repairs and maintenance are charged to income as and when incurred. Major renewals and replacements are capitalized and the assets so replaced, if any, are retired.

Gain or loss on sale or retirement of assets is included in income currently.

### 3.7 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.

Loose tools are amortized @ 10% per annum using reducing balance method.

### 3.8 Stock-in-trade

These are valued at lower of average cost and net realizable 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 include prime cost and appropriate proportion of production overheads.

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

3.9 Trade debts

Trade debts originated by the company are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debt is made when collection of full amount is no longer probable. Bad debts are written off as incurred.

3.10 Loans, advances and other receivables

Loans, advances and other receivables are recognized initially at cost and subsequently measured at amortized cost.

3.11 Short term and long term loans

All loans and accrued interest are recognized initially at cost and subsequently measured at amortized cost.

3.12 Cash and bank balances

Cash in hand and at banks are carried at cost.

3.13 Foreign currency translation

Transactions in foreign currencies are recorded using the rates of exchange prevailing at the date of transaction.

Assets and liabilities in foreign currencies are translated into Rupees at exchanges rates approximating those prevailing at the balance sheet date except where forward exchange contracts have been entered into for repayment of liabilities, in which case the rates contracted for are used.

In respect of foreign currency loans obtaining for acquisition of fixed assets, exchange differences on principal amount are included in the cost of relevant assets over the period of these loans.

All other exchange differences are taken into profit and loss account.

3.14 Provisions

A provision is recognized in the balance sheet when the company has a legal or constructive obligation as a result of past event, 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 of the amount of obligation.

3.15 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash and bank balances, net of short term running finances.

3.16 Financial instruments

All the financial assets and liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account currently.

Financial instruments carried on the balance sheet include receivables, cash and bank balances, creditors, borrowings and other payables. The particular recognition method adopted is disclosed in the individual policy statements associated with each item.

Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

3.17 Revenue recognition

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

## 4. ISSUED, SUBSCRIBED AND PAID-UP-CAPITAL

| | | 2003 | 2002 |
|---|---|---|---|
| | | (Rupees in '000) | |
| 2,400,000 | Ordinary shares of Rs.10/- each fully paid in cash (2002: 2,400,000 shares of Rs.10/- each.) | 24,000 | 24,000 |
| 1,956,000 | Ordinary shares of Rs.10/- each issued as fully paid bonus shares (2002: 1,956,000 shares of Rs.10/- each.) | 19,560 | 19,560 |
| 4,356,000 | Ordinary right shares of Rs.10/- each fully paid in cash (2002: 4,356,000 shares of Rs.10/- each.) | 43,560 | 43,560 |
| 8,712,000 | | 87,120 | 87,120 |

4.1 At June 30, 2003, M/s. Sardar Muhammad Ashraf D. Baluch (Private) Limited (Holding Company) and its nominees held 4,574,454 (2002:4,574,454) ordinary shares of Rs. 10/- each.

## 5. RESERVES

| | | | |
|---|---|---|---|
| Capital reserves | | | |
| Tax holiday | | | |
| — Third Kiln | | 1,007 | 1,007 |
| — Fourth Kiln | | 9,897 | 9,897 |
| | 5.1 | 10,904 | 10,904 |
| Share premium | 5.2 | 217,800 | 217,800 |
| | | 228,704 | 228,704 |

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

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

## 6. LONG TERM DEPOSITS

| | | | |
|---|---|---|---|
| From cement stockists | 6.1 | 5,436 | 5,511 |
| Others - Interest free | | 2,183 | 2,175 |
| | | 7,619 | 7,686 |

6.1 These represent interest free security deposits from cement stockists and are repayable 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.0.004 million (2002: Rs.0.004 million), as referred to in note 19.1 to the accounts. Further, for remaining deposits, the company is in the process of complying with Section 226, whereby the agreements with stockists.

## 7. DEFERRED LIABILITIES

| | | 2003 | 2002 |
|---|---|---|---|
| | | (Rupees | in '000) |
| Deferred taxation | 7.1 | 20,549 | 23,680 |
| Employees retirement benefits | 7.2 | 1,752 | 1,066 |
| Due to M/s. Sardar Muhammad Ashraf D. Baluch (Private) Limited | 7.3 | 370,867 | 298,700 |
| | | 393,168 | 323,446 |

7.1 Deferred taxation

| | | |
|---|---|---|
| Deferred tax liability arising due to accelerated tax depreciation | 39,442 | 46,641 |
| Deferred tax assets arising out of staff gratuity, assessed loss and other provisions | -18,893 | -22,961 |

| | | | |
|---|---|---|---|
| | | 20,549 | 23,680 |

Assessed losses amounting to Rs.411.230 million have not been taken in account for computation of deferred tax liability because of current losses and non-availability of any evidence as to sufficient future profits.

| | | | |
|---|---|---|---|
| 7.2 Employees retirements benefits | | | |
| Employees gratuity: | | | |
| Movement in balance | | | |
| Opening balance | | 1,066 | 847 |
| Payments during the year | | — | — |
| | | 1,066 | 847 |
| Provision for the year | 7.2.2 | 686 | 219 |
| Payable to gratuity fund | | — | 55,345 |
| Payable to gratuity fund written back | | — | -55,345 |
| | | 686 | 219 |
| | | 1,752 | 1,066 |
| 7.2.1 Balance sheet reconciliation | | | |
| Present value of defined benefit obligations | | 2,399 | — |
| Less: Unrecognized transitional liability | | -527 | — |
| Less: Unrecognized actuarial loss | | -120 | — |
| | | 1,752 | — |
| 7.2.2 Charge for the year | | | — |
| Service cost | | 417 | — |
| Interest cost | | 138 | — |
| Recognition of transitional liability | | 131 | — |
| | | 686 | — |

| | |
|---|---|
| Principal actuarial assumption | |
| Expected rate of increase in salaries | 7 % per annum |
| Discount factor used | 8 % per annum |
| Retirement age | 60 years |

7.3 The above Company being the parent company has agreed to convert the above amount with approval of Securities and Exchange Commission of Pakistan into share capital under the right issue of shares by the company subsequent to the year end, and also agreed to defer the remaining amount payable up to the year 2005, hence the same is being reflected as non-current liability. The liability is unsecured.

| | | 2003 | 2002 |
|---|---|---|---|
| | | (Rupees in '000) | |
| 8. SHORT TERM FINANCES | | | |
| Short term running finances - Secured | 8.1 | 860,653 | 716,996 |
| Book overdraft | | 5,749 | 2,244 |
| | | 866,402 | 719,240 |

8.1 The company has short-term finance facilities from various banks amounting to Rs.911 million (2002: Rs.936 million). The rate of mark-up ranges between 7.25 percent to 16 percent per annum (2002: 11% to 16%). The above financing are secured by equitable mortgage on Company's land, building and machinery, first charge on fixed assets of the company, floating charge on its current assets, registered hypothecation of stock-in-trade, stores and spares, book debts of the company, lien on sponsor's deposits, cross company guarantee by holding company and personal guarantee of directors. Mark-up on the running finance is payable quarterly in arrears except for one bank for which it is payable monthly in arrears. The facility is renewable every year.

| | | |
|---|---|---|
| 9. TRADE CREDITORS | | |
| Associated companies | 49,061 | 49,437 |
| Others • | 98,589 | 82,322 |
| | 147,650 | 131,759 |
| 10. ACCRUED EXPENSES AND OTHER LIABILITIES | | |
| Accrued expenses | 39,658 | 61,810 |

| | | | |
|---|---|---|---|
| Accrued mark-up on short term running finance - secured | | 30,986 | 21,697 |
| Royalty and excise duty on lime stone | | 1,015 | 1,022 |
| Advance from customers | 10.1 | 37,158 | 16,912 |
| Sales tax payable | | 10,057 | 9,687 |
| Local council taxes | | 931 | 931 |
| Unclaimed dividend | | 1,773 | 1,773 |
| Income tax deducted at source | | 490 | 204 |
| Others | | 1,542 | 1,290 |
| | | 123,610 | 115,326 |

## 11. PROVISION FOR TAXATION

The income tax assessments of the company have been finalized upto and including assessment year 2000-2001.

Provision for taxation represents minimum tax at the rate of 0.5 percent of turnover.

11.1 Relationship between income tax expense and accounting loss

| | |
|---|---|
| Accounting loss as per accounts | -193,227 |
| Applicable tax rate | 35% |
| Tax (refundable) on accounting loss | -67,629 |
| Tax effect of timing difference on depreciation | 4,786 |
| Tax effect of expenses that are not deductible in determining taxable loss charged to profit and loss account | 267 |
| Tax (refundable) under normal rules | -62,576 |
| Minimum tax liability provided in accounts as per Income Tax Ordinance, 2001 | 2,748 |

## 12. CONTINGENCIES AND COMMITMENTS

### 12.1 Contingencies

a) Contingent liabilities in respect of claims not acknowledged as debts amounted to Rs.4.84 million (2002: Rs.4.84 million) representing claims by WAPDA relating to supply of electricity as the same is subject to negotiation.

b) Guarantees issued on behalf of Company by commercial banks Rs.4.334 million (2002: Rs. 10.478 million).

c) Company is claiming a receivable of Rs.0.895 million from Mustehkam Cement Limited, against a counter claim of Rs.0.162 million by Mustehkam Cement Ltd. The settlement of the matter is subject to negotiation.

d) Central excise department has filed a suit against the company for recovery of Rs.8.521 million alleging that the company has manufactured clinker in excess of its declared production capacity to excise department in violation of Production Capacity Rules, 1991. The latest hearing of the case was fixed on June 28, 2003 which was adjourned. No future date of hearing is fixed yet as a result of which demand is not yet established.

### 12.2 Commitments

Commitments relating to letters of credit amounts to Rs. 12.280 million (2002: Rs.61.540 million).

## 13. OPERATING ASSETS

| Particulars | COST | | | | Rate % | DEPRECIATION | | | | Book Value | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | As At July 12,002 | Addition | (Disposals) | As At June 30, 2003 | | As At July 12,002 | For the Year | On (Disposals) | As At June 30, 2003 | As at 30 June 2003 | As at 30 June 2002 |

| | | (Rupe | es in '000) | | | | | (Rupe | es in '000) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Free hold land | 3,357 | | — | 3,357 | | _ | - | - | | 3,357 | 3,357 |
| Leasehold quarry land | 7,561 | — | - | 7,561 | | 4,338 | | - | 4,338 | 3,223 | 3,223 |
| Building on free hold land | 49,511 | — | — | 49,511 | 5 to 10 | 40,393 | 790 | — | 41,183 | 8,328 | 9, 1 1 8 |
| Office premises | 4,498 | — | — | 4,498 | 5 | 2,878 | 81 | - | 2,959 | 1,539 | 1,620 |
| Road and Railway sidings | 2,408 | — | — | 2,408 | 5 to 10 | 2,294 | 12 | — | 2,306 | 102 | 114 |
| Plant and machinery | 1 ,044,42 1 | 87 | — | 1,044,508 | 10 | 726,812 | 31,770 | _. | 758,582 | 285,926 | 317,609 |
| Locomotives, dumpers, shovels and trucks | 72,115 | — | — | 72,115 | 20 | 69,473 | 527 | — | 70,000 | 2,115 | 2,642 |
| Cars and jeeps | 15,698 | 320 | -555 | 15,463 | 20 | 12,816 | 552 | (III) | 13,257 | 2,206 | 2,882 |
| Library books | 4 | — | — | 4 | 10 | 4 | — | — | 4 | — | — |
| Furniture, fixtures and equipments | 22,335 | 149 | — | 22,484 | 10 to 15 | 19,164 | 439 | | 19,603 | 2,881 | 3,171 |
| 2003 | 1,221,908 | 556 | -555 | 1,221,909 | | 878,172 | 34,171 | (III) | 912,232 | 309,677 | — |
| 2002 | 1 ,220,494 | 1,838 | -424 | 1,221,908 | | 840,133 | 38,124 | -85 | 878,172 | — | 343,736 |

| | 2003 | 2002 |
|---|---|---|
| | (Rupees in '000) | |
| 13.1 Depreciaton Charge for the year has been allocated as follows: | | |
| Cost of sales | 33,585 | 3-7,287 |
| Administrative and general expenses | 398 | 558 |
| Selling and distribution expenses | 188 | 279 |
| | 34,171 | 38,124 |

13.2 Disposal of operating assets:

| Description | Cost | Acumulated Depreciation c | Book Value | Sale Proceed | Mode of Disposal | Sold To |
|---|---|---|---|---|---|---|
| | | | Rupees in '000) | | | |
| Suzuki Cultus LXZ-9966 | 555 | 111 | 444 | 500 | Negotiation | Mr. Abdul Majeed Khan S/o. Ghulam Qadir Khan N.I.C. #272-51-114656 Near Masjid Gondi Wali, Muhalla Sarwar Shah, Tehsil Ahmedpur Shaqia Dist. Bahawalpur |
| 2003 | 555 | 111 | 444 | 500 | | |
| 2002 | 424 | 85 | 339 | 400 | | |

| | | 2003 | 2002 |
|---|---|---|---|
| | | (Rupees in '000) | |
| 14. CAPITAL WORK-IN-PROGRESS | | | |
| Opening balance | | 26,318 | — |
| Add: Expenditure during the year | | 18,513 | 26,318 |
| | 14.1 | 44,831 | 26,318 |
| Stores and spares held for capital expenditure | | 6,998 | 7,258 |
| | | 51,829 | 33,576 |

14.1 This represents cost of Coal Firing Plant under construction with a total estimated cost of Rs. 150.00 million.

| | | |
|---|---|---|
| 15. STORES, SPARES AND LOOSE TOOLS | | |
| Stores | 40,694 | 70,780 |
| Spares | 124,458 | 119,293 |
| Stores and spares in transit | 9,100 | 8,667 |
| Loose tools | 951 | 948 |
| | 175,203 | 199,688 |
| Less: Provision for obsolescence | 4,000 | 4,000 |
| | 171,203 | 195,688 |

16. STOCK IN TRADE

| | | | |
|---|---|---|---|
| Raw and packing materials | | 123,436 | 113,782 |
| Work in process | | 21,431 | 11,377 |
| Finished goods | | 13,794 | 5,415 |
| | | 158,661 | 130,574 |

17. TRADE DEBTS

| | | |
|---|---|---|
| Considered good | | |
| Unsecured | 321,726 | 221,975 |
| | 321,726 | 221,975 |
| Considered doubtful | 677 | 677 |
| Less: Provision for doubtful debts | -677 | -677 |
| | 321,726 | 221,975 |

17.1 Trade debts include Rs.81.736 million (2002: NIL) due from associated undertaking. The maximum aggregate amount due from associated undertaking at the end of any month during the year was Rs. 81.736 million (2002: Rs.35.958 million).

18. LOANS, ADVANCES, DEPOSITS, SHORT TERM PREPAYMENTS AND OTHER RECEIVABLES

| | Note | 2003 (Rupees in '000) | 2002 |
|---|---|---|---|
| Loans and advances | | | |
| Loans - Considered good | | 1,315 | 1,465 |
| Advances - Considered good | | | |
| — Employees | | 5,820 | 5,329 |
| — Suppliers and contractors | | 42,476 | 62,450 |
| — Advance tax | | 28,525 | 23,787 |
| — Excise duty | | 3,562 | 3,685 |
| — Octroi deposits | | 2,461 | 2,461 |
| Advances - Considered doubtful | | 4,036 | 4,036 |
| Less: Provision for doubtful advances | | 4,036 | 4,036 |
| | | 84,159 | 99,177 |
| Deposits | | | |
| Margin against bank guarantees | | 5,408 | 4,879 |
| Margin against letters of credit | | 3,100 | 6,875 |
| Others | | 3,107 | 4,108 |
| | | 11,615 | 15,862 |
| Short-term prepayment | | 172 | 172 |
| Other receivables | | | |
| Considered good | | | |
| Due from SCCP and other cement units | | 3,896 | 9,391 |
| Sales tax recoverable | 18.1 | 50,857 | 50,857 |
| Insurance claim recoverable | | 2,199 | 2,199 |
| Income tax refundable | | 16,735 | 16,140 |
| Others | | 4,412 | 20,612 |
| | | 78,099 | 99,199 |
| Considered doubtful | | | |
| Others | | 659 | 659 |
| Less: Provision for doubtful receivable | | -659 | -659 |
| | | 174,045 | 214,410 |

18.1 The above amount has been paid under protest against demand of additional sales tax for the year 1996 - 97. On a petition filed by the Company the Honorable High Court of Sindh remanded the case to CBR who did not allow relief to the Company. The Company has filed an appeal before Central Excise and Custom Appellate Tribunal which is pending for hearing. The' Management is confident of a favorable outcome of this appeal.

18.2 Loan and advances include Rs.0.325 million due from executive of the company and maximum aggregate amount due from executives at the end of any month during the year was Rs.0.427 million.

| | 2003 | 2002 |
|---|---|---|
| | (Rupees in '000) | |

19. CASH AND BANK BALANCES

| | | | |
|---|---|---|---|
| Cash in hand | | 385 | 374 |
| Cash at banks: | | | |
| Current accounts | | 8,918 | 5,315 |
| Deposit accounts | 19.1 | 4 | 4 |
| | | 9,307 | 5,693 |

19.1 This includes amounts earmarked against security deposits of Rs.0.004 million (2002: Rs.0.004 million).

20. SALES -Net

| | | | |
|---|---|---|---|
| Gross sales | | | |
| — Cement | | 751,214 | 817,831 |
| — Clinker | | 133,379 | 111,079 |
| | | 884,593 | 928,910 |
| Less: | | | |
| — Excise duty | | 184,048 | 197,872 |
| — Sales tax | | 129,748 | 137,695 |
| — Trade discount | | 21,162 | 24,190 |
| | | 334,958 | 359,757 |
| | | 549,635 | 569,153 |
| Income from grinding of slag | | — | 12,147 |
| | | 549,635 | 581,300 |

| | | 2003 | 2002 |
|---|---|---|---|
| | | (Rupee s in '000) | |
| 21. COST OF SALES | | | |
| Raw and packing material consumed | | | |
| Opening stock | | 113,782 | 104,998 |
| Purchases | | 114,965 | 96,481 |
| | | 228,747 | 201,479 |
| Closing stock | | -123,436 | -113,782 |
| | | 105,311 | 87,697 |
| Stores and spare parts consumed | | 73,894 | 54,117 |
| Fuel and power | | 400,250 | 396,605 |
| Salaries, wages and benefits | 21.1 | 36,499 | 35,259 |
| Repairs and maintenance | | 2,645 | 4,662 |
| Insurance | | — | 1,100 |
| Rent, rates and taxes | | 342 | 433 |
| Depreciation | 13.1 | 33,585 | 37,287 |
| Other expenses | | 11,587 | 10,441 |
| | | 558,802 | 539,904 |
| | | 664,113 | 627,601 |
| Work-in-process | | | |
| Opening | | 11,377 | 12,840 |
| Closing | | -21,431 | -11,377 |
| Cost of goods manufactured | | 654,059 | 629,064 |
| Finished goods | | | |
| Opening | | 5,415 | 12,995 |
| Closing | | -13,794 | -5,415 |
| | | 645,680 | 636,644 |

21.1 Salaries, wages and other benefits include amount of Rs.0.597 million (2002: Rs.0.195 million)

relating-to staff retirement benefits.

| | | 2003 | 2002 |
|---|---|---|---|
| | | (Rupees in '000) | |
| 22. ADMINISTRATIVE AND GENERAL EXPENSES | | | |
| Salaries, allowances and other benefits | 22.1 | 3,259 | 2,645 |
| Vehicles running expenses | | 1,452 | 1,083 |
| Rent, rates and taxes | | 72 | 990 |

| | | | |
|---|---|---|---|
| Insurance | | 38 | 76 |
| Legal and professional charges | | 4,335 | 1,097 |
| Auditors' remuneration | 22.2 | 252 | 222 |
| Depreciation | 13.1 | 398 | 558 |
| Communications | | 1,400 | 1,564 |
| Stationery and general expenses | | 729 | 372 |
| Utilities | | 1,704 | 1,187 |
| Donation | 22.3 | 79 | 46 |
| Fee and subscription | | 745 | 157 |
| Others | | 620 | 584 |
| | | 15,083 | 10,581 |

22.1 Salaries and other benefits include amount of Rs.0.089 million (2002: Rs.0.024 million) relating to staff retirement benefits.

22.2 Auditors' remuneration

| | | |
|---|---|---|
| Audit fee | 75 | 75 |
| Half yearly accounts review fee | 37 | — |
| Out of pocket expenses | 90 | 90 |
| Cost audit expenses | 25 | 32 |
| Other services | 25 | 25 |
| | 252 | 222 |

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

| | | 2003 | 2002 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **23. SELLING AND DISTRIBUTION EXPENSES** | | | |
| Salaries, allowances and other benefits | | 1,527 | 1,181 |
| Marking fee | | 684 | 649 |
| Vehicles running expenses | | 685 | 629 |
| Insurance | | — | 134 |
| Repairs and maintenance | | 132 | 119 |
| Depreciation | 13.1 | 188 | 279 |
| Advertisement | | 520 | 266 |
| Communications | | 465 | 565 |
| Stationery and general expenses | | 277 | 119 |
| Others | | 739 | 412 |
| | | 5,217 | 4,353 |
| **24. FINANCIAL CHARGES** | | | |
| Mark up on short-term running finances | | 87,943 | 97,476 |
| Bank charges | | 970 | 871 |
| Guarantees commission | | 35 | 126 |
| | | 88,948 | 98,473 |
| **25. OTHER INCOME** | | | |
| Sale of scrap | | 157 | 227 |
| Gain on disposal of fixed assets | | 56 | 61 |
| Rental income | | 480 | 480 |
| Liabilities no longer required to be paid written back | | 11,166 | — |
| Others | | 207 | 132 |
| | | 12,066 | 900 |
| **26. UN-USUAL AND PRIOR PERIOD ADJUSTMENT** | | | |
| Payable to gratuity fund written back | | — | 55,345 |
| **27. LOSS PER SHARE - Basic** | | | |
| Loss after taxation | | -192,945 | -115,413 |
| | | Number of Shares | |
| Weighted average number of ordinary shares | | 8,712,000 | 8,712,000 |
| Loss per share - Basic (Rupees) | | -22.15 | -13.25 |

| | | 2003 | 2002 |
|---|---|---|---|
| | | (Rupees in '000) | |
| 28. CASH USED IN OPERATIONS | | | |
| (Loss) before taxation | | -193,227 | -112,506 |
| Adjustment for non cash charges and other items: | | | |
| Depreciation | | 34,171 | 38,124 |
| Gain on disposal of fixed assets | | -56 | -61 |
| Liabilities no longer required to paid written back | | -11,166 | — |
| Provision for staff retirement benefits | | 686 | 219 |
| Financial charges | | 88,948 | 98,473 |
| Un-usual and prior period adjustment | | — | -55,345 |
| Working capital changes | 28.1 | -32,198 | -83,065 |
| | | 80,385 | -1,655 |
| | | (112,842^ | 014,161) |
| 28.1 Working capital changes | | | |
| (Increase) / decrease in current assets | | | |
| Store, spares and loose tools | | 24,485 | -27,440 |
| Stock in trade | | -28,087 | 259 |
| Trade debts | | -99,751 | 35,040 |
| Loans, advances, deposits, short-term prepayment and other receivable | | 45,103 | -23,110 |
| | | -58,250 | -15,251 |
| Increase / (decrease) in current liabilities | | | |
| Trade creditors | | 15,891 | -22,663 |
| Accrued and other liabilities (Net) | | 10,161 | -45,151 |
| | | (32,1983 | (83,0651 |
| 29. CASH AND CASH EQUIVALENT | | | |
| Cash and bank balances | | 9,307 | 5,693 |
| Short term finances | | -866,402 | -719,240 |
| | | -857,095 | -713,547 |

## 30. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS & EXECUTIVES

The aggregate amount charged in the accounts for remuneration, including all benefits, to the Chief Executive, Directors and Executives of the Company are as follows :

| | Chief Executive | | Directors | | Executives | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Fee | — | — | 8 | 8 | — | — | 8 | 8 |
| Managerial remuneration | 337 | 204 | 206 | 176 | 1,113 | 784 | 1,656 | 1,164 |
| Housing | 202 | 122 | 46 | 50 | 292 | 300 | 540 | 472 |
| Conveyance | — | 12 | 12 | — | 32 | 43 | 44 | 55 |
| Medical expenses | 12 | 12 | 24 | 12 | 84 | 88 | 120 | 112 |
| Utilities | 64 | 108 | — | 25 | — | 102 | 64 | 235 |
| Allowances | 60 | 22 | 36 | 2 | 81 | 18 | 177 | 42 |
| Retirement benefits | 28 | 20 | 18 | 10 | 71 | 70 | 117 | 100 |
| | 703 | 500 | 350 | 283 | 1,673 | 1,405 | 2,726 | 2J88 |
| No. of persons | 1 | 1 | 2 | 1 | 7 | 9 | 10 | 11 |

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

## 31. FINANCIAL INSTRUMENTS AND RELATED NOTES

The Company's exposure to interest rate risk and the effective rates on its financial assets and liabilities as on June 30,2003 are summarised as under

| | INTEREST / MARKUP BEARING | | | NON-INTEREST / MARKUP BEARING | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Less than One Year | More than One Year | Total | Less than One Year | More than One Year | Total | 2003 | 2002 |
| Financial Assets: | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Long Term Deposits | — | _ | — | — | 920 | 920 | 920 | 920 |
| Trade Debts | — | — | — | 321,726 | — | 321,726 | 321,726 | 221,975 |
| Loans. Advances, Deposits & | | | | | | | | |
| Other Receivables | — | — | — | 31,718 | — - | 31,718 | 31,718 | 57,319 |
| Cash and Bank Balances | 4 | — | 4 | 9,303 | — | 9,303 | 9,307 | 5,693 |
| TOTAL | 4 | — | 4 | 362.747 | 920 | 363,667 | 363.671 | 285.907 |
| Financial Liabilities: | | | | | | | | |
| Deferred Liabilities | _ | — . | — | ._ | 370,867 | 370,867 | 370,867 | 298,700 |
| Long Term Deposits | — | — | — | — | 7,619 | 7,619 | 7,619 | 7,686 |
| Short Term Finance | 860,653 | — | 860,653 | 5,749 | — | 5,749 | 866,402 | 719,240 |
| Trade Creditors | — | — | — | 147,650 | — | 147,650 | 147,650 | 131,759 |
| Accrued & Other Liabilities | — | — | — | 74.449 | — | 74.449 | 74,449 | 86.774 |
| TOTAL | 860.653 | — | 860.653 | 227.848 | 378,486 | 606,334 | 1,466,987 | 1.244,159 |
| 2003 | -860,649 | — | -860,649 | 134,899 | -377,566 | -242,667 | -1,103,316 | — |
| 2002 | -716,992 | — | -716,992 | 64,206 | -305,466 | -241,260 | — | -958,252 |

### 31.1 Fair Value of Financial Assets and Liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair value except where it is separately disclosed in the notes to the accounts.

### 31.2 Credit Risk and Concentration of Credit Risk

Credit risk represents the accounting loss that would be recognised at the reporting date if the counterparty fails completely to perform as contracted. Financial assets of Rs. 354.364 million (2002: Rs. 280.214 million) are subject to credit risk. The management believes that it is not exposed to credit risk as parties are credit worthy except for the balances for which provision has already been made.

### 31.3 Effective Interest Rates

Effective interest rates applicable to the financial assets and financial liabilities are as follows:

- Short term running fmane 7.25% to 16% (2002: 11% to 16%)

| | | 2003 | 2002 |
|---|---|---|---|
| | | (Rupees in '000) | |
| 32. TRANSACTION WITH ASSOCIATED COMPANIES | | 3,403 | — |
| Sale of cement | | 133,379 | 111,079 |
| Sale of clinker | 32.1 | 44,988 | 61,214 |
| Purchase of packing material | | 175 | 1,059 |
| Purchase of bolder slag | | — | 20,126 |
| Sale of slag | | — | 12,147 |
| Income from grinding of slag | | 480 | 480 |
| Rent | | 12,244 | — |
| Advance against sale received | | 607 | 574 |
| Others | | | |

32.1 The company sold 81,962.10 metric tons (2002: 68,852.08 metric tons) and 950 metric tons (2002: NIL) of clinker to M/s. Pakistan Slag Cement Industries Limited and M/s Shahbaz Cement Limited respectively at a loss of Rs.379/- per metric ton (2002: Rs.439 per metric ton) and Rs.479/- per metric ton (2002: NIL) respectively. Cement operations have also resulted in loss of Rs.920/- per metric ton (2002: Rs.609 per metric ton) due to wet process operations and prevailing unfavorable market condition.

32.2 Following are the related parties of the company on the basis of common directorship and / or being operated under common management control: -

— Pakistan Slag Cement Industries Limited

— Indus Steel Pipes Limited

— Zealpak Paper Sack (Private) Limited

— Shahbaz Cement Limited

| | (Metric Ton) | |
|---|---|---|
| 33. PLANT CAPACITY AND ACTUAL PRODUCTION | | |
| Rated capacity | 1.0 million | 1 .0 million |
| Actual production | | |
| Cement | 193,170 | 193,850 |
| Pure slag | 33,330 | 19,861 |

Lack of demand and uneconomical wet process operations have been reasons for production below installed capacity level.

| | | |
|---|---|---|
| 34. NUMBER OF EMPLOYEES | | |
| Total numbers of employees including contractors' employees as at June 30 | 559 | 553 |

35. GENERAL

35.1 These financial statements are authorized for issue on November 07, 2003 in accordance with the resolution of the Board of Directors of the company.

35.2 Figures have been rounded off to nearest thousand.

35.3 Previous year's figures have been re-arranged and re-grouped wherever necessary to facilitate comparison.