ZEALPAK CEMENT FACTORY LIMITED
ANNUAL REPORT 2004

DIRECTORS' REPORT

Dear Shareholders,

The Board of Directors of Zeal Pak Cement Factory Limited takes pleasure in presenting before you 48th Annual Report of your Company together with its Audited Accounts for the year ended June 30th 2004 and auditors report thereon,

1. PRODUCTION

The year under review saw an improvement in the cement market which resulted in enhanced cement production during the year, by 61830 tonnes as compared to last year. The production of cement for the year stood at 255,000 tonnes as against 193,170 tonnes in the last year. The production of clinker during the year remained 277,360 tonnes as against to 273,410 tonnes of last year. Due to completion of Ghazi Barotha Project, sale of pure slag to this project declined substantially as the said project and its associates were the only consumers of pure slag consequently Company produced 2,490 tonnes pure slag only during the year under review as compared to 33,676 tonnes in last year.

2. SALES

Due to increase in the demand of cement, the Company was able to dispatch 259,026 tonnes cement during the year whereas the dispatch of cement in the last year was 188,794 tonnes. However, in view of suspension of production of cement, for a considerable time, by M/s. Pakistan Slag Cement Industries Limited, the only customer of Zeal Pak clinker, the sale of clinker for the year remained 38,853 tonnes as against 82,912 tonnes of last year. As stated above, completion of Ghazi Brotha Project resulted in drastic fall in the sale of pure slag, which stood at 2,754 tonnes only as compared to 33,676 tonnes in the preceding year.

3. FINANCIAL RESULT

During the year under discussion the Company has reported a loss after taxation amounting to Rs.241.298 million as compared to Rs.192.945 million in the last year. The loss during the year has been arrived at after charging Rs.150.957 and Rs.68.133 million being the amortization of discount on issue of right shares and incremental depreciation due to revaluation of operating assets of the Company respectively. Had these amounts not been charged to the accounts the loss after- taxation for the year would have been Rs.22.208 million instead of Rs.241.298 million. The proceeds of right issue have been utilized towards settlement of Company borrowings, which eventually reduced financial charges considerably.

With a view to bring operating assets of the Company in line with their market value, the Company first time in its history of more than four decades, got its Factory freehold land, building, plant & machinery and road and railway sidings revalued by M/s. Anjum Adil Associates, Consulting Architects, Engineers and Estate Valuers. The revaluation resulted in creation of "Surplus on revaluation A/c" amounting to Rs. 1,167.338 million. Out of this, an amount of Rs.266.223 million has been transferred to deferred tax liability whereas Rs.44.287 million representing the incremental depreciation for the year has been transferred to equity.

5. FUTURE PROSPECTS

The Company inspite of operating on old Wet Process Technology is struggling for better financial results. Conversion of Kilns No.3,4,5 and 6 from oil firing to coal firing is expected to reflect its full benefit in the cost of fuel and power in the years to come. During the year, the Directors of your Company have brought some significant changes in the hierarchy level to make the Company professionally managed, in the true sense and have appointment professionals in all areas of its operations. The sponsor of the Company, M/s. Sardar Muhammad Ashraf D. Baloch (Private) Limited have now the privilege of associating Lt.Gen (R) Abdul Quadir, Ex-Governor of Baluchistan, with the group as head of the group. Under his able guidance the companies of the group, including Zeal Pak are making efforts for a better future for them.

6. ISSUE OF RIGHT SHARE

During the year the Company issued 161,288,000 ordinary shares of Rs. 10.00 each as right share at a discount of Rs.6.00 per share The proceeds of shares have mainly been utilized for reducing the borrowing of the Company while an amount of Rs.338.753 million due to M/s. Sardar Muhammad Ashraf D. Baluch (Pvt.) Ltd. has been adjusted by issuance of 84,688,306 Right Shares, allotted to them at a discounted amount of Rs.4.00

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

a) The financial statement, 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 there from.

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) Due to higher cost of fuel the Company has converted its 4 Kilns on Coal Firing resultantly the cost of fuel would reduce substantially. Eventually, the Company will be having modest margin of profit on sale. Therefore, there are no significant doubts upon Company's ability to continue as a going concern in future.

g) Key operating and financial data for last six years in summarized form is annexed.

h) During the year4 meeting of the Board of Directors of the Company were held. The attendance of Directors was as under:

Name of Directors	Meeting

	Attended
Lt. Gen. (R) Abdul Quadir Baloch	2
Mr. Shahzad Ali Jatoi	3
Mr. Mazhar Ali Jatoi	4
Mr. M. A. Jameel	3
Mr. Muhammad Moosa	1
Mr. Mushtaq Ali Shah Bukhari	2
Mr. Muhammad Abdul Samad (NIT)	4
Mr. Nawab Ahmed Khanzada	4
Brig (R) Khalid Mahmud Akhtar	1

15. APPOINTMENT OF AUDTORS

Your Directors wish to inform you that in the absence of recommendation of Task Force, formed by Securities & Exchange Commission of Pakistan (The Commission) or any-final decision of the Commission itself on rotation of external auditor, after every five years, the Board's Audit Committee and your Board of Directors have recommended the name of Company's existing statutory auditors M/s. Faruq All & Co., Chartered Accountants for their appointment as Auditor for the year ending June 30, 2005, subject to the approval of the Commission. The Company is accordingly applying to the Commission for seeking their approval for the rotation of partners of the said firm. In case, the required permission is not received, the Company will propose appointment of a new Auditor in accordance with the recommendation of the audit committee and the same will be placed before the Annual General Meeting for approval.

16. ACKNOWLEDGEMENT

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

per share. The Company has the approval of Securities & Exchange Commission of Pakistan vide their letter No.SM/Co.86(1)/3/2003 dated 24.09.2003 for allotment of those shares to them in the above manner.

7. DISCOUNT ALLOWED ON THE ISSUE OF RIGHT SHARES

As referred above, discount of Rs.6.00 per ordinary share of Rs.10.00 each, as approved by Securities & Exchange Commission of Pakistan was allowed to the existing shareholders. The discount allowed, as such, amounted to Rs.967.728 million. The balance of share premium Rs.217.800 million available in the account since 1994-95 has been applied towards setting off the amount of discount allowed, as is permissible under the provision of Section 83 of the Companies Ordinance, 1984, leaving a balance of Rs.749.928 million to be amortized over five year. Accordingly 1/5th of the amount i.e. Rs.150.957 million has been amortized during the year and the balance will be amortized in the next four years.

8. BOARD OF DIRECTORS

The following changes have taken place in the Board of Directors during the year 2003-04.

During the year Syed Mushtaq Ali Shah Bokhari resigned from the directorship of the Company and Lt. Gen. (R) Abdul Quadir Baloch was co-opted as Director in his place. Lt. Gen. (R) Abdul Quadir Baloch due to his preoccupation with the policy matters and other day-to-day affairs of various companies of the Group requested the directors to relieve him from the directorship of the Company. The Board, quite reluctantly acceded to his request and accepted his resignation and co-Opted Syed Mushtaq Ali Shah Bokhari in his place. Mr. M. A. Jameel resigned as Chief Executive but was co-opted as director in place of Mr. Izharul-Haq who also resigned. Brig. (R) Muhammad Omer was appointed as Chief Executive and he also resigned and in his place Brig. (R)Khalid Mehmud Akhtar was appointed as Chef Executive of the Company.

Your Directors wish to place on record their appreciation for the services rendered by the out-going directors/Chef Executives, particularly for the valuable guidance provided and services rendered by Lt. Gen. (R) Abdul Quadir Baloch.

9. 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.

10. 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 have not been taken into account. Your Directors are hopeful that considerable reduction in labour cost, conversion of 4 kilns to coal firing' reorganization of Company top management and expected improvement in cement market will go a long way to improve Company's performance and profitability. It is hoped that the liquidity position would also improve. The results of the above measures will be reflected in the over all performance in near future. In view of this, preparation of accounts on going concern concept is proper.

11. DIVIDEND

In view of losses no dividend has been recommend for the year 2003-2004 by your Board of Directors.

12. TRANSACTION WITH RELATED PARTIES

During the year the Company sold 38,853 tonnes of clinker to M/s. Pakistan Slag Cement Industries Limited, a related party, at a loss of Rs.432 per metric tonne. The price charged however covered all variable cost plus a portion of fixed costs. There was no other buyer for clinker and factory has been operating much below of its rated capacity. Plant's capacity utilization in the year under review remained only 26% of the rated capacity. Had clinker not been sold to Pakistan Slag Cement, the loss would have further been increased to the extent of the amount of fixed cost recovered from the said sale of clinker.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate 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 that they have observed IFAC guidelines in this regard.

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

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 protect'ron

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

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.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Zeal Pak Cement Factory Limited, as at June 30, 2004 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.126.350 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 20.1 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;

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.241.298 million during the year ended June 30, 2004 and as of that date.the Company has accumulated losses of Rs. 866.498 million and its current liabilities exceeded its current assets by Rs. 28.918 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.

YEAR WISE STATISTICAL SUMMARY

	2004	**2003**	**2002**	**2001**	**2000**	**1999**
					(in Metric Tons)	
Clinker Production	277,360	273,410	251,150	253,850	275,760	280,680
Cement Production	255,000	193,170	193,850	219,960	260,270	300,290
Cement Dispatched	259,026	188,794	197,872	217,468	272,811	312,002
						(Rs. in '000)

ASSETS EMPLOYED						
Fixed Assets	1,431,144	361,506	377,312	387,619	425,609	467,642
Investment and Long Term Advances & Deposits	1,024	920	920	181	181	181
Deferred Cost	603,829	—	—	—	—	
Current Assets	882,992	834,942	768,340	751,560	567,008	543,346
Total Assets Employed	2,918,989	1,197,368	1,146,572	1,139,360	992,798	1,011,169
FINANCED BY						
Shareholders Equity	844,406	-353,663	-160,718	-45,305	32,931	100,298
Surplus on Re-valuation of fixed assets	856,828	—	—	—	—	
Long Term Liabilities	7,559	7,619	7,686	5,791	6,006	6,311
Deferred Liabilities	298,286	393,168	' 323,446	205,300	254,654	285,799
Current Liabilities	911,910	1,150,244	976,158	973,574	699,207	618,761
Total Funds Invested	2,918,989	1,197,368	1,146,572	1,139,360	992,798	1,011,169
TURNOVER & LOSS						
Turnover (Net)	700,709	549,634	581,300	711,399	719,690	712,965
Operating Loss	58,305	116,343	70,278	16,204	60,733	63,816
Loss before Taxation	241,982	193,224	112,506	82,121	119,947	116,585
Loss after Taxation	241,298	192,943	115,413	78,236	91,545	120,153
Loss c/f	866,498	669,485	476,542	361,129	530,975	463,608
RATIOS & STATISTICS						
Loss to sales in %	8	21	12	2	8	9
Current Ratio	0.96829	0.72588	0.78711	0.77196	0.81093	0.87812
Paid up value per share (Rs.)	10	10	10	10	10	10
Loss per share (Rs.)	1.42	22.15	13.25	8.98	10.51	13.79

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2004

	Notes	**2004**	**2003**
		(Rupees in '000)	
Sales - Net	22	700,709	549,635
Cost of sales	23	-734,377	-645,680
Gross (loss)		-33,668	-96,045
Administrative and general expenses	24	-18,540	-15.083
Selling and distribution expenses	25	-6,097	-5,217
		-24,637	-20,300
Operating (loss)		-58,305	-116,345
Financial charges	26	-47,604	-88,948
Amortization of deferred cost	16	-150,957	—
		-256,866	-205,293
Other income	27	12,916	12,066

Loss before un-usual and prior period adjustments		-243,950	-193,227
Un-usual and prior period adjustment	28	1,968	—
Loss before taxation		-241,982	-193,227
Taxation			
— Current year		-3,504	-2,748
— Prior year		—	-100
— Deferred		4,188	3,130
		684	282
Loss after taxation		-241,298	-192,945
Accumulated loss brought forward		-669,487	-476,542
Transfer:			
Transfer to accumulated loss in respect of incrementa	I		
depreciation charged during the year on revalued assets		44,287	—
Balance carried over to balance sheet		-866,498	-669,487
Loss per share - Basic (Rupees)	29	-2.32	-16.42

BALANCE SHEET

AS AT JUNE 30, 2004

	Notes	**2004**	**2003**
		(Rupees in '000)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized capital 180,000,000 (2003: 180,000,000) Ordinary shares of Rs.10/- each		1,800,000	1,800,000
Issued, subscribed and paid-up-capital	4	1,700,000	87,120
Capital reserves	5	10,904	228,704
Accumulated (loss)		-866,498	-669,487
		844,406	-353,663
Surplus on revaluation of fixed assets	6	856,828	
NON-CURRENT LIABILITIES			
Long-term deposits	7	7,559	7,619
Deferred liabilities	8	298,286	393,168
CURRENT LIABILITIES			
Short-term finances	9	577,225	866,402

Trade creditors	10	196,125	147,650
Accrued expenses and other liabilities	11	122,474	123,610
Provision for taxation	12	16,086	12,582
		911,910	1,150,244
CONTINGENCIES AND COMMITMENTS	13	–	
		2,918,989	1,197,368
NON CURRENT ASSETS			
Tangible fixed assets			
Operating assets	14	1,424,146	309,677
Capital work-in-progress	15	6,998	51,829
		1,431,144	361,506
Long-term deposits		1,024	920
Deferred cost	16	603,829	—
CURRENT ASSETS			
Stores, spares and loose tools	17	188,901	171,203
Stock-in-trade	18	148,908	158,661
Trade debts	19	331,540	321,726
Loans, advances, deposits, short-term	20	206,315	174,045
pre-payments and other receivables	21	7,328	9,307
Cash and bank balances		882,992	834,942
		2,918,989	1,197,368

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2004

	Share Capital	Share Premium	Capital Reserves	Accumulated Loss	Total
	(Rupees in '000)				
Balance as on July 01, 2002	87,120	217,800	10,904	-476,542	-160,718
Net loss for the year	--	—	—	-192,945	-192,945
Balance as on June 30, 2003	87,120	217,800	10,904	-669,487	-353,663
Right issue of shares	1,612,880	—	—	—	1,612,880
Adjusted against discount on right issue of shares	—	-217,800	—	—	-217,800
Net loss for the year	—	—	—	-241,298	-241,298
Transfer to accumulated loss in respect of incremental depreciation charged during the year on revalued assets	—	—	—	44,287	44,287
Balance as on June 30, 2004	1,700,000	—	10,904	-866,498	844,406

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2004

	Notes	2004	2003
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	30	78,226	-112,842
Payments for			
Financial charges		-66,202	-79,660
Income tax		-743	-4,837
Net cash (used in) operating activities		11,281	-197,339
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		-6,390	-18,809
Deferred cost incurred		-4,858	—
Long term deposits		-104	—
Sale proceed of fixed assets		—	500
Net cash (used in) investing activities		-11,352	-18,309
CASH FLOW FROM FINANCING ACTIVITIES			
Refund of long-term deposits		-60	-67
Other deferred liability		-19,070	72,167
Receipt from right issue		306,399	—
Net cash generated from financing activities		287,269	72,100
		287,198	-143,548
Net (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		-857,095	-713,547
Cash and cash equivalents at the end of the year	31	1569,897^	-857,095

Trade and other payables

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

Tangible fixed assets and depreciation

Operating assets are stated at cost less accumulated depreciation, except capita! work-in-progress which are stated at cost and assets as mentioned in note 6 to the accounts which are carried at revalued amounts. 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 14 to'the financial statements.

In accordance with the Section 235 of the Companies Ordinance, 1984, as clarified by the Securities and Exchange Commission of Pakistan (SECP), an amount equal to the incremental depreciation for the year charged on revalued assets is transferred from the surplus on revaluation of fixed assets to retained earnings.

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.

Deferred cost

These are amortized over a period of five years on straight line basis.

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.

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.

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.

Loans, advances and other receivables

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2004

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

2 GOING CONCERN ASSUMPTION

During the year ended June 30, 2004, Company has sustained a net loss of Rs.241.298 million (2003: Rs.192.945 million) and as of that date it has accumulated losses of Rs.866.498 million (2003: Rs.669.487 million) which has eroded its capital and its current liabilities exceeded its current assets by Rs.28.918 million (2003: Rs.315.302 million). However the financial statements have been prepared under going concern assumption as the Company has made right issue of share during the year which has improved its capital position and Company has installed coal firing plant which resulted in improved operating results and Company expects further improvement in future.

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, except for the revalued assets which are stated at revalued amounts.

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.

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. The most recent actuarial valuation was carried out with effective date of June 30, 2003 using the projected unit credit method. 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

Deferred tax is 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.

		2004	2003
		(Rupees in '000)	
4 ISSUED, SUBSCRIBED AND PAID-UP-CAPITAL			
2,400,000	Ordinary shares of Rs.10/- each fully paid in cash (2003: 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 (2003: 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 (2003: 4,356,000 shares of Rs.10/- each.)	43,560	43,560
76,599,694	Ordinary right shares of Rs. 10/- each paid in cash, issued at discount of Rs.6/- per share	765,997	—
84,688,306	Ordinary right shares of Rs. 10/- each issued against balance payable to M/s Sardar Muhammad Ashraf D. Baluch (Pvt.)	846,883	—
170,000,000	Limited (Holding Company) at dicount of Rs. 6/- per share	1,700,000	87,120

CAPITAL RESERVES			
Tax holiday		1,007	1,007
— Third Kiln		9,897	9,897
— Fourth Kiln	5.1	10,904	10,904
	5.2		217,800
Share premium		10,904	228,704

SURPLUS ON REVALUATION OF FIXED

ASSETS

Surplus on revaluation of fixed assets	1,167,338	—
Related deferred tax liability on surplus on revaluation of fixed assets	-266,223	—
	901,115	—
Transferred to accumulated loss in respect of incremental depreciation charged during the year - net of deferred tax	-44,287	—
	856,828	—

Short term and long term loans

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

Cash and bank balances

Cash in hand and at banks are carried at cost.

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.

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.

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.

Transaction with related

parties

Transactions with related parties are based on the policy that all the transactions between the Company and related parties are carried out at arm's length. Prices for these transactions are determined on the basis of comparable uncontrolled price method, except for the pricing policy as disclosed in note 34.1, which sets the price by reference to comparable goods sold in an economically comparable market to a buyer unrelated to the seller.

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.

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.

	Notes	**2004**	**2003**
		(Rupees in '000)	
8.2 Employees retirements benefits			
Employees gratuity:			
Movement in balance		1,752	1,066
Opening balance		–	—
Payments during the year		1,752	1,066
		904	686
Provision for the year	8.2.2	2,656	1,752
8.2.1 Balance sheet reconciliation		3,171	2,399
Present value of defined benefit obligations		-395	-527
Less: Unrecognized transitional liability		-120	-120
Less: Unrecognized actuarial loss		2,656	1,752
8.2.2 Charge for the year		580	417
Service cost		192	138
Interest cost		132	131

Recognition of transitional liability		904	686

SHORT TERM FINANCES

Short term running finances - Secured	9.1	577, 225	860,653
Book overdraft			5,749
		577, 225	866,402

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

PARTICULARS	W.D.V. Of assets before revaluation	Revalued Amount	Revaluation Surplus
	(Rupees in '000)		
Free hold land	6,580	413,280	406,700
Building on free hold land	8,328	255,732	247,404
Roads and railway siding	102	1,046	944
Plant and Machinery	335,514	847,804	512,290
	350,524	1,517,862	1,167,338

		2004	2003
		(Rupees in '000)	
LONG TERM DEPOSITS			
From cement stockists	7.1	5,376	5,436
Others - Interest free		2,183	2,183
		7,559	7,619

		2004	2003
		(Rupees in '000)	
DEFERRED LIABILITIES			
Deferred taxation	8.1	282,586	20,549
Employees retirement benefits	8.2	2,656	1,752
Due to M/s. Sardar Muhammad Ashraf			
D. Baluch (Private) Limited	8.3	13,044	370,867
		298.286	393.168

Deferred taxation		
Deferred tax liability arising due to		
accelerated tax depreciation	45,417	39,442

Revaluation, net off related depreciation		242,377	—
Deferred tax assets arising out of staff gratuity and other provisions		-5,208	-18,893
		282,586	20,549

		2004	2003
		(Rupees in '000)	
Depreciation charge for the year has been allocated as follows:			
Cost of sales		103,312	33,585
Administrative and general expenses		518	398
Selling and distribution expenses		260	188
		34,171	104,090

		2004	2003
		(Rupees in '000)	
TRADE CREDITORS			
Associated companies		101,150	49,061
Others		94,975	98,589
		196,125	147,650
ACCRUED EXPENSES AND OTHER LIABILITIES			
Accrued expenses		67,264	39,658
Accrued mark-up on short term running finance - secured		7,870	30,986
Royalty and excise duty on lime stone		1,495	1,015
Advances from customers	11.1	38,018	37,158
Sales tax payable		4,394	10,057
Local council taxes		—	931
Unclaimed dividend		1,773	1,773
Income tax deducted at source		755	490
Others		905	1,542
		122,474	123,610

PROVISION FOR TAXATION

The income tax assessments of the company have been finalized upto and including tax year 2003.

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

12.1 Relationship between income tax expense and accounting loss

Accounting loss as per accounts	-241,982	-193,227
Applicable tax rate	35%	35%
Tax (refundable) on accounting loss	-84,694	-67,629
Tax effect of timing difference on depreciation	19,467	4,786
Tax effect of expenses that are not deductible in determining taxable loss charged to profit and loss account	54,163	267

Tax (refundable) under normal rules	-11,064	(62,576}
Minimum tax liability provided in accounts as per Income Tax Ordinance, 2001	3,504	2,748
	2004	**2003**
	(Rupees in '000)	
STOCK IN TRADE		
Raw and packing materials	128,577	123,436
Work in process	14,769	21,431
Finished goods	5,562	13,794
	148,908	158,661
TRADE DEBTS-Unsecured		
Considered good	331,540	321,726
Considered doubtful	677	677
	332,217	322,403
Less: Provision for doubtful debts	-677	-677
	331,540	321,726
LOANS, ADVANCES, DEPOSITS, SHORT TERM PREPAYMENTS AND OTHER RECEIVABLES		
Loans and advances		
Loans - Considered good	1,315	1,315
Advances - Considered good		
— Employees	6,281	5,820
— Suppliers and contractors	47,790	42,476
— Advance tax	29,268	28,525
— Excise duty	4,075	3,562
— Octroi deposits	2,461	2,461
Advances - Considered doubtful	4,036	4,036
	95,226	88,195
Less: Provision for doubtful advances	-4,036	-4,036
	91,190	84,159
Deposits		
Margin against bank guarantees	3,919	5,408
Margin against letters of credit	5,883	3,100
Others	3,142	3,107
	12,944	11,615
Short-term prepayment	172	172
Other receivables	7,501	3,896
Considered good	50,857	50,857

Due from SCCP and other cement units		—	2,199
Sales tax recoverable	20.1	16,735	16,735
Insurance claim recoverable		26,916	4,412
Income tax refundable		2,938	659
Others		104,947	78,758
Considered doubtful		-2,938	-659
Others receivables		102,009	78,099
Less: Provision for doubtful receivable		206,315	174,045

		2004	2003
		(Rupees in '000)	
CAPITAL WORK-IN-PROGRESS			
Plant and Machinery		44,831	26,318
Opening balance		4,383	18,513
Add: Expenditure during the year		49,214	44,831
		-49,214	—
Less: transferred to fixed assets		—	44,831
		6,998	6,998
Stores and spares held for capital expenditure		6,998	51,829
DEFERRED COST			
Discount on right issue of shares	16.1	967,728	—
Less: Share premium adjusted		-217,800	—
		749,928	—
Expenses incurred on right issue of shares		4,858	—
		754,786	—
Less: Amortization of deferred cost		-150,957	—
		603,829	—
STORES, SPARES AND LOOSE TOOLS			
Stores		40,694	64,396
Spares		124,458	127,443
Stores and spares in transit		9,100	767
Loose tools		951	868
		175,203	193,474
Less: Provision for obsolescence		4,000	4,573
		171,203	188,901

		2004	**2003**

		(Rupees in '000)	
COST OF SALES			
Raw and packing material consumed		123,436	113,782
Opening stock		95,519	114,965
Purchases		218,955	228,747
		-128,577	-123,436
Closing stock		90,378	105,311
		74,851	73,894
Stores and spare parts consumed		402,279	400,250
Fuel and power		37,819	36,499
Salaries, wages and benefits	23.1	4,204	2,645
Repairs and maintenance		15	
Insurance		355	342
Rent, rates and taxes		103,312	33,585
Depreciation	14.1	6,270	11,587
Other expenses		629,105	558,802
		719,483	664,113
		21,431	11,377
Work-in-process Opening		-14,769	
			21,431
Closing		726,145	654,059
Cost of goods manufactured		13,794	5,415
Finished goods Opening		-5,562	-13,794
Closing		734,377	645,680

ADMINISTRATIVE AND GENERAL EXPENSES			
Salaries, allowances and other benefits	24.1	4,260	3,259
Vehicles running expenses		1,629	1,452
Rent, rates and taxes		22	72
Insurance		153	38
Legal and professional charges		2,183	4,335
Auditors' remuneration	24.2	277	252
Depreciation	14.1	519	398
Communications		1,317	1,400
Stationery and general expenses		1,040	729
Utilities		1,473	1,704
Donation	24.3	38	79
Fee and subscription		208	745
Others		2,569	620
Provision for doubtful advances		2,279	—
Provision for obsolescence		573	—
		18,540	15,083

	Note	2004	2003
		(Rupees in '000)	
CASH AND BANK BALANCES			
Cash in hand		462	385
Cash at banks:			
— Current accounts		6,862	8,918
— Deposit accounts	21.1	4	4
		7,328	9,307
SALES - Net			
Gross sales		1,015,052	751,214
— Cement		62,553	133,379
— Clinker		1,077,605	884,593
Less:		194,270	184,048
— Excise duty		152,177	129,748
— Sales tax		30,449	21,162
— Trade discount		376,896	334,958
		700,709	549,635

		2004	003
		(Rupees in '000)	
LOSS PER SHARE - Basic			
Loss after taxation		-241,298	192,945
		Number of Shares	
Weighted average number of ordinary shares		104,063,805	11,753,132
Loss per share - Basic (Rupees)		-2.32	-16.42
CASH GENERATED FROM / (USED IN) OPERATIONS			
(Loss) before taxation		-241,982	-193,227
Adjustment for non cash charges and other items:			
Depreciation		104,090	34,171
Gain on disposal of fixed assets		—	-56
Liabilities no longer required to paid written back		-1,567	-11,166
Provision for staff retirement benefits		904	686
Provision for doubtful advances		2,279	—
Provision for obsolescence		573	—
Financial charges		47,604	88,948
Refund of excess markup charged by bank in prior period		-4,516	—
Amortization of deferred cost		150,957	—
Working capital changes	30.1	19,884	-32,198

		320,208	80,385

30.1 Working capital changes

(Increase) / decrease in current assets			
Store, spares and loose tools		-18,271	24,485
Stock in trade		9,753	-28,087
Trade debts		-9,814	-99,751
Loans, advances, deposits, short-term prepayments and other receivables		-33,806	45,103
		-52,138	-58,250
Increase / (decrease) in current liabilities			
Trade creditors		48,475	15,891
Accrued and other liabilities		23,547	10,161
		19,884	-32,198

		2004	**2003**
		(Rupees in '000)	
24.2 Auditors' remuneration			
Audit fee		125	75
Half yearly accounts review fee		37	37
Out of pocket expenses		90	90
Cost audit expenses		25	25
Other services			25
		277	252
SELLING AND DISTRIBUTION EXPENSES			
Salaries, allowances and other benefits		1,513	1,527
Marking fee		911	684
Vehicles running expenses		649	685
Repairs and maintenance		126	132
Depreciation	14.1	260	188
Advertisement		120	520
Communications		472	465
Stationery and general expenses		229	277
Others		1,817	739
		6,097	5,217
FINANCIAL CHARGES			
Mark up on short-term running finances		45,568	87,943
Bank charges		1,386	970
Guarantees commission		650	35
		47,604	88,948
OTHER INCOME			
Sale of scrap		10,195	157

Gain on disposal of fixed assets	—	56
Rental income	480	480
Liabilities no longer required to be paid written back	1,567	11,166
Others	674	207
	12,916	12,066
UNUSUAL AND PRIOR PERIOD ADJUSTMENT		
Refund of excess markup charged by bank in prior period	4,516	—
Additional sales tax and penalties	-2,548	—
	1,968	—

33.2 Effective interest rates

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

— Short term running finance 5% to 8% (2003: 7.25% to 16%)

33.3 Fair value of finance 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.

33.4 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if the counter party fails completely to perform as contracted. Financial assets of Rs.396.848 millions (2003: Rs.363.286 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.

33.5 Interest rate risk

All interest bearing financial assets and liabilities are subject to predetermined interest / markup rates.

	2004	**2003**
	(Rupees in '000)	
CASH AND CASH EQUIVALENT		
Cash and bank balances	7,328	9,307
Short term finances	-577,225	-866,402
	-569,897	(857,0951

REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Chief Executive		Directors		Executives		Total	
2004	2003	2004	2003	2004	2003	2004	2003

(Rupees in '000)								
Managerial remuneration	452	337	162	206	1,257	1,113	1,871	1,656
Housing	178	202	24	46	315	292	517	540
Conveyance	4	—	4	12	22	32	30	44
Medical expenses	—	12	—	24	—	84	—	120
Utilities	45	64	18	—	112	—	175	64
Allowances	—	60	—	36	—	81	—	177
Retirement benefits	28	28	9	18	71	71	108	117
Meeting fee	—	—	8	8	—	—	8	8
	707	703	225	350	1,777	1,673	2,709	2,726
Number of Persons	1	1	1	2	7	7	9	10

PATTERN OF SHARE HOLDING

Shareholders Statistics As At June 30, 2004

Number of Shareholders	Shareholding From	To	Total Shares Held	Percentage
1,334	1	100	35,180	0.02%
659	101	500	205,487	0.12%
442	501	1,000	416,000	0.24%
816	1,001	5,000	2,472,253	1 .45%
235	5,001	10,000	1,942,115	1.14%
77	10,001	15,000	1,022,981	0.60%
97	15,001	30,000	2,185,793	1 .29%
13	30,001	35,000	432,643	0.25%
56	35,001	75,000	2,769,485	1 .63%
4	75,001	80,000	312,500	0.18%
5	80,001	85,000	413,054	0.24%
2	85,001	90,000	178,000	0.10%
2	90,001	95,000	185,900	0.11%
6	95,001	100,000	597,500	0.35%
2	100,001	105,000	203,200	0.12%
1	110,001	115,000	113,500	0.07%
3	115,001	120,000	355,150	0.21%
3	120,001	125,000	370,960	0.22%
1	125,001	130,000	129,000	0.08%
2	130,001	135,000	264,000	0.16%
1	135,001	140,000	140,000	0.08%
4	140,001	145,000	574,001	0.34%
3	145,001	150,000	446,500	0.26%
1	155,001	160,000	160,000	0.09%
1	160,001	165,000	163,720	0.10%
2	175,001	180,000	354,563	0.21%
1	180,001	185,000	181,000	0.11%

4	195,001	200,000	791,633	0.47%
1	205,001	210,000	210,000	0.12%
1	245,001	250,000	248,000	0.15%
1	295,001	300,000	299,001	0.18%
1	300,001	305,000	303,000	0.18%
1	310,001	315,000	313,000	0.18%
1	375,001	380,000	377,000	0.22%
1	385,001	390,000	387,000	0.23%
1	415,001	420,000	417,500	0.25%
1	520,001	525,000	525,000	0.31%
1	620,001	625,000	625,000	0.37%
1	800,001	805,000	800,500	0.47%
1	985,001	990,000	987,124	0.58%
1	1,120,001	1,125,000	1,122,383	0.66%
1	1.800,001	1,900,000	1,898,220	1.12%
1	4,175,001	4,180,000	4,176,000	2.46%
1	139,895,001	139,900,000	139,895,154	82.29%
3,793			170,000,000	100.00%

Category of Shareholders	**Shareholders**	**Shareholding**	**Percentage**
DIRECTORS			
Lt. Gen. (Retd.) Abdul Qadir Baloch	1	5,000	0.00%
Mr. Mazhar All Jatoi	1	5,000	0.00%
Mr. Shahzad All Jatoi	2	37,000	0.02%
Mr. M. A. Jameel	1	5,000	0.00%
Mr. Mohammad Moosa	1	5,000	0.00%
Mr. Nawab Ahmed Khanzada	1	904	0.00%
ASSOCIATED COMPANIES			
S. M. Ashraf D.Baluch (Pvt.) Ltd.	2	141,793,374	83.41%
NBP-TRUSTEE DEPTT.(NIT)	2	988,579	0.58%
INVESTMENT CORP.OF PAKISTAN	2	3,326	0.00%
FINANCIAL INSTITUTIONS	4	81,000	0.05%
INSURANCE COMPANIES	4	364,145	0.21%
JOINT STOCK COMPANIES	100	11,915,522	7.01%
OTHERS	28	221,160	0.13%
INDIVIDUALS	3,644	14,574,990	8.57%
	3,793	170,000,000	100.00%

TRANSACTION WITH RELATED PARTIES

Sale of goods	34.1	110,490	136,782
Purchase of goods		69,564	45,163
Rent		480	480
Advance against sale received			12,244
Others			607

	(Metric Tons)	
	2004	**2003**
PLANT CAPACITY AND ACTUAL PRODUCTION		
Rated capacity	1.0 million	1.0 million
Actual production		
Cement	259,026	193,170
Pure slag	2,754	33,330

	2004	**2003**
NUMBER OF EMPLOYEES		
Total numbers of employees including	583	559

DATE OF AUTHORISATION FOR ISSUE

These financial statements are authorized for issue on November 08, 2004 in accordance with the resolution of the Board of Directors of the company.

GENERAL

Figures have been rounded off to nearest thousand rupees.