

BIAFO INDUSTRIES LIMITED

17th Annual Report 2005

CONTENTS

Company Information	1
Notice of Meeting	2
Directors' Report	3-5
Stakeholders Information	6
Statement of Compliance with the Code of Corporate Governance	7-8
Review Report	9
Auditors' Report	10-11
Balance Sheet	12
Profit & Loss Account	13
Cash Flow Statement	14
Statement of Changes in Equity	15
Notes to the Accounts	16-31
Pattern of Shareholdings	32-33

COMPANY INFORMATION

BOARD OF DIRECTORS:-

EXECUTIVE DIRECTORS

M. Afzal Khan	Chairman
Khawaja Amanullah Askari	Chief Executive
M. Salim	Director

NON-EXECUTIVE DIRECTORS

Abdul Maajid Qureshi	Director
Abdul Rashid	Director
Lt. Gen (Rd.) G.S Butt	Director
Mohammad Ali Yaqoob	Director
Humayun Khan	Director
Maj. Gen (Rd.) S. Z. M. Askree	Director
Zafar Khan	Director
Adnan Aurangzeb	Director

SECRETARY

Khawaja Shaiq Tanveer

AUDIT COMMITTEE

Lt. Gen (Retd) Safdar Butt	Chairman
M. Salim	Member
Abdul Rashid	Member
Abdul Maajid Qureshi	Member

REGISTERED OFFICE / SHARE'S DEPARTMENT

Biafo Industries Limited, Office No: 203-204, 2nd Floor,
Muhammad Gulistan Khan House, 82-East, Fazal-Ul-Haq Road, Blue Area,
Islamabad-Pakistan

Tel: + 92 51 2277358, + 92 51 2277359, Fax: + 92 51 2274744

Website: www.biafo.com, E-Mail: headoffice@biafo.com, biafo@hotmail.com

AUDITORS

Taseer Hadi Khalid & Co, Chartered Accountants.

LEGAL ADVISORS

Chima & Ibrahim , Raja Rashid , Javaid Qureshi

BANKERS

Bank of Khyber
ABN-Ambro Bank
National Bank of Pakistan
Allied Bank of Pakistan
Habib Bank limited
Union Bank Limited
Bank Alfalah Limited

FACTORY

Biafo Industries Limited, Plot No: 70, Phase III
Industrial Estate, Hattar, District Haripur, N.W.F.P -Pakistan

Tel: + 92 995 617312, Fax: + 92 995 617497

E-mail: plant@biafo.com

**NOTICE OF 17TH ANNUAL
GENERAL MEETING OF SHAREHOLDERS**

Notice is hereby given that the 17th Annual General Meeting of Biafo Industries Limited will be held on Thursday 27th October 2005 at 11.30 a.m. at # 203,2nd Floor, M. Gulistan Khan House, 82-East Fazal-ul-Haq Road, Blue Area, Islamabad to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the 16TH Annual General Meeting held on October 20, 2004.
2. To receive and adopt the Audited Accounts of the Company for the year ended June 30, 2005 together with Auditors' report and Directors' report thereon.
3. To appoint Auditors for the year 2005-2006 and to fix their remuneration. Retiring Auditors M/s Taseer Hadi Khalid & Co. Chartered Accountants being eligible offer themselves for reappointment for the year 2005-2006.
4. To transact such other business as may be placed before the meeting with the permission of the Chairman.

By order of the Board

**Khawaja Shaiq Tanveer
Company Secretary**

Islamabad: October 03, 2005.

NOTES:

1. Share Transfer Books of the Company will remain closed from October 21, 2005 to October 27, 2005 both days inclusive.
2. A member entitled to attend and vote at the meeting shall be entitled to appoint another person, as his/her proxy to attend demand or join in demanding a poll, speak and vote instead of his/her and a proxy so appointed shall have such rights, as attending, speaking and voting at the meeting as are available to a member. Proxies in order to be effective must be received at the registered office of the company not later than 48 hours before the meeting duly stamped, signed and witnessed. A proxy need not be a member of the Company.
3. CDC Shareholders or their proxies are required to bring with them their original National Identity cards or Passports along with the Participant's ID numbers and their Account Numbers at the time of attending the Annual General Meeting in order to authenticate their usual documents required for such purposes.
4. Shareholders are requested to promptly notify in writing to the Company of any change in their address.

BIAFO INDUSTRIES LIMITED DIRECTORS' REPORT

Your Directors are pleased to present the 17th Annual Report of the company for the year ended June, 2005.

Mr. Abdul Rashid and Mr. Mohammad Ali Yaqoob, Directors have resigned from the Board as Directors in the month of July, 2005 & the casual vacancies were filled by Mr. S.M. Sibtain & Ms. Shireen Safdar after approval of the Board. The Board places on record its appreciation for the valuable advice given by the retiring directors.

FINANCIAL RESULTS

The net sales of your Company for the year under review increased by 18% to Rs.215 million. Your Board is pleased to advise that the profit after tax rose 35% from Rs.23.303m last year to Rs.31.629 million this year giving earning per share of Rs.1.58. These results were achieved by increased sales in almost all sectors including cement, oil and gas, construction and the agency business. With the completion of the China National Water Project there was a drop in sales to this customer but the increased sales to Saindak and the new Sinohydro Corporation projects made up the loss.

There was an increase in cost of sales as a percentage of sales as shown in the profit and loss statement. This was largely the result of increasing raw material costs & transportation costs to Saindak charged under this head and an increase of over Rs.3 million in the depreciation charges. Financial costs were much lower with the repayment of the loans and better cash flow.

Your management continues to maintain tight control on costs inspite of increase in raw materials and other costs in the country. There has however been an increase in salaries and other benefits to our staff which was overdue.

DIVIDEND

Due to the accumulated losses of the company and the need to strengthen the finances of the company, your Board did not feel it prudent to declare a Dividend. Therefore, NIL Dividend has been declared for the financial period under review.

PRODUCTION

Details of production are covered in Note No.35. You will note from this a substantial increase in the production of Detonators and Safety Fuse. Explosives production also increased but the demand for Detonating Cord was less than last year.

Your Board is pleased to report that the management at the factory has significantly improved production facilities for Explosives, Detonators and Detonating Cord. As a result our capacity is now more than adequate to meet current and foreseeable demand for our major products.

We continue our efforts to further improve the condition of the machinery and equipment and reduce down time.

FUTURE PROSPECTS

The Government of Pakistan has announced major plans for substantial increase in investment for infrastructural development & various related projects in Pakistan. This includes improved roads & ports and increased production of electricity particularly in the hydel sector. It is hoped that these plans will be executed soon and if this happens there will be a significant demand for commercial explosives which will improve your company's business. There is also a sign of

increased activity in the mining sector. Lead & Zinc project of M/s. MCC Resource has started operation and we continue as their main suppliers. Rekodek Copper and Gold project will hopefully start during 2006-2007. We hope to get our due share of supply of explosives and accessories to this project. The cement Sector continues with major expansion of existing plants. There is also talk of early decisions on new dams which are essential to maintain growth rate.

DEPRECIATION

Your Board has decided to charge depreciation on the plant and machinery at 5% on a straight line basis with effect from this year. As reported earlier your company has upgraded its maintenance/repairs of machinery and we feel that these rates represent a realistic future useful life of the plant.

CODE OF CORPORATE GOVERNANCE

We are pleased to report that the company has taken necessary measures to comply with the provisions of the code of Corporate Governance as incorporated in listing regulations of the Stock Exchanges.

The Board regularly reviews the company's strategic direction. Business plans and targets are set by the Chairman/Chief Executive & are reviewed by the Board. The Board is committed to maintain a high standard of good corporate governance. The company is in the process of implementing the provisions set out by Securities & Exchange Commission of Pakistan (SECP) and the accordingly amended listing rules by Stock Exchanges.

As required by the Code of Corporate Governance, your directors are pleased to report that:-

- Financial statement prepared by the management of the company, present fairly its state of affairs, the results of its operations, cash flow & changes in equity.
- Proper books of account of the company have been maintained.
- Accounting policies have been consistently applied in preparation of financial statements and accounting estimates, except for those disclosed in the accounts & accounting estimates are based on reasonable & prudent judgment.
- International accounting standards as applicable in Pakistan have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal controls is sound and has been effectively implemented and monitored.
- There is no significant doubt about the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on June 30, 2005 except for those stated in the financial statements.

- No trades in the shares of the listed company were carried out by the directors, CEO, CFO, Company Secretary and their spouses and minor children.
- A statement as to the value of investment of Provident Fund as on June 30, 2005 is Rs. 1,505,054/-

A total of 5 meetings of the Board of Directors were held during year (July, 04 to June, 05). The attendance by each Director is given as follows:

NAME ATTENDED		NO. OF MEETINGS
Mr. M. Afzal Khan	Chairman	5
Mr. Khawaja Amanullah Askari	Managing Director	4
Mr. M. Maajid Qureshi	Director	3
Mr. Abdul Rashid	Director	3
Lt. Gen. (Retd.) G.S. Butt	Director	5
Mr. M. Salim	Director	5
Mr. Mohammad Ali Yaqoob	Director	1
Major Gen. (Retd) S.Z.M. Askree	Director	5
Col. (Retd.) M. Zafar Khan	Director	5
Dr. Humayun Khan	Director	4
Mr. Adnan Aurangzeb	Director	2

Leave of absence is granted in all cases to the Directors.

AUDITORS

The present auditors M/s. Taseer Hadi Khalid & Company, Chartered Accountants retire and being eligible offer themselves for reappointment.

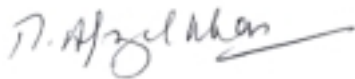
ACKNOWLEDGEMENT

Your Board would like to take this opportunity to express its appreciation to all the employees of the company for their continued commitment and hard work. We also acknowledge the support and cooperation of our major share holder, customers, suppliers and our Bankers specially Habib Bank Ltd, Bank of Khyber, ABN AMRO, National Bank of Pakistan, and Union Bank Limited.

PATTERN OF SHARE HOLDING

Pattern of share holding is enclosed.

ON BEHALF OF BOARD



**M. AFZAL KHAN
CHAIRMAN**

**ISLAMABAD
OCTOBER 3, 2005**

STAKEHOLDERS INFORMATION

		2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97	1995-96	1994-95
<u>Investor Information</u>												
Paid up Capital	Rs. In '000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	140,000	140,000	140,000	140,000
Net worth	Rs. In '000	223,821	164,653	149,350	185,859	181,762	188,654	12,564	55,633	99,041	127,971	88,063
Net Sales	Rs. In '000	215,236	182,533	99,499	92,911	85,212	78,830	68,374	67,632	56,193	67,546	29,202
Gross Profit / (Loss)	Rs. In '000	60,914	56,125	23,320	26,527	19,286	17,667	2,959	1,995	4,489	2,538	(12,905)
Net Profit	Rs. In '000	31,629	23,303	(0.534)	0.228	(6,892)	(4,639)	(43,069)	(43,407)	(28,931)	(56,563)	(51,936)
Fixed Assets	Rs. In '000	301,640	282,299	292,351	297,351	307,444	312,766	317,025	333,320	350,563	368,750	284,089
<u>Working Capital</u>												
Current Ratio		2.72	1.24	1.19	1.15	1.45	1.34	0.32	0.39	0.51	0.65	1.17
Number of days stock		54	63	88	86	83	85	72	71	107	82	126
Number of days debts		57	57	65	39	31	37	59	55	53	37	133
<u>Performance Results</u>												
Earning Per Share	Rs. 10/Share	1.58	1.17	(0.03)	0.01	(0.34)	(0.23)	(2.15)	(3.10)	(2.07)	(4.04)	(3.71)
Break-up Value		11.19	8.23	7.47	9.29	9.09	9.43	0.63	3.97	7.07	9.14	6.29
Gross Profit Ratio	%	28.30	30.75	23.44	28.55	22.63	22.41	4.33	2.95	7.99	3.76	(44.19)
Net Profit Ratio	%	14.70	12.77	(0.001)	0.000	(8.09)	(5.88)	(62.99)	(64.18)	(51.49)	(83.74)	(177.85)

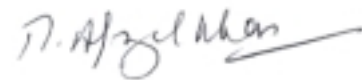
**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE TO
THE MEMBERS
For the year ended June 30, 2005**

This statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulations of the Karachi, and Islamabad stock exchanges for the purpose of establishing a framework of good corporate governance, whereby, a listed company is managed in compliance with 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 on its Board of Directors. At present the Board includes 08 independent non-executive directors out of total strength of 11 members.
2. The directors have confirmed that none of them is serving as a director in ten or more listed companies including this company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or being a member of stock exchange has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year ended June 30, 2005.
5. The Board has prepared "Statement of Ethics and Business Practices" which has been signed by all the Directors and employees of the Company.
6. The Board has formulated and adopted vision and mission statement.
7. All the powers of the Board have been duly exercised and decision 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.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board Meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated within thirty days of the respective meeting.
9. All the Directors on the Board are fully conversant with their duties and responsibilities as Director of corporate bodies. It has accordingly not been felt necessary to put them through any orientation.
10. No new appointments of CEO, CFO, and Company Secretary have been made during the year. Internal Auditors have been appointed by the CEO as per recommendation of the Board.
11. The Directors' report for this year has been prepared in compliance with requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the company were duly endorsed by CEO and CFO before the approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
14. The company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises 04 members, out of which 03 members are non-executive directors including the Chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has outsourced the internal audit function to Riasat Khan & Co who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company and they are involved in the internal audit function.
18. 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, and 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 the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulation and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code of Corporate Governance have been complied with.



OCTOBER 03, 2005
ISLAMABAD:

M. AFZAL KHAN
Chairman

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 Biafo Industries Limited to comply with the Listing Regulations of the Stock Exchanges 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.

Islamabad
03 October 2005

Taseer Hadi Khalid & Co.

Taseer Hadi Khalid & Co.
Chartered Accountants

AUDITORS REPORT TO THE MEMBERS OF BIAFO INDUSTRIES LIMITED

We have audited the annexed balance sheet of Biafo Industries Limited as at 30 June 2005 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 conducted our audit in accordance with the auditing standards as applicable in Pakistan, These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for change referred to in note 2.16, with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 30 June 2005 and of the profit, its cash flows and changes in equity for the year then ended;
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance; and
- (d) without qualifying our opinion, we draw attention to note 29.4 to the financial statements where it is explained that the availability of un-absorbed depreciation related to prior years for setting off business losses is being contested with the Income Tax Department.-

ISLAMABAD
03 October 2005

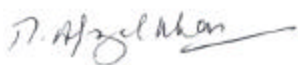
Taseer Hadi Khalid & Co.
TASEER HADI KHALID & CO.
CHARTERED ACCOUNTANTS

BIAFO INDUSTRIES LIMITED
BALANCE SHEET AS AT 30 JUNE 2005

	NOTE	2005 Rupees	2004 Rupees Restated
FIXED ASSETS - tangible			
Property, plant and equipment	3	301,639,723	282,299,111
LONG TERM DEPOSITS	4	544,749	558,449
CURRENT ASSETS			
Stores, spares and loose tools	5	5,423,111	5,854,294
Stock in trade	6	21,877,076	23,449,694
Trade debts	7	36,103,117	33,681,122
Advances	8	2,961,146	1,346,796
Trade deposits and short term prepayments	9	910,706	810,696
Income tax	10	4,583,532	5,387,602
Other receivables	11	127,500	11,918
Cash and bank balances	12	5,185,854	1,258,377
		77,172,042	71,800,499
CURRENT LIABILITIES			
Trade and other payables	13	17,702,102	22,270,911
Accrued markup	14	1,384,331	567,228
Short term borrowings	15	9,270,952	21,103,102
Current portion of:			
Long term loans	16	10,359,038	9,593,464
Liabilities against assets subject to finance lease	17	637,396	967,547
		39,353,819	54,502,252
NET CURRENT ASSETS		37,818,223	17,298,247
LONG TERM LOANS	16	81,584,559	92,964,372
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	17	2,117,851	1,168,398
PROVISION FOR STAFF RETIREMENT BENEFITS	18	1,192,375	2,893,291
DEFERRED TAXATION	19	31,286,987	30,476,266
CONTINGENCIES AND COMMITMENTS	20	-	-
		223,820,923	172,653,480
REPRESENTED BY:			
SHARE CAPITAL AND RESERVES			
Share capital	21	200,000,000	200,000,000
Accumulated loss		(62,547,599)	(88,689,418)
		137,452,401	111,310,582
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT -net of tax	22	86,368,522	61,342,898
		223,820,923	172,653,480

The annexed notes 1 to 37 form an integral part of these financial statements.

These financial statements were authorized for issue by the Board of Directors in their meeting held on 03 October 2005.



Islamabad

Director



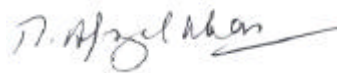
Chief Executive

**BIAFO INDUSTRIES LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2005**

	NOTE	2005 Rupees	2004 Rupees
GROSS SALES	23	282,560,760	238,924,674
Less: Sales tax		22,718,498	19,785,034
Discounts and commission		<u>44,605,927</u>	<u>36,606,278</u>
NET SALES		215,236,335	182,533,362
Less: Cost of sales	24	<u>154,322,363</u>	<u>124,485,751</u>
GROSS PROFIT		60,913,972	58,047,611
Other operating (loss) / income	25	(88,111)	1,766,312
Selling and distribution costs	26	(7,341,082)	(9,180,012)
Administrative expenses	27	<u>(9,847,606)</u>	<u>(8,893,720)</u>
PROFIT FROM OPERATIONS		43,637,173	41,740,191
Finance cost	28	<u>(10,293,556)</u>	<u>(16,948,187)</u>
PROFIT FOR THE YEAR		33,343,617	24,792,004
Workers' profit participation fund		<u>(1,667,181)</u>	<u>(1,239,600)</u>
PROFIT BEFORE TAXATION		31,676,436	23,552,404
Taxation	29		
Current		<u>(1,400,488)</u>	<u>(1,203,580)</u>
Deferred		<u>1,353,055</u>	<u>954,743</u>
		<u>(47,433)</u>	<u>(248,837)</u>
PROFIT AFTER TAXATION		<u>31,629,003</u>	<u>23,303,567</u>
EARNINGS PER SHARE - BASIC	31	<u>1.58</u>	<u>1.17</u>

The annexed notes 1 to 37 form an integral part of these financial statements.

Islamabad



Director

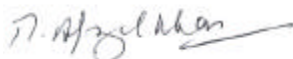


Chief Executive

BIAFO INDUSTRIES LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

	NOTE	2005 Rupees	2004 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		31,676,436	23,552,404
Adjustments for:			
Depreciation		13,259,754	9,927,225
Finance cost		10,293,556	17,220,499
Provision for workers profit participation fund		1,667,181	1,239,600
Provision for doubtful debts and advances		60,348	1,474,770
Provision for staff retirement benefits		489,907	1,226,153
Adjustment for capital in progress		-	548,987
Loss/(gain) on disposal/sale of fixed assets		88,280	(327,158)
		<u>25,859,026</u>	<u>31,310,076</u>
Operating profit before working capital changes		57,535,462	54,862,480
Working capital changes			
Decrease / (increase) in store, spares and loose tools		431,183	(93,268)
Decrease / (increase) in stock in trade		1,572,618	(3,425,458)
(Increase) in trade debts		(2,470,424)	(11,743,204)
(Increase) / decrease in advances, deposits, prepayments and other receivables		(1,841,860)	934,232
(Decrease)/ increase in trade, other payables and accrued liabilities		(6,349,616)	969,881
		<u>(8,658,099)</u>	<u>(13,357,817)</u>
Cash generated from operations		48,877,363	41,504,663
Finance cost paid		(9,476,453)	(14,498,175)
Retirement benefits paid		(2,190,823)	(70,825)
Taxes paid		(596,418)	(4,244,402)
		<u>(12,263,694)</u>	<u>(18,813,402)</u>
Net cash generated from operating activities		36,613,669	22,691,261
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,476,430)	(60,360)
Refund of import license fee		-	1,569,809
Proceeds from disposal/sale of property, plant and equipment		850,000	420,000
Long term deposits		13,700	75,000
Net cash (used in) / generated from investing activities		(612,730)	2,004,449
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of finance lease liabilities		(1,740,698)	(1,071,548)
Payment of loans from directors and shareholders		-	(613,037)
Payment of long term loans		(10,614,239)	(21,679,591)
Dividend paid		(7,886,375)	-
Net cash used in financing activities		(20,241,312)	(23,364,176)
NET INCREASE IN CASH AND CASH EQUIVALENTS		15,759,627	1,331,534
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		(19,844,725)	(21,176,259)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	30	<u>(4,085,098)</u>	<u>(19,844,725)</u>

The annexed notes 1 to 37 form an integral part of these financial statements.



Islamabad

Director



Chief Executive

BIAFO INDUSTRIES LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2005

	Issued, subscribed and paid up capital	Accumulated loss	Total
	Rupees	Rupees	Rupees
Balance as at 30 June 2003	200,000,000	(113,766,078)	86,233,922
Net profit for the year	-	23,303,567	23,303,567
Incremental depreciation on surplus on revaluation of property, plant and equipment during the year - net of deferred tax	-	1,773,093	1,773,093
Proposed final dividend @ Re. 0.40 per share	-	(8,000,000)	(8,000,000)
Balance as at 01 July 2004 as previously reported	200,000,000	(96,689,418)	103,310,582
Change in accounting policy with respect to dividends declared after the balance sheet date	-	8,000,000	8,000,000
Restated balance as at 01 July 2004	200,000,000	(88,689,418)	111,310,582
Net profit for the year	-	31,629,003	31,629,003
Incremental depreciation on surplus on revaluation of property, plant and equipment during the year - net of deferred tax	-	2,512,816	2,512,816
Final dividend for the year ended 30 June 2004	-	(8,000,000)	(8,000,000)
Balance as at 30 June 2005	200,000,000	(62,547,599)	137,452,401

The annexed notes 1 to 37 form an integral part of these financial statements.

Islamabad



Director



Chief Executive

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

1. STATUS AND OPERATIONS.

BIAFO Industries Limited ("the Company") was incorporated in Pakistan on 07 September 1988 as a public limited company under the Companies Ordinance, 1984 and its shares are quoted on the Karachi and Islamabad Stock Exchanges. The Company started its commercial production on 01 July 1994 and is principally engaged in the manufacturing of commercial explosives and blasting accessories including detonators and other materials. The Company has set up its industrial undertaking in Hattar Industrial Estate N.W.F.P. with its registered office in Islamabad, Pakistan.

2. SIGNIFICANT ACCOUNTING POLICIES.

2.1 Statement of compliance.

These financial statements are prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise 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 from the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Basis of preparation.

These financial statements have been prepared under the historical cost convention as modified by revaluation of certain property, plant and equipment.

2.3 Property, plant and equipment.

Owned

Property, plant and equipment are stated at cost or revalued amounts less accumulated depreciation and accumulated impairment losses, if any. Surplus arising out of revaluation of property, plant and equipment is transferred to " Surplus on revaluation of Property, Plant and Equipment ".

Depreciation is charged to income applying the straight line method at rates specified in note 3.

Depreciation on additions / deletions during the year is charged on a pro-rata basis from the date of use upto the date of deletion. Normal repairs are charged to income as and when incurred while major renewals and improvements are capitalized. Gain/ loss on disposal of property, plant and equipment is taken to the profit and loss account.

Consequent to the amendments in section 235 of the Companies Ordinance, 1984 and in terms of SRO 45(1)/2003 dated 13 January 2003, revaluation surplus to the extent of excess depreciation charged on revalued property, plant and equipment during the current financial year is taken to retained earnings. This effect has been shown in Note 22 to these financial statements.

Capital work in progress.

Capital work in progress is stated at cost.

Leased

Assets under finance lease are stated at lower of the present value of minimum lease payments under the lease agreements and the fair value of assets less accumulated depreciation. Related obligations under the leases are accounted for as liabilities. Finance cost is calculated at the rate implicit in the leases and charged to income. Leased assets are depreciated over the useful economic life of the assets using the straight line method at the rates given in note 3 to the financial statements.

Change in accounting estimate

During the year the Company has revised its estimates regarding the useful lives of plant and machinery. Accordingly, the rate of depreciation on plant and machinery has been charged at a uniform rate of 5%. This change has resulted in increasing the depreciation charge for the year by Rs. 3,254,343 with a corresponding decrease in the profit for the year.

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

2.4 Revenue recognition

Revenue is recognized when right to ownership is transferred and there is probable flow of economic resources to the organization usually at the time of delivery of goods to the customers. Interest on bank deposits is recognized on a time proportion basis.

2.5 Stock in trade

These are principally stated at lower of cost and net realizable value. Cost is determined as follows:

Material in transit:	at material cost plus other charges paid thereon
Raw material:	at moving average cost
Work in process:	at material cost
Finished goods:	at average cost and related manufacturing expenses

Net realizable value signifies the estimated selling price in the ordinary course of business less net estimated cost of completion and selling expenses.

2.6 Stores spares and loose tools

These are valued at moving average costs less impairment loss if any.

2.7 Taxation

Current:

Provision for taxation is based on taxable income at the current rates of taxes after taking into account tax credit and tax rebates realizable, if any.

Deferred:

Deferred tax is provided using balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial statements and the corresponding tax bases used in the computation of tax. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using the tax rates enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Further the Company recognizes deferred tax liability on surplus on revaluation of Property, Plant and Equipment which is adjusted against the related surplus.

2.8 Staff retirement benefits

Gratuity

The Company operates an unfunded gratuity scheme for its workers under the existing labor laws. Upto the previous year, provision was made in the financial statements to cover the obligation under the scheme based on one month's last drawn gross salary for each completed year of service. Effective 01 July 2004, the scheme has been replaced by provident fund scheme as mentioned below.

Provident fund

The Company has established a recognized provident fund for the management employees. Effective 01 July 2004, the benefit is also available to workers of the company. Provision is made in the financial statements for the amount payable by the company to the fund in this regard. Monthly contribution is made to the fund equally by the company and the employees at the rate of 8.33% of the basic salary.

Compensated absences

The company provides for compensated absences of its employees on unavailed leaves.

2.9 Foreign currency transactions

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated in Pak Rupees at the rate of exchange prevailing at the balance sheet date. Exchange differences are taken to the profit and loss account.

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

2.10 Borrowing costs

All borrowing costs are charged to the profit and loss account.

2.11 Financial instruments

Financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instruments. The Company de-recognizes a financial asset or a portion of financial asset when, and only when, the company loses control of the contractual right that comprise the financial asset or portion of financial asset. While a financial liability or part of financial liability is de-recognized from the balance sheet when, and only when, it is extinguished i.e., when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets mainly comprise long term deposits, trade debts, advances, other receivables, cash and bank balances. These are stated at their nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are obligations under lease finance, long term loans, creditors, accrued and other liabilities. These are stated at their nominal values.

2.12 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the Company has a legal enforceable right to set off the transactions and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously

2.13 Trade and other payables

Trade and other payables are stated at cost.

2.14 Trade and other receivables

Trade and other receivable are stated at original invoice amount as reduced by appropriate provision for impairment. Known impaired receivables are written off, while receivables considered doubtful of recovery are fully provided for.

2.15 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

2.16 Dividend appropriation

Dividends are recognized in the financial statements in the period in which they are declared. Upto previous year, dividends proposed after the balance sheet date but before the financial statements were authorized for issue, were recorded as liability. The change has been necessitated by revision in 4th schedule of the Companies Ordinance, 1984.

Comparative figures have been restated to conform with the change in policy in accordance with the International Accounting Standard 8: "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". This change in accounting policy has resulted in decrease in accumulated losses as at 30 June 2004 by Rs. 8 million with corresponding decrease in liability by the same amount.

2.17 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, cash with banks on current and deposit accounts and bank borrowings. Bank borrowings that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

2.18 Impairment

The carrying amounts of the Company's assets are analyzed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss if any.

Impairment losses are recognized as expense in the profit and loss account

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED ON 30 JUNE 2005

3 PROPERTY, PLANT AND EQUIPMENT

Particulars	Reassessed value or original cost as on 01 July 2004	Surplus on revaluation	Cost of additions/ (disposals)	Adjustment	Gross book value as at 30 June 2005	DEPRECIATION					Net book value as at 30 June 2005	Annual rate of depreciation	
						as on 01 July 2004	for the year	release on revaluation	on deletions/ adjustments	accumulated as at 30 June 2005			
	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	2005	2004
Owned													
Leasehold land	11,760,000	23,520,000	-	-	35,280,000	-	-	-	-	-	35,280,000	-	-
Building on leasehold land	46,347,369	(18,793,260)	301,741	-	27,855,850	18,144,518	742,557	(18,887,075)	-	-	27,855,850	2.5	2.5
Plant and machinery	329,157,143	(97,986,420)	573,169	-	231,743,892	92,221,284	11,853,537	(104,074,821)	-	-	231,743,892	5	2.5-5
Fork lifter	708,458	-	-	-	708,458	529,744	22,339	-	-	552,083	156,375	10	10
Tools and equipment	998,926	-	-	-	998,926	596,031	53,973	-	-	650,004	348,922	10	10
Tube well	306,600	-	-	-	306,600	201,015	13,198	-	-	214,213	92,387	10	10
Office equipment	1,304,654	-	433,699	-	1,738,353	904,529	92,611	-	-	997,140	741,213	10	10
Furniture and fixtures	1,447,113	-	68,196	-	1,515,309	825,182	83,956	-	-	909,138	606,171	10	10
Electrical appliances	292,330	-	99,625	-	391,955	129,605	23,322	-	-	152,927	239,028	10	10
Vehicles	2,046,326	-	-	-	2,046,326	998,607	130,965	-	-	1,129,572	916,754	10	10
	394,368,919	(93,259,680)	1,476,430	-	302,585,669	114,550,515	13,016,458	(122,961,896)	-	4,605,077	297,980,592		
Leased													
Vehicles	3,033,479	-	2,360,000	-	5,393,479	527,074	179,369	-	-	706,443	4,687,036	10%	10%
			(1,027,905)		(1,027,905)	25,698	63,927	-	(89,625)	-	(1,027,905)		
	3,033,479	-	2,360,000	-	4,365,574	552,772	243,296	-	(89,625)	706,443	3,659,131		
			(1,027,905)										
2005	397,402,398	(93,259,680)	3,836,430	-	306,951,243	115,103,287	13,259,754	(122,961,896)	(89,625)	5,311,520	301,639,723		
			(1,027,905)										
2004	398,517,887		1,099,045	(1,569,809)	397,402,398	106,166,721	9,927,225		(990,659)	115,103,287	282,299,111		
			(644,725)										

3.1 Depreciation for the year has been allocated as under:

	2005	2004
	Rupees	Rupees
Cost of sales	12,906,164	9,614,395
Administrative expenses	257,801	214,262
Selling and distribution cos	95,789	98,568
	13,259,754	9,927,225

3.2 As referred in note 22 to these financial statements, land, building and plant and machinery are carried at revalued amounts. Had there been no revaluation, related figures of revalued property, plant and equipment would have been as follows:

	Net Book Value	
	2005	2004
	Rupees	Rupees
Leasehold land	7,015,883	7,015,883
Building on leasehold land	38,058,825	38,777,933
Plant and machinery	146,916,406	154,052,612
	191,991,114	199,846,428

3.3 Land, building and plant and machinery of the Company were revalued on 30 June 2005 by an independent valuer Asem (Private) Limited (formerly Resources & Assets Management International). Land and building were revalued on the market basis and plant and machinery under the depreciated replacement cost basis. The previous revaluation was carried out on 20 November 1996.

3.4 LOSS ON DELETION OF PROPERTY, PLANT AND EQUIPMENT

Particular	Cost	Book value	Insurance claim	Loss	Mode of disposal
	Rupees	Rupees	Rupees	Rupees	
Vehicle	1,027,905	938,280	850,000	88,280	Insurance claim

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	Rupees	Rupees
4. LONG TERM DEPOSITS		
These represent interest free deposits and are repayable on discontinuation of services:		
Pakistan Telecommunication Company Limited	414,400	414,400
Islamabad Electric Supply Company Limited	9,099	9,099
Sui Northern Gas Pipelines Limited	15,950	15,950
Central Depository Company (Guarantee) Limited	37,500	75,000
Others	67,800	44,000
	544,749	558,449
5. STORES, SPARES AND LOOSE TOOLS		
Stores	922,022	961,799
Spares	4,469,653	4,858,781
Loose tools	31,436	33,714
	5,423,111	5,854,294
6. STOCK IN TRADE		
Raw materials	16,105,652	19,840,937
Packing materials	808,153	928,007
Work in process	944,517	156,897
Finished goods	4,018,754	2,523,853
	21,877,076	23,449,694
7. TRADE DEBTS		
Considered good (7.1)	36,103,117	33,681,122
Considered doubtful	1,640,162	1,591,733
	37,743,279	35,272,855
Less: Provision for doubtful debts	1,640,162	1,591,733
	36,103,117	33,681,122
7.1 Trade debts include amounts due from an associated undertaking of Rs.128,449 (2004: Rs. nil). The maximum aggregate amount due at the end of any month during the year from the associated undertaking was Rs. 128,448 (2004: Rs.658,964).		
	2005	2004
	Rupees	Rupees
8. ADVANCES		
Advances to suppliers and contractors (8.1)	2,515,799	896,781
Advances to employees	445,347	450,015
	2,961,146	1,346,796
8.1 Advances to suppliers and contractors		
Considered good	2,515,799	896,781
Considered doubtful	142,955	142,955
	2,658,754	1,039,736
Less: Provision for doubtful advances	(142,955)	(142,955)
	2,515,799	896,781
9. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS		
Trade deposits	376,544	376,544
Pre-payments	534,162	434,152
	910,706	810,696

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	Rupees	Rupees
10. INCOME TAX		
Withholding tax	7,837,925	7,241,507
Provision for taxation	(3,254,393)	(1,853,905)
	4,583,532	5,387,602
11. OTHER RECEIVABLES		
Considered good	127,500	11,918
Considered doubtful	11,918	-
	139,418	11,918
Less: Provision for doubtful receivables	11,918	-
	127,500	11,918
12. CASH AND BANK BALANCES		
Cash in hand	70,243	29,594
With banks on:		
Current accounts (12.1)	4,058,765	1,210,110
Deposit account	1,056,846	18,673
	5,115,611	1,228,783
	5,185,854	1,258,377

12.1 This includes Rs.3,454,533 (2004: Rs. 1,102,399) in foreign currency accounts.

13. TRADE AND OTHER PAYABLES		
Creditors	6,005,724	4,447,535
Advances from customers	2,875,658	4,602,116
Accrued liabilities	1,144,553	1,069,831
Usance letters of credit	2,138,602	6,475,658
Withholding tax payable	120,123	170,200
Sales tax	1,470,256	1,469,022
Insurance	1,803,028	2,106,498
Worker's profit participation fund (13.1)	1,667,181	1,239,600
Unclaimed dividend	113,624	-
Payable to employees retirement benefit fund	68,539	133,198
Others	294,814	557,253
	17,702,102	22,270,911
13.1 Workers' profit participation fund		
Opening balance	1,239,600	12,935
Allocation of profit	1,667,181	1,239,600
Interest (13.1.1)	85,474	1,009
	2,992,255	1,253,544
Payment during the year.	(1,325,074)	(13,944)
	1,667,181	1,239,600

13.1.1 The fund balance has been utilised by the Company for its own purpose and interest @ 8% has been credited to the fund.

	2005	2004
	Rupees	Rupees
14. ACCRUED MARKUP		
Accrued mark-up on		
Long term loans		
- Secured	1,130,537	274,246
- Un-secured	233,443	277,193
	1,363,980	551,439
Short term borrowings - secured	20,351	15,789
	1,384,331	567,228

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	Rupees	Rupees
15. SHORT TERM BORROWINGS -secured		
Bank of Khyber		
Running finance (15.1)	151,760	219,244
Export refinance (15.2)	4,035,400	19,908,700
	4,187,160	20,127,944
National Bank of Pakistan		
Running finance (15.3)	83,792	292,863
Export refinance (15.4)	5,000,000	682,295
	5,083,792	975,158
	9,270,952	21,103,102

15.1 The running finance facility has a sanctioned limit of Rs. 10 million (2004: Rs. 10 million) and carries mark up @ KIBOR six months rate 9.33% with floor of 12% pa (2004: Rs. 0.22 per thousand per day) payable on quarterly basis.

15.2 The export refinance facility has a sanctioned limit of Rs. 20 million and carries mark up as per State Bank of Pakistan's prescribed rates.

The facilities mentioned in note 15.1 and 15.2 are secured as follows:

- 1st charge ranking pari passu with Habib Bank Limited on all existing & future assets of the company for Rs.14.130 Million duly registered with the Securities and Exchange Commission of Pakistan (SECP).
- 2nd charge on all the existing and future assets of the company for Rs. 21.04 Million duly registered with SECP.
- Ranking charge on all the existing and future assets of the company, duly registered with SECP for Rs. 34 Million.
- Pledge / Hypothecation of stocks with 10% margin i.e. 22.22 Million.
- Counter guarantee of the company.
- Personal guarantee of sponsoring directors of the company.

15.3 The running finance facility has a sanctioned limit of Rs. 15 million (2004: Rs. 15 million) and carries mark up @ 6 months KIBOR + 4.5% pa with floor of 7.5% (2004: Rs. 0.30 per thousand per day) payable on quarterly basis. The facility is secured by way of pledge of stocks with 25% margin and lien on receivables for Rs. 22 million.

15.4 The export refinance/FE-25 (Composite) facility has a sanctioned limit of Rs. 5 million (2004: Rs. 5 million) and carries mark up for export refinance as per rates announced by SBP from time to time and for FE-25 Libor plus 2% p.a. The facility is secured by way of pledge of stocks and spares with 25% margin and lien on receivables.

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	Rupees	Rupees
16. LONG TERM LOANS		
These are made-up of:		
Loans from financial institutions - secured		
Habib Bank Limited (16.1)	32,370,984	46,181,208
ABN Amro Bank (16.2)	39,826,612	34,203,451
	72,197,596	80,384,659
Loans from directors and shareholders - unsecured (16.3)	9,386,963	9,386,963
Consultancy Charges - unsecured (16.2)		
Balance Payable	3,278,000	6,385,500
Transferred to current maturity	(3,278,000)	(3,192,750)
	-	3,192,750
	81,584,559	92,964,372
16.1 Habib Bank Limited		
Opening Balance		
Demand Finance - I	40,081,927	48,412,359
Demand Finance - II	12,499,995	16,071,425
	52,581,922	64,483,784
Less:		
Repaid during the year	(13,129,900)	(11,901,862)
Transferred to current maturity	(7,081,038)	(6,400,714)
	(20,210,938)	(18,302,576)
	32,370,984	46,181,208

As a result of restructuring agreement with Habib Bank Limited dated August 26, 1999, the loan aggregating Rs. 300.729 million has been reclassified into Demand Finance - I and Demand Finance -II, amounting to Rs. 70 million and Rs. 25 million, respectively.

The marked up price of the above loans is Rs. 144.485 million, calculated on the basis of a mark up @ 14.235% per annum. The loan is repayable in sixteen equal half yearly installments commencing July 2000.

In case, default is made in payment of any two consecutive installments, subject to a three months' notice period, the bank is entitled to claim at once the entire outstanding balance including the rebate allowed amounting to Rs. 322.468 million.

These facilities are secured by way of :

- First prior charge (equitable mortgage) on all the present and future fixed assets of the Company
- First prior floating hypothecation charge on all the moveable and immovable properties and assets of the Company
- Personal guarantees of sponsor directors.
- Pledge of shares (Sponsors: 3 million shares , Orient Trading Company Limited: 6 million shares)

16.2 ABN Amro Bank

The demand finance facility has a sale price of Rs. 45 million (2004: Rs. 45 million) with the corresponding purchase price of Rs. 72.375 million (2004: Rs. 72.375 million) which calculate to mark up @ 10 % per annum (2004: 3.5% per annum), payable on quarterly basis. The demand finance is payable on or before 12 February 2007. The facility is secured by way of a bank guarantee arranged by a shareholder of the Company amounting to Rs. 44.28 million (2004 Rs. 44.28 million). In the previous year, the Company entered into an agreement with a shareholder to pay an amount of Rs 6.385 million, on account of consultancy services for arranging the guarantee without any security and facilitating the financing arrangement at an overall competitive composite rate. The consideration is payable in four equal half yearly installments commencing July 2004. The Company has also agreed to pay a guarantee fee @ 1% p.a. of the total amount of the guarantee and to pay maintenance fee @ 2% p.a. on the amount of the guarantee exceeding Rs 25 million in half yearly installments, should the guarantee continue beyond August 2004.

The Company is also liable to pay an additional amount @ KIBOR + 2% p.a. on the outstanding amounts, in case of delayed payments.

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

16.3 Loans from directors and shareholders	2005 Rupees	2004 Rupees
Loans from directors		
Mr. M. Afzal Khan	3,393,013	3,393,013
Mr. Abdul Majid Qureshi	1,490,000	1,490,000
Mr. M.Salim	770,000	770,000
	5,653,013	5,653,013
Loans from shareholders		
Mian Gul Aurangzeb	1,060,000	1,060,000
Mr. Munnawar Ali Noon	1,650,000	1,650,000
Mrs. Ishrat Askari	820,000	820,000
Mr. Aman-ur-Rehman	203,950	203,950
	3,733,950	3,733,950
	9,386,963	9,386,963

Loans from directors and shareholders represent unsecured loans extended by the directors and shareholders of the Company to meet its current financial obligations and carry markup @ 10% per annum payable on quarterly basis. These loans are repayable within five years maturing in April 2007.

17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

These represent vehicles acquired under lease agreements with a leasing company. The liability represents total of minimum lease payments discounted at rates ranging between 10.5 % to 17.25 % per annum, being the effective rate of borrowing. The purchase option is available to the company on payment of lease installments and surrender of key deposit money under the lease agreements.

The amount of future payments and the period in which these payments will become due are as under:

	2005 Rupees	2004 Rupees
Minimum lease payments		
Payable within one year	956,330	1,189,951
Payable after one year but not later than five years	2,600,290	1,385,100
	3,556,620	2,575,051
Less: Finance charge relating to future periods	801,373	439,106
Principal outstanding	2,755,247	2,135,945
Less: Current portion shown under current liabilities	637,396	967,547
	2,117,851	1,168,398

18. PROVISION FOR STAFF RETIREMENT BENEFITS

Obligation at beginning of the year	2,893,291	1,737,963
Charge for the year	489,907	1,226,153
Benefits paid	(2,190,823)	(70,825)
Obligation at the end of the year	1,192,375	2,893,291

The management is of the opinion that actuarial valuation will not result in any material adjustment to these financial statements.

19. DEFERRED TAXATION

This represents deferred tax charged on surplus on revaluation of Property, plant and equipment.

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

20. CONTINGENCIES AND COMMITMENTS

- 20.1 Industrial Estate Hattar of Sarhad Development Authority (NWFP) has raised an additional demand of Rs. 6,203,400 against the Company relating to additional payment to be made to original owners of the land for which lease was signed and full payment was made in 1991. The Company has not acknowledged the claim and has filed an appeal against the demand before the Civil Judge, Haripur. The court has stayed the demand and the matter is pending adjudication. Management of the Company is confident of a favorable outcome of this case.
- 20.2 Outstanding letter of credit opened by a bank on behalf of the Company for the import of raw materials amounted to Rs.11.923 million (2004: Rs. 12.204 million) at the year end.
- 20.3 Refer note 29 for contingencies related to tax matters.

21. SHARE CAPITAL	2005	2004
	Rupees	Rupees
Authorised share capital:		
25,000,000 ordinary shares of Rs. 10 each	<u>250,000,000</u>	<u>250,000,000</u>
Issued, subscribed and fully paid up:		
14,000,000 (2004: 14,000,000) ordinary shares of Rs. 10 each issued for cash	140,000,000	140,000,000
6,000,000 (2004: 6,000,000) ordinary shares of Rs. 10 each issued in lieu of restructuring arrangement with lender	60,000,000	60,000,000
	<u>200,000,000</u>	<u>200,000,000</u>

22. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT -net of tax

Opening Balance	91,819,164	94,547,000
Surplus on revaluation on 30 June 2005	29,702,216	-
Transferred to accumulated losses in respect of incremental depreciation charged during the year - net of deferred tax	(2,512,816)	(1,773,093)
Related deferred tax liability	(1,353,055)	(954,743)
	<u>(3,865,871)</u>	<u>(2,727,836)</u>
	117,655,509	91,819,164
Less: Provision for deferred taxation on depreciable surplus	(31,286,987)	(30,476,266)
	<u>86,368,522</u>	<u>61,342,898</u>

23. GROSS SALES

Sales		
Local	218,147,144	180,976,367
Exports (23.1)	64,524,409	57,948,307
	<u>282,671,553</u>	<u>238,924,674</u>
Less: Sales return	110,793	-
	<u>282,560,760</u>	<u>238,924,674</u>

- 23.1 This represents sales made in Saindak Export Processing Zone

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	Rupees	Rupees
24. COST OF SALES		
Materials consumed (24.1)	111,109,563	92,593,729
Stores and spares consumed	3,338,596	2,006,580
Packing materials consumed	5,413,130	4,500,376
Fuel and power	3,756,126	3,808,925
Salaries, wages and other benefits (24.2)	10,561,261	8,604,968
Insurance	530,699	517,183
Repairs and maintenance	990,162	542,342
Other production expenses	7,999,183	3,311,698
Depreciation (3.1)	12,906,164	9,614,395
	<u>156,604,884</u>	<u>125,500,196</u>
Work in process :		
Opening	156,897	503,185
Closing	(944,517)	(156,897)
	<u>(787,620)</u>	<u>346,288</u>
Cost of goods manufactured	155,817,264	125,846,484
Finished goods:		
Opening	2,523,853	1,163,120
Closing	(4,018,754)	(2,523,853)
	<u>(1,494,901)</u>	<u>(1,360,733)</u>
	<u>154,322,363</u>	<u>124,485,751</u>
24.1 Materials consumed		
Opening stock	19,840,937	17,580,889
Add: Purchases	107,374,278	94,853,777
	<u>127,215,215</u>	<u>112,434,666</u>
Less: Closing stock	16,105,652	19,840,937
	<u>111,109,563</u>	<u>92,593,729</u>
24.2 This includes Rs. 392,289 (2004: Rs. 439,249) charged on account of staff retirement benefits.		
25. OTHER OPERATING (LOSS) / INCOME		
Mark up on bank deposits	169	3,298
Transportation recovered	-	1,435,856
Gain on sale of property, plant and equipment	-	327,158
Loss on disposal of vehicle	(88,280)	-
	<u>(88,111)</u>	<u>1,766,312</u>
26. SELLING AND DISTRIBUTION COSTS		
Salaries, wages and other benefits (26.1)	2,876,986	2,159,373
Traveling and conveyance	515,511	358,895
Telephone, telex and postage	36,932	25,767
Entertainment	14,515	9,323
Printing and stationary	23,144	57,321
Vehicle running and maintenance	404,123	441,257
Insurance	142,289	219,285
Provision for doubtful debts and advances	48,429	1,474,770
Bad debts written off	132,368	359,348
Storage site development expenditure	962,306	1,219,417
Other charges	2,088,690	2,756,688
Depreciation (3.1)	95,789	98,568
	<u>7,341,082</u>	<u>9,180,012</u>
26.1 This include Rs. 88,868 (2004: Rs. 84,638) charged on account of staff retirement benefits.		

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	Rupees	Rupees
27 ADMINISTRATIVE EXPENSES		
Director's remuneration	2,527,545	3,074,751
Salaries, wages and other benefits (27.1)	2,532,393	1,821,522
Director's travelling and conveyance	1,314,982	1,247,773
Staff traveling and conveyance	91,414	106,199
Electricity, gas and water	190,213	195,370
Telephone, telex and postage	763,316	689,839
Rent, rates and taxes	802,009	618,375
Legal and professional charges	378,060	385,970
Auditors' remuneration (27.2)	315,000	100,000
Printing and stationery	229,744	205,383
Entertainment	102,320	39,839
Other expenses	342,809	194,437
Depreciation (3.1)	257,801	214,262
	9,847,606	8,893,720

27.1 This includes Rs.497,906 (2004: Rs. 1,086,693) charged on account of staff retirement benefits.

	2005	2004
	Rupees	Rupees
27.2 Auditors' remuneration;		
Annual audit fee	175,000	75,000
Review of half yearly financial statements	75,000	25,000
Other certifications	50,000	-
Out of pocket expenses	15,000	-
	315,000	100,000

28. FINANCE COST

Mark up on long term loans	7,661,558	14,263,913
Mark up on loan from directors and shareholders	938,696	1,002,738
Mark up on finance lease	205,704	316,517
Mark up on short term borrowings	861,402	978,063
Exchange loss/ (gain)	120,875	(267,754)
Bank charges	419,847	653,701
Mark up on workers' profit participation fund	85,474	1,009
	10,293,556	16,948,187

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

29. TAXATION	2005 Rupees	2004 Rupees
Current	(1,400,488)	(1,203,580)
Deferred	1,353,055	954,743
	<u>(47,433)</u>	<u>(248,837)</u>
29.1 Reconciliation of tax income with accounting profit:		
Profit before taxation	<u>31,676,436</u>	<u>23,552,404</u>
Tax rate	<u>35%</u>	<u>35%</u>
Tax on accounting profit	11,086,753	8,243,341
Tax effect of temporary differences	24,410,938	4,590,224
Tax effect of business losses	(35,497,691)	(12,833,565)
Reversal of deferred tax liability on incremental depreciation	1,353,055	954,743
Provision for minimum taxation	<u>(1,400,488)</u>	<u>(1,203,580)</u>
	<u>(47,433)</u>	<u>(248,837)</u>

29.2 In view of tax loss for the year ended 30 June 2005, the company is only liable to pay minimum tax required under section 113 of the Income Tax Ordinance, 2001 at the rate of one-half of one percent of local sales.

29.3 Tax authorities have finalized assessments of the Company upto and including the assessment year 2002-2003 (income year ended 30 June 2002).

While finalizing assessment for the assessment years 2001-2002 and 2002-2003, the taxation officer created tax demand of Rs. 0.4 million and 1.6 million, respectively, by following historic pattern of assessment, as he determined taxable income from other sources without accounting for impact of unabsorbed depreciation brought forward from previous years. Besides, the taxation officer also did not allow credit for advance tax payment made and deductions suffered at source. The Company's appeal against the assessment order is pending disposal before the Commissioner (Appeals).

Tax assessments for assessment year 1997-1998 and 1998-1999 have been finalized at aggregate tax loss determined at Rs. 65 million, while tax loss for the assessment year 1999-2000 has been assessed at Rs. 6.7 million instead of 38.3 million claimed by the Company. The Company is contesting the orders before commissioner (Appeals) and the management is hopeful for a favourable outcome thereof. Accordingly, provision has not been made in these financial statements for any adverse tax impact of these matter.

The management is confident of favorable outcome of its appeals/ applications to tax and appellate authorities and, accordingly, provision has not been made in these financial statements for any adverse tax impact of these matters

29.4 Tax assessments for the assessment years 1995-1996 and 1996-1997 were finalized at nil income against claims filed for tax losses. During the year the Company moved applications for rectification of mistakes apparent from the record and to claim unabsorbed depreciation for these years amounting to Rs. 97 million, which has been rejected by the taxation officer. The Company has filed appeal before the Commissioner (Appeals) to settle the matter under the relevant legal provisions for allowing unabsorbed depreciation for these years to the Company. In addition, the Company has also taken up the issue with the Central Board of Revenue to refer the matter to the Alternate Dispute Resolution Committee. The management is hopeful for a favourable resolution of the dispute and, therefore, for calculating current and deferred tax liability/asset tax losses of 97 million have been considered available to the Company. Accordingly the management has not provided for tax liability of Rs. 31.2 million, including deferred tax liability of Rs. 27 million.

29.5 In view of the uncertainty about the availability of tax losses adjustable against future profits, the Company has not recognized the deferred tax asset and therefore, has created an equivalent amount of revaluation reserve against deferred tax asset amounting to Rs. 2.6 million (2004: Rs. 8.8 million). These losses have arisen primarily on account of unabsorbed depreciation, which has unlimited life.

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	Rupees	Rupees
30. CASH AND CASH EQUIVALENTS		
These are made up as follows:		
Cash in hand	70,243	29,594
Bank balances	5,115,611	1,228,783
Short term borrowings	(9,270,952)	(21,103,102)
	<u>(4,085,098)</u>	<u>(19,844,725)</u>

	2005	2004
31. EARNINGS PER SHARE - Basic		
There is no dilutive effect on the basic earnings per share of the company which is based on:		
Net Profit for the year (Rupees)	<u>31,629,003</u>	<u>23,303,567</u>
Average number of shares outstanding during the year (Number)	<u>20,000,000</u>	<u>20,000,000</u>
Earnings per share (Rupees)	<u>1.58</u>	<u>1.17</u>

32. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

DESCRIPTION	2005			2004		
	Chief Executive (Rupees)	Directors (Rupees)	Executive (Rupees)	Chief Executive (Rupees)	Directors (Rupees)	Executive (Rupees)
Managerial remuneration	594,318	977,580	-	592,260	714,513	-
Allowances:						
House rent	267,444	410,920	-	266,514	299,192	-
Utilities	59,424	97,748	-	59,226	73,714	-
Medical	29,814	39,752	-	-	-	-
Retirement benefits	50,545	-	-	1,069,332	-	-
Total	<u>1,001,545</u>	<u>1,526,000</u>	<u>-</u>	<u>1,987,332</u>	<u>1,087,419</u>	<u>-</u>
Number of persons	<u>1</u>	<u>2</u>	<u>-</u>	<u>1</u>	<u>2</u>	<u>-</u>

- Meeting fee of Rs. 28,000 (2004: Rs. 14,500) has been paid to the directors.

- Chief Executive and a director are also provided with Company's maintained vehicles.

33. RELATED PARTY TRANSACTIONS

Related parties comprise directors, key management personnel, entities over which the directors are able to exercise influence and employees' fund. Balances with related parties are shown else where in the financial statements. The Company has a policy whereby all transactions with related parties are entered into at arm's length prices. The remuneration of Chief Executive, directors and executives is disclosed in note 32 to these financial statements. Transactions with related parties, other than remuneration and benefits to key management personnel under the terms of their employment are as follows:

	2005	2004
	Rupees	Rupees
Sale of explosives to Majid Enterprises - sole proprietorship concern of a director of the Company	2,339,017	1,495,830
Mark up on loans from directors and shareholders	938,696	1,002,738
Payment to employees' provident fund	515,360	407,710
Bad debts of Oil and Gas Company Limited written off - related due to common directorship in 2004	-	359,348
Charges for consultancy services of Orient Trading Limited	-	6,385,500
Payments of consultancy services to Orient Trading Limited	3,283,500	-

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

34. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

34.1 Interest rate risk exposure

The company's exposure to interest rate risk and the effective rates on its financial assets and liabilities as of June 30, 2005 are as follows:

	2005	2004	Interest/mark-up bearing			Non-interest/mark-up bearing			2005	2004
			Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total		
	Effective interest rates %								(Rupees)	
Financial assets										
Long term deposits			-	-	-	-	544,749	544,749	544,749	558,449
Trade debts			-	-	-	36,103,117	-	36,103,117	36,103,117	33,681,122
Advances			-	-	-	445,347	-	445,347	445,347	450,015
Trade deposits			-	-	-	376,544	-	376,544	376,544	376,544
Other receivables			-	-	-	127,500	-	127,500	127,500	11,918
Cash and bank balances	2-3	2-3	1,056,846	-	1,056,846	4,129,008	-	4,129,008	5,185,854	1,258,377
			1,056,846	-	1,056,846	41,181,516	544,749	41,726,265	42,783,111	36,336,425
Financial liabilities										
Recognised										
Long term loans	2.75-14.25	2.75-14.25	8,573,323	74,441,709	83,015,032	1,785,715	7,142,850	8,928,565	91,943,597	102,557,836
Liabilities against assets subject to finance lease	10.7-17.5	10-17.5	637,395	2,117,850	2,755,245	-	-	-	2,755,245	2,135,945
Short term borrowings	3.5-10	3.5-11	9,270,952	-	9,270,952	-	-	-	9,270,952	21,103,102
Trade and other payables			-	-	-	15,563,500	-	15,563,500	15,563,500	15,896,375
Mark - up accrued			-	-	-	1,384,331	-	1,384,331	1,384,331	567,228
			18,481,670	76,559,559	95,041,229	18,733,546	7,142,850	25,876,396	120,917,625	142,260,486
On balance sheet gap			(17,424,824)	(76,559,559)	(93,984,383)	22,447,970	(6,598,101)	15,849,869	(78,134,514)	(105,924,061)
Cumulative interest/markup sensitivity gap			(17,424,824)	(93,984,383)						

34.2 Fair value of financial assets and liabilities

The carrying value of all the financial assets and liabilities reflected in the financial statements approximate their fair values

34.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. As at year end, the Company is not exposed to any significant currency risk.

34.4 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties in funds to meet commitments associated with financial instruments. The Company believes that it is not exposed to any significant level of liquidity risk.

34.5 Concentration of Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. All the financial assets except cash in hand, are subject to credit risk. The Company believes that it is not exposed to major concentration of credit risk. To manage exposure to credit risk, the Company applies credit limit to its customers and by dealing with variety of major banks and financial institutions.

BIAFO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

35. CAPACITY AND PRODUCTION

Product	Units	Rated Production capacity	Actual production	
			2005	2004
Tovex water gell and powder explosives	Kgs	2,500,000	2,801,100	2,603,668
Detonator - plain	Nos.	4,500,000	6,452,900	3,700,280
Detonator - electric	Nos.	450,000	111,710	166,771
Safety fuse	Meter	1,500,000	261,950	197,535
Detonating cord	Meter	1,500,000	1,751,210	2,299,136

The shortfall in production of certain products is due to the gap between market demand and the available capacity. Due to certain modifications made to the plant during the year, the actual capacity has been enhanced over and above the rated/capacity. However, the actual capacity at the year end can not be determined.

36. NUMBER OF EMPLOYEES

	2005	2004
Numbers of employees at the year end	88	84

37. GENERAL

37.1 Figures have been rounded off to the nearest rupee.

37.2 As a result of amendments made by the Securities & Exchange Commission of Pakistan in the 4th Schedule to the Companies Ordinance, 1984 through SRO 589(1)/2004 dated July 05, 2004, comparative figures have been rearranged or reclassified, wherever necessary for the purpose of comparison.

N. Afzal Khan

[Signature]

Islamabad

Director

Chief Executive

PATTERN OF SHAREHOLDING AS AT JUNE 30TH, 2005

NO. OF SHAREHOLDERS	SHARE HOLDING		TOTAL NUMBER OF SHARES HELD
	FROM	TO	
18	1	100	1,245
163	101	500	77,655
208	501	1,000	782,200
220	1,001	5,000	624,100
67	5,001	10,000	581,900
21	10,001	15,000	268,500
15	15,001	20,000	290,100
12	20,001	25,000	271,000
7	25,001	30,000	194,700
4	30,001	35,000	133,000
1	35,001	40,000	35,500
4	40,001	45,000	175,300
2	45,001	50,000	100,000
2	50,001	55,000	103,000
8	55,001	65,000	485,000
2	70,001	75,000	149,000
1	75,001	80,000	80,000
2	85,001	90,000	178,000
2	90,001	95,000	187,300
8	95,001	100,000	800,000
2	105,001	110,000	216,000
1	145,001	150,000	150,000
3	150,001	155,000	451,500
1	185,001	190,000	188,500
1	195,001	200,000	200,000
5	200,001	205,000	1,005,000
1	225,001	230,000	230,000
2	245,001	250,000	500,000
1	255,001	260,000	260,000
1	300,001	350,000	310,000
1	350,001	400,000	368,000
1	460,001	465,000	464,500
2	495,001	500,000	1,000,000
1	555,001	560,000	558,500
1	775,001	780,000	777,000
1	1,800,001	1,805,000	1,803,500
1	5,995,001	6,000,000	6,000,000
793			20,000,000

SHAREHOLDER'S CATEGORY	NUMBERS OF SHAREHOLDERS	NUMBERS OF SHARE HELD	PERCENTAGE
INDIVIDUALS	757	12,246,800	61%
JOINT STOCK COMPANIES	29	7,041,000	35%
FINANCIAL INSTITUTIONS	4	708,600	4%
INVESTMENT COMPANIES	1	2,000	0%
MODARABAS	1	500	0%
OTHERS	1	1,100	0%
	793	20,000,000	100.00

AS ON JUNE 30TH 2005

CATEGORIES OF SHAREHOLDERS	NUMBER	SHARES HELD	% AGE
Directors, CEO & their Spouse and Minor Children			
M.Salim	1	310,000	1.55
Mrs. Ishrat Askari w/o Kh.Amanullah Askari	1	294,300	1.47
Abdul Maajid Qureshi	1	200,000	1.00
Mrs. Zahida Qureshi w/o Abdul Maajid Qureshi	1	200,000	1.00
M. Afzal Khan	1	150,000	0.75
Adnan Aurangzeb	1	100,000	0.50
M. Zafar Khan	1	90,000	0.45
M. Humayun Khan	1	60,000	0.30
Gen (Rd.) Safdar Butt	1	85,700	0.43
Khawaja Amanullah Askari	1	5,700	0.03
Abdul Rashid	1	1,000	0.01
Mohammad Ali Yaqoob	1	1,000	0.01
Syed Zaffar Mehdi Askari	1	500	0.00
Banks, Development Finance Institutions, Non Banking Finance Institutions, Insurance Companies,Modarba & Mutual Funds	35	1,753,200	8.77
Other Individuals	743	8,945,100	44.73
Shareholders holding 10% or more shares in the company:			
Orient Trading Ltd.	1	6,000,000	30.00
Aqeel Karim Dhedhi	1	1,803,500	9.02
TOTAL	793	20,000,000	100.00