

D. G. KHAN CEMENT COMPANY LIMITED

Annual Reports 2002

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CORPORATE PROFILE

Board of Directors	Mrs. Naz Mansha i Mr. Saqib Elahi Mr. KhalidQadeerQureshi Mr. H. Hatim Dayala Mr. Zaka-ud-Din Mr. Aftab Ahmad Khan Mr. Inayat Ullah Niazi l	Chairman/Chief Executive Nominee - ICP Chief Financial Officer
Audit Committee	Mr. Saqib Elahi Mr. KhalidQadeerQureshi Mr. Aftab Ahmad Khan	Chairman Member Member
Company Secretary	Mr. Khalid Mahmood Chohan	
Bankers	ABN-AMRO Bank N.V. Faysal Bank Limited Habib Bank Limited Mashreq Bank Psc Muslim Commercial Bank Limited Union Bank Limited	

Auditors	M/s A.F. Ferguson & Co, Chartered Accountants
Legal Advisors	Mr. Shahid Hamid, Bar-at-Law
Registered Office	Nishat House, 53-A, Lawrence Road, Lahore-Pakistan Phone: 92-42-6367812-20 Fax: 92-42-6367414 Email: info@dgcement.com web Site: www.dgcement.com
Factory	Khofli Sattai, Distt. Dera Ghazi Khan-Pakistan Phone:92-641-460025-7 Fax:92-641-462392 Email: dgsite@dgcement.com

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that 24th Annual General Meeting of the Shareholders of D. G. Khan Cement Company Limited ("the Company") will be held on 31st October, 2002 (Thursday) at 11:00 a. m. at Nishat House, 53-A, Lawrence Road, Lahore to transact the following business:

1. To confirm minutes of the last meeting.
2. To receive and adopt the audited accounts of the Company for the financial year ended June 30,2002 together with the Directors' and Auditors' reports thereon.
3. To approve issue of Bonus Shares @ 10% i.e one (1) ordinary share for every ten (10) ordinary shares as recommended by the Board.
4. To appoint Auditors for the year 2002 - 2003 and fix their remuneration. The present Auditors M/s. A. F. Ferguson & Company, Chartered Accountants, Lahore retire and being eligible offer themselves for re-appointment.

5. Special Business:

To pass the following Special Resolutions with or without modification, addition or deletion :-

a) Alteration of the Memorandum of Association

Resolved that Clause V of Memorandum of Association of the Company be and is hereby substituted with the following:

V. The Authorised Capital of the Company is Rs. 3,000,000,000/- (Rupees Three Billion Only) divided into 250,000,000 (Two Hundred Fifty Million) Ordinary Shares of Rs.10/- each and 50,000,000 (Fifty Million) Preference Shares of Rs.10/-

each, with attached thereto respectively such preferential, deferred, qualified or special rights, privileges or conditions as provided in the Articles of Association of the Company, or in accordance with the Companies Ordinance 1984, and to vary, modify or abrogate any such rights, privileges or conditions, in such manner as may be permitted by the Companies Ordinance, 1984 and to increase and/or reduce the capital and to divide shares in the capital into several kinds and classes and to consolidate or subdivide the shares and to issue shares for higher or lower denominations.

b) Alteration of Articles of Association

Resolved that the 'Articles of Association' of the Company be and is hereby amended as follows:

1. In article no. 2, definition of "The Authority" be substituted with the following:

"The Commission" means the Securities and Exchange Commission of Pakistan established under the Securities and Exchange Commission of Pakistan Act, 1997.

2. In article no. 2, after definition of "The Board" following new definition be inserted:

"The Central Depository" means a central depository as defined in clause (cc) of section 2 of the Securities and Exchange Ordinance, 1969 (XVII of 1969), and registered with the Commission under section 32A of that Ordinance.

3. In article no. 2, definition of "The Dividend" be modified so that after the word 'bonus' the following may be added:

in the manner and mode prescribed in these Articles and subject to the right and privileges attached to the shares in the manner and mode provided by these Articles.

4. In article no. 2, definition of "The Managing Director" be substituted with the following:

"The Chief Executive" means the Chief Executive of the Company appointed from time to time pursuant to these Articles.

5. In article no. 2, after definition of "Month" the following new definition be inserted:

Non- Voting and Non-Participating Ordinary Shares, means ordinary shares of the Company, subject to the following limitation/restrictions:

a) Holder of such shares shall not be entitled to receive notice, attend general meetings and vote at meetings of the shareholders of the Company, except as otherwise provided by the Companies Ordinance, 1984 (the "Ordinance"), whereby the holders of such shares would be entitled to vote separately as a class, i.e., provisions with respect to voting entitlement of shareholders of a particular kind or class on matters/issues affecting substantive rights or liabilities of that particular kind or class of shareholders,

b) Holder of such shares shall not be entitled to, subject to the right of dividend as holder of ordinary shares, participate any further

in profits of the Company.

6. In article no. 2. after definitions of "The Office" the following new definition be inserted:

"Preference Shares" not being Ordinary Shares, means Preference Shares whether redeemable in accordance with the provisions of these articles subject to section 85 of the ordinance, including but not limited to, by way of conversion into shares with such right, restrictions and privileges as determined by the Company in the manner and mode provided in these Articles or irredeemable, cumulative or otherwise with the rights, privileges and conditions attaching thereto, within the scope and purview as are provided by the Articles, in the manner and mode provided in the Articles.

"Preference Shareholders" not being Ordinary Shareholders mean, in relation to the Company, every person to whom the Company has allotted, or who becomes the holder of Preference Shares and whose name is entered in the register of preference shareholder or any such document as prescribed by the Ordinance.

7. In article no. 2, definition of "S.C.C.P." be deleted and the following new definition be inserted:

"Share" means share in the share capital of the Company.

8. Existing article no. 3, be substituted with the following:

The Authorised Capital of the Company is Rs. 3,000,000,000/- (Rupees Three billion only) divided into 250,000,000 (Two hundred fifty million only) Ordinary Shares of Rs. 10/- each and 50,000,000 (Fifty million only) Preference Shares of Rs. 10/- each.

9. After existing Article no. 3, the following new articles be inserted:

- Subject to section 90 of the Ordinance and any rules in that regard made under the Ordinance, and without prejudice to any special

rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with different rights, restrictions and privileges, including but not limited to the following, namely:

a) different voting rights; voting rights disproportionate to the paid-up value of shares held; voting rights for specific purposes

only; or no voting rights at all;

b) different rights for entitlement of dividend, right shares or bonus shares or entitlement to receive the notices and to attend the general meetings;

c) rights and privileges for indefinite period, for a limited specified period or for such periods as may from time to time be determined by the members through special resolution; and

d) different manner and mode of redemption, including redemption in accordance with the provisions of these Articles

subject to section 85 of the Ordinance, including but not limited to, by way of conversion into shares with such right and privileges as determined by the Company in the manner and mode provided in these Articles.

•• Subject to section nos. 85 and 95 (4)(a) of the Ordinance, and any rules in that regard made under the Ordinance, the Company may issue shares or any other redeemable security, which are to be redeemed in the manner and mode provided by these Articles, including but not limited to, by way of conversion into shares with such rights and privileges as determined by the Company in the manner and mode provided in these Articles and/or in the offering document pursuant to which the same were issued/allotted or under the Ordinance.

10. Existing Article No.4 be substituted with the following:

Subject to provisions of the Ordinance and any rules framed thereunder and these Articles and subject to any special rights or privileges for the time being attached to any issued shares, the shares in the capital of the Company for the time being, including any new shares resulting from an increase in the authorized capital, shall be under the control of the Directors who may allot or otherwise dispose of the same or any of them to such persons, company or other corporate body on such terms and conditions and with such rights and privileges annexed thereto, as the Directors shall determine and at such times and in such manner as the Directors think fit, either at par or at a premium or subject to Section 84 of the Ordinance at a discount, with the power to the Directors to give

any person the right to call for and be allotted shares of any kind or class of the Company at par or at a premium or, subject as aforesaid, at a discount, such option being exercisable at such time, and for such consideration as the Board think fit. Provided that the shares in the capital of the Company shall always be issued as fully paid shares and no shares shall be issued as partly paid shares.

11. Existing article no. 6, be substituted with the following:

Where at any time the Board decides to increase the issued capital of the Company by issuing further shares, then any such issue shall be made in accordance with section 86 of the Ordinance.

12. In the Form of Transfer after the words "Ordinary" the following be inserted:

/Preference/Non-Voting and Non-Participating

13. Existing article no. 28, be substituted by the following:

The Company may reduce its share capital in the manner and mode provided in the Ordinance.

14. In article no. 29, at the start following be inserted:

Subject to the provisions of the Ordinance,

Furthermore, in article no. 29(b), after the word 'Memorandum' full stop be inserted and the words appearing thereafter in this sub-article be deleted.

15. Existing article no. 30, be substituted with the following:

Whenever the capital is divided into different kinds or classes of shares, all or any of the rights and privileges attached to each kind or class may, subject to the provisions of Section 108 of the Ordinance, be modified, commuted, affected, abrogated or dealt with by agreement between the Company and any person purporting to contract on behalf of that kind or class (as the case may be) provided such agreement is (a) ratified in writing by the holders of at least three-fourths in nominal value of the issued shares of the kind or class (as the case may be) or (b) confirmed by a Special Resolution passed at an Annual General Meeting/Extraordinary General Meeting of the holders of shares of that kind or class (as the case may be) and all the provisions hereinafter contained as to General Meetings, shall, mutatis mutandis, apply to every such meeting. This Article shall not by implication curtail the power of modification, which the Company would have if this Article were omitted.

16. Existing article No. 67 be substituted with the following:

The remuneration of a Director for performing professional / extra services, including but not limited to, holding of the office of chairman, and the remuneration to be paid to any Director for attending the meetings of the Directors or a Committee of Directors shall from time to time be determined by the Board of Directors.

17. In article no. 69, after the words 'in his own name' the following be inserted:

.subject to the exceptions laid down in proviso to section 187 of the Ordinance

18. Existing article No.79 be substituted with the following:

The Company shall have an office of Chief Executive which shall be appointed, from time to time, by the Directors who may appoint a Director or (subject to Section 201 of the Ordinance) any other person to be the Chief Executive of the Company for a period not exceeding three years and on such terms and conditions as the Directors may think fit, and such appointment shall be made within fourteen days from the date on which the office of Chief Executive falls vacant or election of directors under Section 178 of the Ordinance, as the case may be. If the Chief Executive at any time is not already a Director he shall be deemed to be a Director of the Company notwithstanding that the number of Directors shall thereby be increased and he shall be entitled to all the rights and privileges and shall be subject to all liabilities of the office of Director. Upon the expiry of his period of office, a Chief Executive shall be eligible for reappointment. The Chief Executive may be removed from office in accordance with the provisions of Section 202 of the Ordinance notwithstanding anything contained in these Articles or in any agreement between the Company and the Chief Executive.

19. Existing article No. 80 be substituted with the following:

The Directors may from time to time entrust to and confer upon the Chief Executive for the time being such of the powers exercisable under these Articles by the Directors as they may think fit, and may confer such powers for such time, and to be exercised for such objects and purposes, and upon such terms and conditions, and with such restrictions as they think expedient; and may from time to time revoke, withdraw, alter or vary all or any of such powers.

20. Existing article No.81 be substituted with the following:

A Chief Executive of the Company shall receive such remuneration as the Directors may determine and it may be made a term of his appointment.

21. Existing article no. 83, be substituted with the following:

The quorum for a meeting of the Board shall not be less than one-third of their number or four, which ever is greater.

22. The word "Authority" be substituted with the word "Commission" wherever appearing in Articles of Association.

23. The word "Managing Director" be substituted with the "Chief Executive" wherever appearing in Articles of Association.

24. All articles be renumbered accordingly.

c) Resolved that subject to approval of Securities & Exchange Commission of Pakistan, the Board of Directors be and are hereby authorized to offer and issue 39,621,759 redeemable cumulative preference shares of Rs. 10/- each on the following terms & conditions, in the manner and mode provided in section 86 of the Ordinance.

1. The Preference Shares will be offered to the existing shareholders of the Company at the Ratio of 26 (Twenty Six) Preference Shares for every 100 (One Hundred) Ordinary Shares held by them as on the date to be announced separately after approval of the Securities & Exchange Commission of Pakistan.

2. The preference Shareholders shall not be entitled to:

a) receive notice, attend general meetings of the Company and vote at meetings of the shareholders of the Company, except as otherwise provided by the Companies Ordinance, 1984 (the "Ordinance"), whereby the holders of such shares would be entitled to vote separately as a class, i.e., with respect to voting entitlement of Preference Shareholders on matters/issues affecting substantive rights or liabilities of Preference Shareholders.

b) bonus or right shares, in case the Company/Directors decide to increase the capital of the Company by issue of further shares.

c) participate any further in profit or assets of the Company, except the right of dividend being attached to the preference

shares as per this resolution.

3. The Company may at its option convert the Preference Shares into non-voting and non-participating ordinary shares (as defined in the Articles of Association of the Company), at the expiry of the period of four (4) years after issuance/allotment to be converted at face value of Rs. 10/- each, if the same are not redeemed.

4. To be redeemed after four (4) years of issuance/allotment, if conversion option is not offered by the Company to Preference Shareholders, as per clause 3 above.

5. Preferred Dividend @ 10.00% per annum on cumulative basis. If the Company does not pay dividend annually the rate of dividend will increase as follows;

- if dividend paid in the second year (no dividend paid in the first year) rate of dividend to be 10.50% per annum for the subsequent years.
- if dividend paid in third year (no dividend paid in the first two years) rate of dividend to be 11.95% per annum in 3rd and 4th years.
- if dividend paid in the fourth year (no dividend paid in the first three years) rate of dividend to be 13.02% per annum in 4th year.

Further Resolved that Mrs. Naz Mansha, Chairman / Chief Executive / Director, (the "Authorised Officer"), or such one or

more persons as may from time to time be specifically designated by the Authorised Officer for the purpose, be and is hereby authorized to undertake arrangements for issuance of preference shares and settle terms & conditions with the arranger(s), underwriters(s), and any and all other party(ies) concerned as and when necessary in this regard, and to take such action as he may consider necessary or expedient with a view to obtaining their consent and for facilitating the eventual issue of all sanctions, approvals, and permissions that may be required in connection with the aforesaid matter and in that connection to do all such acts, deeds and things as they may deem necessary.

6. To discuss any other business that may be brought forward with the permission of the Chair.

By order of the Board

LAHORE
SEPTEMBER 26, 2002

(KHALID MAHMOOD CHOHAN)
COMPANY SECRETARY

STATEMENT UNDER SECTION 160(i)(b) OF THE COMPANIES ORDINANCE, 1984

Alteration of the Memorandum of Association and Articles of Association of the Company so that the Company may, inter alia, avail the benefit of amendment made in section 90 of the Companies Ordinance, 1984 (the "Ordinance") by Finance Act (IV of 1999), whereby a Company has been allowed to issue / allot different kinds and classes of shares, with different rights, restrictions and privileges attached thereto as per the Articles of Association. The proposed amendments in the Memorandum and Articles of Association may, inter alia, enable the Company to issue shares of different kinds and classes as per the provisions of the Ordinance and the Companies Share Capital (Variation in Rights & Privileges) Rules, 2000 and Articles of Association of the Company.

1. The Board of Directors have recommended that the Company's Memorandum of Association and Articles of Association be amended in order to facilitate the aforesaid purpose and in addition thereto by taking into account the several changes made in the Companies Ordinance, 1984.
2. The preference shares are to be issued by the Company under the provisions of the Ordinance and the Companies Share Capital (Variation in Rights and Privileges) Rules-2000, in terms of the Memorandum and Articles of Association (as amended), with such rights, restrictions and privileges within the scope of rights, restriction and privileges provided in the Articles of Association of the Company, in the manner and mode provided in the Articles of Association of the Company.
3. The subscription of Preference Share will be utilized for refinancing of Company's debts carrying higher rate of interest.
4. Faysal Bank Limited has been given consent, in principle and subject to certain terms and conditions, to arrange under writing for the entire issue and will structure and market the public issue of Preference Shares.
5. The Directors of the Company have no interest in the special business and / or special resolution save to the extent of their shareholdings and remuneration in the Company.
6. A copy of the Memorandum and Articles of Association of the Company as on date and also indicating the proposed amendments is available for inspection at the registered office of the Company from 9.00 A.M. to 5.00 P.M. on any working day.

NOTES:

1. Share transfer books of the company will remain closed for entitlement of Bonus Shares from 23-10-2002 to 31-10-2002 (both days inclusive). The Physical Scrips Transfers/CDS Transaction IDs received in order at Nishat House, 53-A, Lawrence Road, Lahore upto 1:00 p.m. on October 22,2002 will be considered in time for entitlement of 10% Bonus Shares and attending of meeting.
2. The book closure dates for entitlement of Preference Shares will be announced separately after approval of Securities & Exchange Commission of Pakistan.
3. A member eligible to attend and vote at this meeting may appoint another member his / her proxy to attend and vote instead of him/her. Proxies in order to be effective must reach the Company's Registered office not less than 48 hours before the time for

holding the meeting. Proxies of the Members through CDC shall be accompanied with attested copies of their NIC. The shareholders through CDC are requested to bring original NIC, Account Number and Participant Account Number to produce at the time of attending the meeting.

4. Shareholders are requested to immediately notify the change in address, if any.

DIRECTORS' REPORT

The Directors feel pleasure in presenting the 24th annual report, along with annexed profit & loss account, balance sheet, cash flow statement and changes in equity together with notes forming part thereof, for the year ended 30th June 2002.

MARKET REVIEW AND PLANT PERFORMANCE

There was a general perception that in the year under review the demand of cement will get a boost on account of reconstruction in Afghanistan and economic activity in the country with foreign assistance, as a result of our role in the war against terrorism. Unfortunately these expectations could not be realized for various reasons particularly tension on both the eastern and western borders. Instead of any increase in demand, it rather showed a fall of 1.05% from the last year.

In spite of unfavorable conditions as explained above, performance of the plant was satisfactory and it registered 5% increase in capacity utilization from the previous year. It was because of our good quality cement, strong marketing policy with an established brand, strenuous efforts for sales promotion and close liaison with the customers. Production, capacity utilization and sales figures for the year under review as compared with last year are as under:

		2002	2001	Inc./Dec)
- Clinker	(M.Tons)	1,120,246	1,045,023	7.20%
-Capacity utilization	(%age)	68%	63%	5.00%
- Cement	(M.Tons)	1,119,704	1,087,788	2.93%
- Sales	(M.Tons)	1,098,425	1,094,438	0.36%

*Sales include export of 6,862 tons to Afghanistan.

OPERATING RESULTS

The Directors are pleased to inform that the operating results have taken a turnaround from the heavy losses in FY 2001 to profit in the year ended 30th June 2002. Glimpses from profit and loss account are as under:

	2002	2001
	(Rupees in thousand)	
- Net sales	2,718,654	2,551,832

- Cost of goods sold	1,947,795	2,526,934
- Gross profit	770,859	24,898
- Pretax profit/(loss)	294,174	-430,804
- After tax profit/(loss)	279,868	-444,004
-Earning per share (Rs.)	1.84	-2.91

The main reasons for this positive change are; conversion from furnace oil to coal firing, increase in sale price and decrease in financial expenses.

In addition to above, a decrease of Rs. 363 million has also been registered on account of change in rate of depreciation/amortization for plant and machinery, keeping in view its workable operating life. This is in line with industrial norms adopted by other cement companies especially newly set up plants.

OPERATING AND FINANCIAL DATA

Operating and Financial data with key ratios for the last six (6) years is annexed

BONUS SHARES

Keeping in view the profitability position, the Directors are pleased to announce 10% bonus shares out of share premium reserve.

COAL BASED FIRING

Work on Coal firing system is progressing on Unit-2 and will be completed by the end of September 2002, as envisaged. The system for Unit-1 has also been started and is expected to be completed during the current financial year. This will result in a substantial saving in fuel cost.

RESTRUCTURING OF CDG LOAN

Restructuring of Commonwealth Development Corporation (CDC) loan has been completed, Under the restructuring plan, an amount of US\$ 2.857 million (overdue installments) will be paid to CDC against their guarantee which will be funded by a local bank. Balance amount of US\$ 4.285 million has been rescheduled up to September 2007.

INDUSTRY REVIEW

Overview

As explained above, the cement industry continued to be in a crisis and demand was sluggish which resulted in a negative growth. It came in for further a disappointment as the high hopes attached to the reconstruction of Afghanistan did not materialize this year, Therefore, the

anticipated export of surplus quantities could not be made.

Apart from the above facts, the burden of heavy taxation and the impediments attached to exports have been causing a major set back to the industry.

Future Outlook

In order to restore macro economic stability, the Government has embarked upon a number of new projects like the Gomal Zam Dam, Mirani Dam, Gwadar port and Coastal highway etc. These new projects, coupled with our efforts, to convince the concerned authorities to build concrete roads, use cement blocks instead of red bricks, lining of canals etc, the consumption of cement is bound to increase.

We hope that reconstruction in Afghanistan is now going to take place and your Company is fully ready to take advantage of this opportunity.

The matter for restoration of export rebate is being pursued with the Government. As soon as a reasonable export rebate is allowed, exports to Bangladesh and Srilanka, which are our potential markets, will be resumed.

CORPORATE GOVERNANCE

Compliance of Corporate Governance is annexed.

PATTERN OF SHAREHOLDINGS

The pattern of shareholding of the Company as on 30th June 2002 is annexed.

AUDITORS

The present auditors, M/s A.F. Ferguson & Company, Chartered Accountants, Lahore, retire and being eligible, have offered themselves for re-appointment. The Audit Committee has also recommended their appointment.

M/s Anjum Asim, Shahid & Company, Chartered Accountants, Lahore, have been appointed as Cost Auditors for the year ended June 30,2002.

ACKNOWLEDGMENTS

The Directors are grateful to our valued customers for their trust in your Company. They also appreciated continued support received from the bankers, shareholders and other stakeholders.

All the workers, staff and officers of the Company have performed their duties with dedication and zeal and the results are evident. The Directors congratulate all the employees for their excellent performance.

They also placed on record the spirit and concerted team efforts put in by our technical staff for successful execution of the coal conversion project.

Lahore:

26th September 2002

On behalf of the Board

MRS. NAZ MANSHA

Chairman/Chief Executive

OPERATING AND FINANCIAL DATA

	2002	2001	2000	1999	1998	1997
PRODUCTION & SALES						(M.Tons)
Clinker	1,120,246	1,045,023	1,124,302	1,020,605	940,007	63
Cement	1,119,704	1,087,788	1,149,312	1,111,504	912,976	66
Sales						
Local	1,091,563	1,094,438	1,157,426	1,115,288	900,010	67
Export-Cement	6,862		-	-	-	-
Export-Clinker	-	-	42,100	-	-	-
OPERATING RESULTS						
			(Rupees in thousand)			
Net Sales	2,718,654	2,551,832	2,943,014	2,259,814	1,238,983	1,34
Gross Profit/(Loss)	770,859	24,898	448,761	(57,620)	141,112	27
Pre-Tax Profit/(Loss)	294,174	(430,804)	(85,454)	(577,680)	(46,566)	8
After tax Prifit/(Loss)	279,868	(444,004)	(101,199)	(580,369)	(58,284)	7
FINANCIAL POSITION						
Current Assets	1,491,194	1,254,725	1,325,131	1,096,846	1,029,452	98
Current Liabilities	1,391,325	1,870,239	3,253,225	3,000,680	2,223,023	95
Operating Fixed Assets	6,326,987	6,806,073	6,437,914	6,879,071	7,055,845	80
Total Assets	8,673,992	8,718,327	8,720,784	8,800,307	9,069,278	8,10
Long Term Liabilities	3,626,997	3,662,458	1,858,093	2,581,873	3,049,132	3,28
Shareholder's Equity	3,492,663	3,165,462	3,609,466	3,217,754	3,798,123	3,85

RATIOS

Current Ratio	1.07:1	0.67:1	0.41 :1	0.37:1	0.46:1
Debt to Equity Ratio	51 :49	54:46	34:66	45:55	45:55
Gross Profit to Sales %	28.35	0.98	15.25	-2.55	11.39
Net Profit to Sales %	10.3	-17.4	-3.44	-25.68	-4.7
Break Up Value per Share (Rs.)	22.92	20.77	23.69	24.3	28.69
Earning per Share (Rs.)	1.84	-2.91	-0.66	-4.38	-0.44

CODE OF CORPORATE GOVERNANCE

The Securities & Exchange Commission of Pakistan (SECP) introduced in March 2002, Code of Corporate Governance to enhance transparency and credibility in the corporate sector for listed Companies. The Code is being enforced through listing regulation No. 37 (Chapter XI) and regulation No. 40 (Chapter XIII) of the Karachi and Lahore Stock Exchanges respectively. In compliance of the Code of Corporate Governance, we give below statements on Corporate and Financial Reporting frame work:

- The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and 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 control is sound in design and has been effectively implemented and monitored.
- There are no significant doubt upon 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.
- Value of investments in respect of retirement benefits fund:

Provident Fund: 30 June 2002 Rs. 46 million.

- Board Meetings

During the year under review six (6) meetings were held. Attendance by each Director is as follows:

Name of Directors		Attendance
Mrs. Naz Mansha	Chairman/Chief Executive	4
Mr. Saqib Elahi		0 *
Mr. Khalid Qadeer Qureshi		6
Mr. H. Hatim Dayala	Nominee ICP	0
Mr. Zaka-ud-din		5 **
Mr. Mu hammed Azam		5
Mr. Aftab Ahmad Khan		6
Mr. InayatUllah Niazi		6

* Appointed to fill a casual vacancy on June 24, 2002

** Resigned on June 24,2002

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CORPORATE GOVERNANCE

The Company is in the process of implementing all facets of the Code of Corporate Governance issued by the Stock Exchanges of the country and the Board feels pleasure in stating that provisions of the code, relevant for the year ended June 30,2002 have been duly complied with.

(COMPANY SECRETARY)

Lahore:

26th September 2002

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 D.G. Khan Cement Company Limited to comply with the Listing Regulation No. 37,43 and 36 of the Karachi, Lahore and Islamabad Stock Exchanges respectively, 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 as applicable to the Company for the year ended June 30,2002.

Lahore:

September 26,2002

A. F. FERGUSON & Co

Chartered Accountants

	Note	2002	2001
		(Rupees in thousand)	
CAPITAL AND RESERVES			
Authorised share capital 300,000,000 (2001:300,000,000) ordinary shares of Rs. 10/-each		3,000,000	3,000,000
Issued, subscribed and paid up share capital 152,391,380 (2001:152,391,380) ordinary shares of Rs. 10/-each	3	1,523,914	1,523,914
Reserves	4	1,966,041	2,824,569
Accumulated profit/(loss)		2,708	(1,183,021)
		3,492,663	3,165,462
LONG TERM LIABILITIES			
Long term loans and other payable- secured	5	3,522,975	3,627,250
Liabilities against assets subject to finance lease	6	75,355	6,191
Retirement and other benefits	7	28,667	29,017
		3,626,997	3,662,458
LONG TERM OEPOSITS AND ADVANCES	8	163,007	20,168
CURRENT LIABILITIES			
Current portion of long term liabilities			
- Long term loans and other payables- secured	5	589,644	675,400
- Liabilities against assets subject to finance lease	6	17,170	6,694
- Long term deposits and advances	8	22,929	-
Finances under mark up arrangements-secured	9	173,336	561,175
Creditors, accrued and other liabilities	10	553,156	591,880
Provision for taxation		35,090	35,090

CONTINGENCIES AND COMMITMENTS

	<u>1,391,325</u>	<u>1,870,239</u>
11	-	-
	<u>8,673,992</u>	<u>8,718,327</u>

The annexed notes form an integral part of these accounts.

Chief Executive

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of D.G. Khan Cement Company Limited as at June 30, 2002 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We 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 Company Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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, 2002 and of the profit, 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.

A. F. FERGUSON & Co

Chartered Accountants

Lahore:

September 26, 2002

AS AT JUNE 30, 2002

	Note	2002 (Rupees in thousand)	2001
FIXED CAPITAL EXPENDITURE			
Operating fixed assets	12	6,326,987	6,806,073
Assets subject to finance lease	13	114,743	20,029
Capital work in progress	14	226,257	20,727
		6,667,987	6,846,829
LONG TERM INVESTMENTS	15	481,370	609,822
LONG TERM LOANS TO EMPLOYEES	16	1,881	2,449
LONG TERM DEPOSITS	17	31,560	4,502
CURRENT ASSETS			
Stores, spares and loose tools	18	537,482	534,132
Stock - in - trade	19	146,062	72,268
Trade debts	20	28,403	42,733
Short term investments	21	571,711	395,926
Advances, deposits, prepayments and other receivables	22	137,997	157,215
Cash and bank balances	23	69,539	52,451
		1,491,194	1,254,725
		8,673,992	8,718,327

2002

2001

	Note	(Rupees in thousand)	
Sales	24	2,718,654	2,551,832
Cost of goods sold	25	1,947,795	2,526,934
Gross profit		770,859	24,898
Operating expenses			
Administration and general expenses	26	40,593	38,173
Selling and distribution expenses	27	22,598	20,411
		63,191	58,584
Operating profit/ (loss)		707,668	(33,686)
Other income	28	117,113	205,385
		824,781	171,699
Financial charges	29	515,124	600,347
Other charges	30	15,483	2,156
		530,607	602,503
Profit/(loss) before taxation		294,174	(430,804)
Provision for taxation	31	14,306	13,200
Profit/(loss) after taxation		279,868	(444,004)
Adjusted unappropriated loss brought forward		(1,137,160)	(739,017)
Available for appropriation		(857,292)	(1,183,021)
Appropriation:			
Transfer from revenue reserve		860,000	-
Accumulated profit/(loss) carried forward		2,708	(1,183,021)
Earnings/(loss) per share (Rs.)	38	1.84	-2.91

The annexed notes form an integral part of these accounts

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2002

	Share Capital	Fair Value Reserve	Share Premium	Reserve for issue of bonus share	General Reserve	Accumulated Profit/(loss)
Balance as at June 30,2000	1,523,914	-	1,713,742	-	1,110,827	(739,017)
Net loss for the year	-	-	-	-	-	(444,004)
Balance as at June 30, 2001	1,523,914	-	1,713,742	-	1,110,827	(1,183,021)
Effect of adopting AS 39 - Note 37.1	-	(119,094)	-	-	-	4,000
Balance as at July 1,2001	1,523,914	(119,094)	1,713,742	-	1,110,827	(1,137,160)
Fair value gain during the year	-	120,566	-	-	-	-
Net profit for the year	-	-	-	-	-	279,868
Transfer to reserve for issue of bonus shares	-	-	(152,392)	152,392	-	-
Transfer to profit and loss account	-	-	-	-	(860,000)	860,000

Balance as at June 30, 2002

1,523,914

1,472

1,561,350

152,392

250,827

	Note	2002 (Rupees in thousand)	2001
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	32	942,186	727,996
Financial charges paid		(526,669)	(547,256)
Gratuity and leave encashment paid		(2,299)	(1,628)
Taxes paid		(23,758)	(21,296)
NET CASH INFLOW FROM OPERATING ACTIVITIES		389,460	157,816
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(345,619)	(61,612)
Sale proceeds of investments	-		99,853
Long term loans to employees		471	(613)
Long term security deposits		(27,058)	36,570
Sales proceeds of fixed assets		1,850	35,314
Dividend received		110,928	89,910
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES		(259,428)	199,422
CASH FLOW FROM FINANCING ACTIVITIES			
Long term loans and other payables.		29,490	(142,669)
Long term deposits		165,768	(2,574)
Liabilities against assets subject to finance lease		(18,717)	(134,654)
Proceeds from finance lease liabilities		98,357	3,348
Unclaimed dividend paid		(3)	(55)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		274,895	(276,604)
NET INCREASE IN CASH AND CASH EQUIVALENTS		404,927	80,634
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		(508,724)	(589,358)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	33	(103,797)	(508,724)

The annexed notes form an integral part of these accounts.

NOTES TO THE ACCOUNTS FOR THE YEAR ENOEO JUNE 30, 2002

1. The Company and its operations

D.G. Khan Cement Company Limited is a public company incorporated under the Companies Ordinance, 1984 and is listed on all Stock Exchanges in Pakistan. The Company is engaged in production and sale of Ordinary Portland and Sulphate Resistant Cement.

2. Summary of significant accounting policies

2.1 Accounting convention

These accounts have been prepared under the historical cost convention modified by capitalisation of exchange differences as referred to in note 2.10 and available for sale investments which are shown at fair value.

These accounts have been prepared in accordance with the requirements of Companies Ordinance, 1984 and International Accounting Standards, as applicable in Pakistan in all material respects.

2.2 Employee benefits

The main features of the schemes operated by the company for its employees are as follows:

(a) The company operates an unfunded gratuity scheme for all employees according to the terms of employment, subject to a minimum qualifying period of service. Annual provision is made on the basis of actuarial valuation to cover obligations under the scheme for all employees eligible to gratuity benefits irrespective of the qualifying period.

The latest actuarial valuation for gratuity scheme was carried out as at June 30,2002. Projected Unit Credit Method, using the following significant assumptions is used for valuation of the scheme:

Discount rate 11 percent per annum.

Expected rate of increase in salary level 10 percent per annum

Consequential to the adoption of IAS-19 (revised 2000), the actuarial valuation for the plan determined a transitional liability of Rs. 19.540 million as at July 1,2001, which is being recognized immediately under IAS 8. Had there been no change, profit before taxation for the year would have been lower by Rs. 4.097 million.

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 (revised 2000).

(b) The Company also operates an approved defined contribution provident fund for all employees. Equal monthly contributions are made by the employer and the employees to the fund.

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under the schemes.

(c) The Company provides for accumulating compensated absences, when the employees render service that increase their entitlement to future compensated absences. Under the rules employees are entitled to 2.5 days leaves per month. Unutilized leaves can be accumulated upto 90 days in case of officers. Any balance in excess of 90 days can be encashed upto 17 days a year only. Any further un-utilized leaves will lapse. In case of workers, unutilized leaves may be accumulated without any limit. However, balance above 50 days is encashable upon demand of the worker. Unutilized leave can be used at any time

by all employees, subject to the Company's approval.

Provision made annually to cover the obligation for accumulating compensated absences based on actuarial valuation is charged to income.

The latest actuarial valuation was carried out as at June 30,2002. Projected Unit Credit Method, using the following significant

assumptions is used for v absences:

Discount rate 11 percent per annum

Expected rate of increase in salary level

10 percent per annum

Expected mortality rate EFU 61.66 mortality table adjusted for company's experience

Expected withdrawal and e Based on experience

	Officers (days)	Workers (days)
Average number of leaves: Utilized per annum	14	19
Encashed per annum	9	8
Utilized per annum in excess of accrued leave of 30 days	0.25	1.70
Encashed per annum in excess of accrued leave of 30 days	-	2.70

Consequential to the adoption of IAS-19 (revised 2000), the actuarial valuation for the plan determined a transitional liability of Rs. 4.66 million as at July 1,2001 which is being recognised immediately under IAS 8. Had there been no change, profit before taxation would have been lower by Rs. 0.720 million.

Actuarial gains and losses arising during the year are recognized immediately in accordance with the provisions of IAS-19 (revised 2000).

2.3 Taxation

Current

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

Deferred

The company accounts for deferred taxation using the liability method on all major timing differences.

2.4 Fixed capital expenditure and depreciation

Operating fixed assets except freehold land are stated at cost less accumulated depreciation. Capital work in progress and freehold land are stated at cost. Cost in relation to fixed assets signifies historical cost and exchange differences referred to in note 2.10.

During the year, the management carried out a comprehensive review of useful lives of plant and machinery and the pattern of consumption of its economic benefits. Depreciation in respect of such assets is charged in annual installments instead of reducing balance so as to write off its book value over its remaining re-estimated useful lives taking into account its residual value.

Had there been no change in the expected useful lives and the pattern of economic benefits of the above mentioned assets, the charge for depreciation would have been higher by Rs. 359.629 million and current profit would have been lower by the same amount.

Net exchange differences relating to an asset, at the end of each year are amortised in equal instalments over its remaining useful life.

Depreciation on all operating fixed assets is charged to profit on the reducing balance method, except for plant and machinery which is being depreciated using the straight line method, so as to write off the historical cost of an asset over its estimated useful life at the rates referred to in note 12. Full year's depreciation is charged on additions, while no depreciation is charged on deletions during the year. However, depreciation on major additions is charged from the month in which the assets are put to use.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and the assets so replaced; if any, are retired. Gains or losses on disposal of assets are taken to profit and loss account.

2.5 Assets subject to finance lease

These are stated at lower of present value of minimum lease payments under the lease agreements and the fair value of the assets acquired on lease. The related obligation of the lease are accounted for as liabilities. Assets acquired under a finance lease are amortised over the useful life of the assets on reducing balance method except plant and machinery which is amortised on a straight line method at the rates given in note 13. Amortisation of leased assets is charged to profit and loss account.

As explained in note 2.4, the management carried out a comprehensive review of useful lives of plant and machinery and the pattern of consumption of its economic benefits. Amortisation in respect of such assets is charged in annual instalments

instead of reducing balance so as to write off its book value over its remaining re-estimated useful lives taking into account its residual value.

Had there been no change in the expected useful lives of plant and machinery, charge for amortization would have been higher by Rs 3.741 million and current profit would have been lower by the same amount.

2.6 Investments

At July 01,2001 the Company adopted IAS-39 and classified its investments in associated companies and others as available for sale. Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as long term. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the trade date which is the date that the Company commits to purchase or sell the investment. Cost of purchase includes transaction cost. Available for sale investments are subsequently carried at fair value. Realised and unrealised gain and losses arising from the changes in the fair value are included in fair value reserve in the period in which they arise.

The fair value of publically traded securities is based on market prices quoted on the Karachi Stock Exchange at the balance sheet date.

Prior to the adoption of IAS 39 the company had recorded its long term investments at cost and provision was being made to recognise a decline in value which was other than temporary. The short term investments were stated at the lower of cost and market value determined on portfolio basis. On the adoption of IAS 39 at July 1, 2001 the provision for diminution in value of investments has been adjusted against the opening accumulated losses of the Company and the fair value adjustments during the year have been transferred to fair value reserves as referred to in note 37.1 (a).

2.7 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash equivalents are short term highly liquid instruments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

2.8 Stores, spares and loose tools

Stores, spares and loose tools are valued principally at moving average cost. Items in transit are valued at cost comprising invoice values plus other charges paid thereon.

2.9 Stock - in - trade

Stock of raw materials, work in process and finished goods are valued principally at the lower of average cost and net realisable value. Stock of packing material is valued principally at moving average cost. Cost of work in process and finished goods comprises cost of direct materials and labour and appropriate manufacturing overheads.

Net realisable value signifies the estimated selling price in the ordinary course of business less cost necessary to be incurred in order to make a sale.

2.10 Foreign currencies

All assets and liabilities in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Exchange gains or losses on translation of foreign currency long term loans utilised for the acquisition of fixed assets are capitalised. All other exchange differences are charged to profit and loss account.

2.11 Financial instruments

Financial instruments carried on the balance sheet include investments, receivables, cash and bank balances, finances under mark-up arrangements, liabilities subject to finance lease, long-term loans and other payables, deposits, creditors, accrued and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

2.12 Mark-up, interest, profit and other charges

Mark-up, interest, profit and other charges on long term liabilities are capitalised upto the date of commencement of commercial production. All other mark-up, interest, profit and other charges are charged to income.

2.13 Revenue recognition

Revenue from sales is recognised on despatch of goods to customers. Profit on deposits with banks is recognised on a time proportion basis taking into account the amounts outstanding and the rates applicable thereon. Dividend income on equity investments is recognised as income when the right of receipt is established.

2.14 Provisions

Provisions are recognized when the company has a legal and constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

2.15 Receivable

Receivables are carried at original invoice amount less an estimate made for doubtful receivable balances based on review of outstanding amounts at year end. Bad debts are written off when identified.

2.16 Consolidated accounts

Consolidated accounts have not been prepared by the company as it does not have significant influence in any of its associated companies, which is a pre-requisite for the applicability of International Accounting Standard 28 "Accounting for Investment in Associates".

	2002	2001
	(Rupees in thousand)	
3. ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL		
112,835,676 Ordinary shares of Rs 10 each fully paid in cash	1,128,357	1,128,357
20,000,000 Ordinary shares of Rs 10 each issued for consideration other than cash	200,000	200,000
19,555,704 Ordinary shares of Rs. 10 each issued as fully paid bonus shares	195,557	195,557
152,391,380	1,523,914	1,523,914

47,852,563 (2001:48,352,783) shares of the company are held by Nishat Mills Limited, an associated concern as at

June 30,2002.

4. Reserves

Composition and movement of reserves is as follows:

Capital		
Premium on issue of shares	1,713,742	1,713,742
-At the beginning of the year	(152,392) -	
- Transfer to reserve for issue of bonus share	1,561,350	1,713,742
Fair value reserve	1,472 -	
Reserve for issue of bonus share	152,392 -	
	1,715,214	1,713,742
Revenue		
General reserve		
At the beginning of the year	1,110,827	1,110,827
Transfer to profit and loss account	(860,000) -	
	250,827	1,110,827
	1,966,041	2,824,569

4.1 As referred to in note 2.6 this represents the unrealised gain on valuation of investments and is not available for distribution.

This amount will be charged to profit and loss account on realisation.

5. Long term loans and other payables-secured

Loans	- note 5.1	4,092,217	4,280,897
Other payables	- note 5.2	20	21,753
		4,112,619	4,302,650
Less Current portion shown under current liabilities			
[including over due amount of Rs 86.285 million			
(2001: 232.78 million)]	- note 5.3	589,644	675,400
		3,522,975	3,627,250

5.1 LOANS - SECURED

These comprise of:

Loan Lender	Currency	Foreign Currency 2002 2001 (Amount in thousand)	Equivalent Pak Rupees 2002	Rate of 2001	No. Of Interest per annum	installments
1. Atlas Investment Bank	PKR	.		7,750	•Base rate+7% subject to floor 17.5% and ceiling 21%	
2. AI-Faysal Investment Bank	PKR	-	-	11,100	17%	
3. Mashreq Bank	PKR	.	8,333	44,444		16% 01 instalment ending July 31,2002
4. ABN Amro Bank	PKR	-	25,286	-	SBP discount rate+3% subject to floor of 16.5% p.a	34 equal Monthly instalments ending April 30,200
5. ABN Amro Bank	PKR	-	109,879		SBP discount rate + 3% subject to floor of 16.5% p.a	34 equal monthly instalments ending April 30,200
6. ABN Amro Bank	PKR	•	200,000	-	8.10%	Repayable in lump

						sum after repayment of loans 4 & 5
7. Faysal Bank Limited	PKR	-	81,729	-	14.75%	24 equal monthly instalments ending January 2004
8. ABN Amro Bank - Consortium	PKR	-	666,931	-	SBP discount rate + 0.5% at the date of each disbursement and revised to the rate prevailing on each semi annual mark up payment date	9 unequal half yearly instalments commencing on January 15, 2004
9. International Finance Corporation (IFC)						
- Loan A	US\$	10,712 22,481	647,005	1,447,783	11.56% **	11 unequal half year instalment ending July 15, 2007
- Loan B	US\$	30,386 33,723	1,835,337	2,171,819	3.80% + LIBOR	11 unequal half year instalments ending September 1, 2007
10. Commonwealth Development Corporation (CDC)	us\$	8,571 9,286	517,717	598,001	10.56%	11 unequal half year instalments ending September 1, 2007
			4,092,217	4,280,897		

* Base rate

Average of cut off rates of three, six months treasury bills auctions immediately proceeding the start of each mark-up period

** out of the total balance of US \$ 10.712 million payable to International Finance Corporation. US \$ 4.108 million will be raised through local banks. US \$ 4.822 million shall be paid by the company in 5 unequal half yearly instalments ending January 15, 2004 and the balance amount of US \$ 1.782 million on January 15, 2008.

Loan No. 1 and 2

These loans have been repaid during the year.

Loan No.3

This loan is secured by charge on the current assets of the Company upto Rs. 40 million ranking pari passu with those in favor of lenders

as referred to in note 9 and a ranking pari passu charge on the fixed assets upto Rs. 40 million. This is further secured by pledge of 1 million shares of Muslim Commercial Bank Limited.

Loan No. 4, 5 and 6

These loans are secured by a first pari passu charge on present and future fixed and current assets upto Rs. 194 million and a floating charge of Rs. 267 million on present and future current assets.

Loan No.7

This loan is secured by pledge of 3.8 million shares of Muslim Commercial Bank Limited 3.9 million shares of Nishat Mills Limited and 1.8 million shares of Nishat (Chunian) Limited and a ranking floating charge on the current assets of the company upto Rs 191 million.

Loan No. 8

ABN Amro Bank Consortium loan consists of ABN Amro Bank, Standard Chartered Bank, Standard Chartered Grindlays. Credit Agricole Indosuez and Deutche Bank. This loan is secured against a guarantee issued by IFC which in turn is secured through the charges against company assets as mentioned in loan No. 9.

Loan No. 9 and 10

These loans are secured by an equitable mortgage on the Company's freehold land and building and other immovable assets of the company accompanied by irrevocable power of attorneys authorising the lenders to create and register English mortgage, and a first hypothecation charge on present and future movable assets including plant and machinery, accessories, electrical and all other equipments. This is further secured by hypothecation of 6.7 million shares of Muslim Commercial Bank Limited, 0.01 million shares of Maple Leaf Cement Factory Limited and 0.1 million shares of First Capital Mutual Fund.

All charges in respect of long term loans 3,4,5,9 and 10 rank pari passu with each other.

5.2 Other payables-secured

Lender	Currency	Foreign 2002	currency 2001	Equivalent Pak rupee 2002	2001	Repayable by
International Finance Corporation (IFC)			(Amount in	thousand)		
- Applicable to loan A	US\$	113	113	6,800		7,250 Jan. 15,
- Applicable to loan B	us\$	225	225	13,602		14,503 July 15,
		338	338	20,402	21,753	

These represent the penalties imposed by International Finance Corporation due to delay/non-payment of installments of loan A and

loan B as per the original loan agreements. These balances are interest free.

Security

These amounts are secured through the securities for loan No. 9 as referred to in note 5.1.

5.3 Included in the current portion is an amount of US \$ 1.856 million equivalent to Rs. 112.138 million of CDC loan which has been calculated on the basis of term sheet signed with CDC regarding restructuring of the loan. However, the restructuring agreement between the company and the lender has not yet been signed.

Had there been no proposed restructuring, an amount of US \$ 4.285 million equivalent to Rs 258.859 million would have been included in the current maturity as over due installments.

6. Liabilities against assets subject to finance lease

	2002	2001
	(Rupees in thousand)	
Present value of minimum lease payments	92,525	12,885
Less: Current portion shown under current liabilities	17,170	6,694
	75,355	6,191
	75,355	6,191

Minimum lease payments have been discounted at an implicit interest rate ranging from 13.2% to 14.38% to arrive at their present value. Rentals are paid in monthly installments and in case of default of any payment, an additional charge @ 2% to 5% per month shall be paid.

Taxes, repairs and insurance costs are to be borne by the lessee. In case of termination of the agreement, the lessee is to pay the entire rent for the unexpired period of lease agreement. The liability is partly secured by a pledge of 0.7 million shares of Muslim Commercial Bank. Commitments in respect of lease arrangements executed by the company are as follows:-

Years	(Rupees in thousand)
2003	29,213
2004	28,629
2005	28,016
2006	21,156
2007	18,578
	125,592
Less: Financial charge not due	33,067
	92,525
	92,525

7. Retirement and other benefits

	2002	2001
	(Rupees in thousand)	
Staff gratuity	23,395	23,637
Leave encashment	5,272	5,380
	28,667	29,017

	2002	2001
	(Rupees in thousand)	
7.1 Staff gratuity		
The amounts recognised in the balance sheet are as follows:		
Present value of defined benefit obligation	23,224	-
Unrecognised actuarial gains	171	-
Liability as at June 30,2002	23,395	-
Liability as at July 1,2001	23,637	-
Charge to profit and loss account	355	-
Contributions by the company	(597)	-
Liability as at June 30,2002	23,395	-

8. Long term deposits and advances

Security deposits	note 8.1	19,608	20,168
Advance from leasing companies	note 8.2	143,399	-
		163,007	20,168

8.1 These represent interest free security deposits from stockists and are repayable on cancellation or withdrawal of the dealership,

.2 Advances from leasing companies

Total advance from leasing companies	170,000	-
Less: Repayments to date	3,672	-
	166,328	-
Less current portion shown under current liabilities	22,929	-
	143,399	-

These represent advances from the leasing companies and carry mark up rate ranging from 13.54% per annum to finance the assets which are included in capital work in progress. The balance would be transferred to liabilities subject to finance lease on the completion of respective assets as referred to in note. 14.1.

9 Finances under mark up arrangement - secured

Short term running finances available from a consortium of commercial banks under mark up arrangements amount to Rs 120 million

(2001: Rs 685 million). The rates of mark up range from Rs 0.3425 to Rs 0.3973 per Rs 1,000 per diem or part thereof on the balance outstanding. The aggregate short term finances of Rs 120 million (2001: Rs485 million) are secured by a first registered joint pari passu charge on all present and future current assets of the company wherever situated including stores and spares, stock in trade, book debts, investments, receivables and pledge of 6.2 million shares of Muslim Commercial Bank Limited.

Of the aggregate facility of Rs 9.054 million (2001: Rs 72.9 million) for opening letters of credit and Rs 24.289 million (2001: Rs 23.3 million) for guarantees, the amount utilized at June 30,2002 was Rs 8.702 million (2001: Rs 72.9 million) and Rs 24.159 million (2001: Rs 23.159 million) respectively. Of the facility for guarantees, Rs 20.46 million is secured by pledge of 1.7 million shares of Nishat Mills Limited and ranking charge on the current assets of the company. Rs 1.5 million is secured by a lien over bank deposits as referred to in note 23.

10. Creditors, accrued and other liabilities

		2002	2001
		(Rupees in thousand)	
Trade creditors		77,409	72,379
Customers' balances		59,173	48,881
Accrued liabilities		40,402	49,024
Sales tax payable		38,024	37,359
Custom duties payable		1,131	11,131
Amount due to associated undertakings - Nishat Mills Limited	-note 10.1	15,837	40,304
Workers profit participation fund	-note 10.2	15,483	8,056
Interest accrued on loans		195,539	217,208
Retention money		286	4,308
Deposits - interest free repayable on demand		9,587	10,337
Advances against sale of scrap		144	166
Unclaimed dividend		387	390
Other payables		99,754	92,337
		553,156	591,880

10.1 Maximum aggregate amount due to associated undertaking at the end of any month during the year was Rs 39.223 million (2001 :Rs 135.903 million).

Mark-up is charged/paid on advances to/from associated undertakings at the rate of 15.33% per annum.

10.2 Workers' profit participation fund

At the beginning of the year		8,056	7,291
Provision for the year		15,483	-
Provision written back	-note 10.3	(8,056)	-
		15,483	7,291

Interest for the year	-	765
Closing balance	<u>15,483</u>	<u>8,056</u>

10.3 This represents an accumulated balance in respect of worker's profit participation fund and interest thereon which had been provided

in earlier years. This is now written back in light of an opinion given by a legal advisor of the company.

11. Contingencies and commitments

11.1 Contingencies

(i) The Income Tax Officer, while framing the assessments for the accounting years 1984-85 to 1990, 91, has taxed the income of the company on account of interest on deposits and sale of scrap etc. The Appellate Tribunal on appeal filed by the company issued an order in favor of the Company for the accounting years 1984-85 to 1990-1991. The Income Tax Department filed reference before the Lahore High Court. Pending final outcome of such reference, no adjustment has been made in these accounts for the relief granted by the Appellate Tribunal aggregating Rs 35.090 million.

(ii) During the period 1994 to 1996, the Company imported plant and machinery relating to expansion unit, for which exemption was claimed under various SROs from the levy of custom duty and other duties including sales tax. As per the provisions of SRO 484 (1)/92, 978 (1)/95 and 569 (1)/95, the exemption from the statutory duty etc. would be available only if the said plant and machinery was not manufactured locally. However, the Custom Authorities rejected the claim of the company by arguing that the said machinery

was on the list of locally manufactured machinery, published by the Central Board of Revenue. Consequently, the company appealed before the Lahore High Court, Multan Bench, who allowed the company to release the machinery on furnishing indemnity bonds with the Custom Authorities.

Collector of Customs and Central Excise, Multan has passed an order dated November 26, 1999, against the company on the grounds that the said machinery was being manufactured locally during the time when it was imported. The total demand as raised against the company amounts to Rs 715.372 million out of which Rs 200.645 million has already been paid.

An appeal against the order was filed with the Lahore High Court, which has been decided in favour of the company. However, the Custom Authorities have filed an appeal with the Supreme Court of Pakistan against the orders of the Lahore High Court. Hence, no provision for the balance amount of Rs 514.727 million has been made in the accounts as according to the management of the company there are meritorious grounds that the ultimate decision would be in its favour.

(iii) Sales tax recoverable amounting to Rs 33.50 million as referred to in note 22 to the accounts represents amounts which have been recovered by the sales tax department against miscellaneous demands raised by it. The company has filed appeals against the demands at different forums.

Pending the outcome of the appeals, no provision has been made in the account as the company is of the view that the ultimate

decision will be in its favour.

(iv) The company has issued guarantees in favour of Collector of Customs and Excise against levy of sales tax, custom duty and excise duty amounting to Rs 22.159 million (2001: Rs23.009 million) and in favour of the Director Excise Collection, Office Sindh Development and Maintenance against recovery of infrastructure tax fee amounting to Rs. 1.5 million (2001: Rs 0.05 million).

(v) Claims against the company not acknowledged as debts Rs 3 million (2001: Rs 3 million).

11.2 Commitments in respect of:

(i) Contract for capital expenditure Rs 3.648 million (2001: Rs 69,577).

(ii) Letters of credit other than capital expenditure Rs 5.054 million (2001: Rs 3.323 million).

12 Operating fixed assets - tangible

12.1 The following is a statement of the operating fixed asset

Description	Cost as at June 30, 2001	Additions/ (deletions)	Cost as at June 30, 2002	Accumulated depreciation as at June 30, 2001	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at June 30, 2002	Book value as at June 30,2002
Freehold land	21,009	5,260	26,269		-	-	26,269
Building on freehold land							
- Factory building	937,707	-	937,707	352,826	61,277	414,103	523,604
-Office building and housing colony	234,915	27,883	262,798	85,782	7,456	93,238	169,560
Roads	110,246		110,246	34,293	7,596	41,889	68,357
Plant and machinery	8,562,124	1,487 (220,575)	8,343,036	2,724,700	202,291 (863)	2,926,128	5,416,908
Quarry equipment	172,269	-	172,269	120,781	10,297	131,078	41,191
Furniture, fixture and office equipment	70,628	4,035	74,663	32,912	4,175	37,087	37,576
Vehicles	53,451	3,069 (2,459)	54,061	34,168	4,374 (1,978)	36,564	17,497
Aircraft	8,687		8,687	7,477	363	7,840	847
Power and water supply line	58,449	-	58,449	30,473	2,798	33,271	25,178
2002	10,229,485	41,734 (223,034)	10,048,185	3,423,412	300,627 (2,841)	3,721,138	6,326,047

2001	9,136,525	1,141,812	10,229,485	2,698,611	755,388	3,423,412	6,806
		(48,852)			(31)		

12.2 Deletions to plant and machinery include exchange gain of Rs 219.523 million (2001: Exchange loss of Rs 803.461 million in additions.)

12.3 The aircraft having book value of Rs. 0.847 million is not in the possession of the Company and is held by Phoenix Aviation (Pvt.) Limited, an associated concern as at June 30,2002.

12.4 Included in land is an amount of Rs. 5.2 million which is in the possession of the Company and is in the process of being registered in the name of the Comov.

		2002	2001
		(Rupees in tr	lousand)
12.5 Depreciation charge for the year has been allocated as follows:			
Cost of goods sold	- note 25	296,317	750,681
Administration and general expenses	- note 26	3,767	4,018
Selling and distribution expenses	- note 27	543	689
		300,627	755,388

2002 **2001**

(Rupees in thousand)

14. Capital work in progress

Plant and machinery	note 14.1	226,257	18,680
Civil works		-	2,047

226,257~ 20,727 ~

14.1 Included in plant and machinery is an amount of Rs. 154 million being the cost of coal firing plant which is financed through an advance from leasing companies as referred to in note 8.2 and will be capitalised upon completion.

15. Long term investments

At cost	- note15.1	648,640	648,640
Less: Provision for diminution in value of investments		-	38,818

Add: Revaluation deficit	167,270	-
	481,370	609,822
15.1 Available for sale		
In associated undertakings - quoted		
Umer Fabrics Limited		
4,680,000 (2001:4,680,000) fully paid ordinary shares of Rs. 10 each Equity held 19.5% (2001:19.5%)	85,296	85,296
Market value Rs. 62.94 million (2001: Rs. 66.92 million)		
Nishat Mills Limited		
11,071,307 (2001:11,071,307) fully paid ordinary shares of Rs. 10 each Market value Rs. 172.158 million (2001: Rs. 196.516 million)	446,202	446,202
Others - quoted		
Nishat (Chunian) Limited		
3,594,271 (2001:3,594,271) fully paid ordinary shares of Rs. 10 each Market value Rs. 101.898 million (2001: Rs. 64.337 million)	18,559	18,559
Muslim Commercial Bank Limited		
4,950,845 (2001:4,950,845) fully paid ordinary shares of Rs. 10 each Market value Rs. 144.070 million (2001: Rs. 120.553 million)	97,416	97,416
	647,473	647,473
	2,047	2,001
	2002	2001
	(Rupees in thousand)	
Maple Leaf Cement Factory Limited		
6,666(2001:6,666) fully paid ordinary shares of Rs. 10 each Market value Rs. 0.044 million (2001: Rs 0.030 million)	187	187
First Capital Mutual Fund		
98,000 (2001:98,000) certificates of Rs.10 each Market value Rs. 0.255 million (2001: Rs 0.294 million)	980	980
	648,640	648,640

15.2 Investments having face value of Rs 365.491 million (2001: Rs 334.191 million) are pledged as security against lease facility, long

term loans, working capital loans and bank guarantees

16. Long term loans to employees

Considered good

Housebuilding	2,744	3,251
Vehicles/air-conditioners	401	365
	3,145	3,616
Less: Current portion included in advances, deposits prepayments and other receivable	- note 22	
	1,264	1,167
	1,881	2,449

16.1 These represent the secured loans given to employees as per Company's service rules and are recoverable in equal monthly installments. The loans given to officers carry interest from 7 to 10 percent per annum while loans to staff and workers are interest free. Loans of Rs 0.667 million (2001: Rs 1.167 million) are outstanding for periods exceeding three years. Loans to employees are secured against retirement benefits. Amounts due from employees include Rs 2.039 million (2001: Rs 1.931 million) in respect of executives. The maximum amount outstanding in respect of executives at the end of any month during the year was Rs 2.302 million (2001 :Rs 2.494 million).

17. Long term deposits and deferred cost

These represents security - -

18. Stores, spares and loose tools

Stores [(including in transit Rs. 5.966 million (2001: Rs. 7.933)]	250,492	244,604
Spares	282,106	284,218
Loose tools	4,884	5,310
	537,482	534,132

Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

	2002	2001
	(Rupees in thousand)	
19. Stock-in-trade		
Raw materials	10,212	13,836
Packing material	18,183	16,396
Work-in-process	72,660	25,466
Finished goods	45,007	16,570
	146,062	72,268

20. Trade debts

These are unsecured and considered good.

21. Short term investments			
At cost	-note 21.1	402,969	402,969
Less: Provision for diminution in value of investments		-	7,043
Add: Revaluation surplus		168,742	-
		571,711	395,926
21.1 Available for sale securities			
In associated undertaking - quoted			
Umer Fabrics Limited			
1,796,780 (2001:1,796,780) fully paid			
ordinary shares of Rs. 10 each			
Market value Rs. 24.167 million (2001: Rs. 25.694 million)		32,737	32,737
Others - quoted			
Muslim Commercial Bank Limited			
18,815,927 (2001:18,815,927) fully paid			
ordinary shares of Rs. 10 each			
Market value Rs. 547.544 million (2001: Rs. 458.694 million)		370,232	370,232
		402,969	402,969

		2002	2001
		(Rupees in thousand)	
22. Advances, deposits, prepayments and other receivables			
Current portion of long term loans to employees	- note 16	1,264	1,167
Advances - considered good			
To employees		2,698	1,826
To suppliers		10,740	4,936
To contractors		-	1,169
To associated undertakings	- note 22.1	13,706	9,439
Interest receivable		364	278
Prepayments		664	9,117
Letters of credit		3,947	2,031
Claim Recoverable from Government			
Income tax		50,228	40,776
Sales tax		33,500	29,651
Excise duty		5,971	2,151
Export rebate receivable		-	33,150
		89,699	105,728
Dividend receivable		-	16,204
Other receivables		14,915	5,320

22.1 Due from associated undertakings	137,997	157,215
Phoenix Aviation (Private) Limited	13,706	9,436
Umer Fabrics Limited	-	3
	13,706	9,439

These are in the normal course of business. Amounts due to/from associated undertakings carry interest at the rates ranging from 13% to 15.5% per annum. The maximum aggregate amount of advances to associated undertaking at the end of any month during the year was Rs. 13.706 million (2001: Rs. 24.68 million).

23. Cash and bank balances

Balances with banks on:

Deposit accounts	3,425	-
Saving accounts		
Pak rupee	63,350	33,907
Foreign currency US \$ 22.22 (2001: US \$ 21.84)	1	1
Current accounts	2,099	18,062
	68,875	51,970
Cash in hand	664	481
	69,539	52,451

Included in balances at banks on saving account are Rs 1.5 million (2001: Rs 1.871 million) which are under lien against bank guarantees referred to in note 9.

24. Sales

Local sales	4,490,038	4,243,367
Export sales	12,414	-
	4,502,452	4,243,367
Less: Excise duty	1,091,563	1,173,748
Sales tax	645,797	473,425
Commission to stockists	46,438	44,362
	1,783,798	1,691,535
	2,718,654	2,551,832

	Note	2002 (Rupees in thousand)	2001
25. Cost of goods sold			
Raw and packing materials consumed	- note 25.1	240,499	236,463

Salaries, wages and other benefits	- note 25.2	123,180	118,777
Electricity		125,367	130,487
Furnace oil/coal		953,360	1,013,130
Stores and spares consumed		183,855	180,154
Repair and maintenance		14,689	7,844
Insurance		31,408	29,955
Depreciation	-note 12.5	296,317	750,681
Amortisation	-note 13.1	3,208	2,367
Royalty		22,804	21,666
Excise duty		4,599	1,349
Vehicle running		4,404	3,773
Postage, telephone and telegram		2,070	2,204
Printing and stationery		1,109	1,198
Legal and professional		2,495	3,109
Sales tax on electricity generated		•	9,238
Receivables written off		1,355	-
Other expenses		12,707	17,600
		2,023,426	2,529,995
Opening work-in-process		25,466	12,243
Closing work-in-process		(72,660)	(25,466)
		(47,194)	(13,223)
Cost of goods manufactured		1,976,232	2,516,772
Opening stock of finished goods		16,570	26,732
Closing stock of finished goods		(45,007)	(16,570)
		(28,437)	10,162
		1,947,795	2,526,934

Stores and spares consumed during the year include Rs. 0.980 million (2001: Rs. Nil) being stores and spares written off.

	2002	2001
(Rupees in tho	usand)	
25.1 Raw and packing materials consumed		
Opening stock	30,232	27,740
Purchases	238,662	238,955
	268,894	266,695
Less: Closing stock	28,395	30,232
	240,499	236,463

25.2 Salaries, wages and other benefits

Salaries, wages and other benefits include following in respect of gratuity:

Current Service cost		1,857	-
Interest cost for the year		1,733	-
Transitional gain		(3,304)	-
		286	-

Salaries, wages and other benefits also include Rs. 2.301 million (2001: Rs. 2.129 million) in respect of provident fund contribution by the employer.

26. Administration and general expenses

Salaries, wages and other benefits	- note 26.1	18,243	16,959
Travelling and daily allowances		3,583	4,116
Rent, rates and taxes		211	245
Insurance		658	832
Legal and professional charges		2,064	824
Vehicle running		1,096	1,033
Repair and maintenance		550	368
Auditor's remuneration	- note 26.2	594	503
Printing and stationery		1,237	885
Entertainment		441	529
School expenses		4,255	3,872
Depreciation	-note 12.5	3,767	4,018
Amortisation	- note 13.1	298	230
Subscription and fee		376	499
Postage, telephone and telegram		2,334	2,326
Other expenses		886	934
		40,593	38,173

2002 **2001**
(Rupees in thousand)

26.1 Salaries, wages and other benefits

Salaries, wages and other benefits include following in respect of gratuity:

Current Service cost		276	-
Interest cost for the year		258	-
Transitional gain		(492)	-
		42	-

Salaries, wages and other benefits also include Rs. 0.407 million (2001: Rs. 0.371 million) in respect of provident fund contribution by the employer.

26.2 Auditors' remuneration			
Statutory audit		425	385
Cost audit and Central Depository System audit		111	64
Out of pocket expenses		58	54
		594	503
27. Selling and distribution expenses			
Salaries, wages and other benefits	- note 27.1	11,829	11,754
Travelling and daily allowances		1,271	792
Rent, rate and taxes		477	575
Insurance		221	267
Vehicle running and maintenance		847	703
Repair and maintenance		33	20
Postage, telephone and telegrams		1,266	1,350
Printing and stationery		690	585
Entertainment		455	358
Electricity		418	437
Advertisement and sales promotion		2,486	2,242
Depreciation	-note 12.5	543	689
Amortisation	-note 13.1	137	-
Other expenses		1,925	639
		22,598	20,411

27.1 salaries, wages and other benefits

Salaries, wages and other benefits include following in respect of gratuity:

Current service cost	169	-
Interest cost for the year	158	-
Transitional gain	(301)	-
	26	-

Salaries wages and other benefits also include Rs. 0,344 million (2001: Rs. 0.418 million) in respect of provident fund contribution by the employer.

	2002	2001
	(Rupees in thousand)	
28. Other income		
Profit/mark-up on bank deposits	1,104	768
Profit on sale of investment	-	78,065
Interest on loans to employees	164	90

Dividend income from:		-	-
- Associated companies	-note 28.1	26,322	54,139
- Others		68,402	51,975
Mark-up on advance to associated undertakings		1,529	-
Profit on sale of fixed assets		1,180	17,049
Sale of scrap		1,104	2,690
Exchange gain		4,750	-
Liabilities no longer payable written back		12,471	354
Others		87	255
		117,113	205,385
28.1 Dividend income from associated companies			
Nishat Mills Limited		16,607	28,232
Umer Fabrics Limited		9,715	25,907
		26,322	54,139
29. Financial charges			
Interest and mark-up on:			
Long term loans			
Foreign currency		279,312	425,691
Local		85,906	5,932
Finances under mark-up arrangements		83,716	108,019
Finance lease		9,806	17,626
Advance from leasing companies		5,362	-
Workers' profit participation fund		-	765
Provident Fund		219	-
Guarantee commission		19,233	-
Mark-up on balances with associated undertakings		11,342	9,476
Exchange loss		-	8,514
Restructuring and rescheduling fee		-	8,011
Bank charges and commission		20,228	16,313
		515,124	600,347
30. Other charges			
Provision for diminution in the value of investments		-	2,156
Provision for WPPF		15,483	-
		15,483	2,156

2002 **2001**
(Rupees in thousand)

31. Provision for taxation			
Current year		14,200	13,200

Prior year	106	-
	14,306	13,200

In view of available tax losses, the provision for current taxation represents the minimum tax due under section 800 of the Income Tax Ordinance, 1979. For purposes of current taxation the tax losses available for carry forward as at June 30,2002 are estimated approximately at Rs 4,382 million (2001: Rs 4,430 million), including assessed tax losses of Rs 3,783 million (2001: Rs. 2,979 million).

32. Cash flow from operating activities

Profit/(Loss) before taxation	294,174	(430,804)
Add/(less) adjustment for non cash charges and other items		
Depreciation	300,627	755,388
Amortisation of leased assets	3,643	2,597
Gain on disposal of fixed assets	(1,180)	(17,049)
Dividend income	(94,724)	(106,114)
Provision for leave encashment and gratuity	1,949	6,746
Provision for diminution in value of investments	-	2,156
Provision for Workers' Profit Participation Fund	7,427	-
Interest income	(2,884)	-
Profit on disposal of investment	-	(78,065)
Financial charges	515,124	600,347
	1,024,156	735,202

Profit before working capital changes

Effect on cash flow due to working capital changes:

(Increase)/decrease in current assets

Stores, spares and loose tools	(3,350)	(20,580)
Stock in trade	(73,794)	(5,553)
Trade debts	14,330	7,998
Advances, deposits, prepayments and other receivables	(4,677)	8,285

Increase/(decrease) in current liabilities

Creditors, accrued and other liabilities	(14,479)	2,644
	(81,970)	(7,206)

Cash generated from operations

33. Cash and cash equivalents

Finances under mark up arrangement	- note 9	(173,336)	(561,175)
Cash and bank balances	- note 23	69,539	52,451
		(103,797)	(508,724)

34. Remuneration of directors and executives

34.1 The aggregate amount charged in the accounts for the year for remuneration, including certain benefits, to full time working directors

and executives of the Company is as follows:

	Executives		Directors	
	2002	2001	2002	2001
	(Rupees in thousand)		(Rupees in thousand)	
Managerial remuneration	51,058	28,586	10,513	10,366
Gratuity/contribution to providend fund	4,482	2,516	542	749
Utilities	3,300	962	776	696
	58,840	32,064	11,831	11,811
Number of persons	138	48	4	4

The company also provides some of them with company maintained cars and residential telephones.

	2002	2001
	(Rupees in thousand)	
35. Transactions with associated undertakings		
Purchase of goods and services	-	2,098
Sale of goods	12,714	49,859
Rent received	72	54
Interest income	1,529	-
Interest expense	11,342	9,476
	25,657	61,487

Sales and purchase transactions with associated undertakings are carried out on commercial terms and conditions. Interest and rent are charged between associated undertakings on the basis of mutually agreed terms.

36. Plant capacity and actual production

	Capacity		Actual production	
	2002	2001	2002	2001
Clinker (M. Tons)	1,650,000	1,650,000	1,120,246	1,045,023

The depressed market condition led by poor economic conditions of the country is the main cause of low production.

37 Financial assets and liabilities

	Interest/mark-up bearing			Non Interest bearing		
	Maturity up to one year	Maturity after one year	Sub total	Maturity up to one year	Maturity after one year	Sub total
FINANCIAL ASSETS						
Long-term investments	-	-	-	-	246,267	246,267
Loans to employees	842	1,449	2,291	422	432	854
Long-term security deposits	-	-	-	-	4,412	4,412
Trade debts	-	-	-	28,403	-	28,403
Short-term investments	-	-	-	547,544	-	547,544
Advances, deposits and prepayments:						
- Interest receivable	-	-	-	364	-	364
- Dividend receivable	-	-	-	-	-	-
- Other receivable	-	-	-	26,937	-	26,937
Cash and bank	66,776	-	66,776	2,763	-	2,763
	67,618	1,449	69,067	606,433	251,111	857,544
FINANCIAL LIABILITIES						
Liability against assets subject to finance lease	17,170	65,207	82,377	-	-	82,377
Long-term loans and others payables	589,644	3,522,975	4,112,619	-	-	4,112,619
Long-term deposits and advances	22,929	126,399	149,328	-	19,608	168,936
Finances under mark up arrangements	173,336	-	173,336	-	-	173,336
Creditors, accrued and other liabilities	15,837	-	15,837	368,642	-	384,479
Commitments	-	-	-	3,648	-	3,648
Guarantees	-	-	-	24,159	-	24,159
Letter of credit	-	-	-	5,054	-	5,054
	818,916	3,714,581	4,533,497	401,503	19,608	421,111

37.1 Financial instruments and risk management

(a) Financial Instruments

In accordance with the transitional provisions of IAS-39, fair value adjustments in investments amounting to Rs. 119.094 million as at July 1,2001 have been transferred to a fair value reserve which has subsequently been adjusted for the fair value changes as at year end.

(b) Risk Managements

Overall risks arising from the Company's financials instruments are limited.

(i) Interest rate risk management

The Company usually borrows funds at fixed and market based rates and as such the risk is minimized.

(ii) Concentration of credit risk

Credit risk represent the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. Out of the total financial assets of Rs. 926.611 million, the financial assets which are subject to credit risk amounted to Rs. 917.128 million. The Company believes that it is not exposed to major concentration of credit risk. To manage exposure to credit risk, the Company applies credit limits to its customers and also obtains collaterals.

(iii) Foreign exchange management

Foreign currency risks arises mainly where receivables and payables exist due to transactions with foreign undertakings. Payables exposed to foreign currency risks are not covered through any forward foreign exchange contracts or through hedging.

(iv) Fair value of assets

The carrying value of financial assets and liabilities reflected in the financial statements approximates their fair values.

38. Earning per share

38.1 Basic earnings per share

Net profit/(loss) for the year	Rupees in thousand	279,868	(444,004)
Weighted average ordinary shares in issue during the year	Numbers	<u>152,391,380</u>	<u>152,391,380</u>
Earning/(Loss) per share	Rupees	<u>1.84</u>	<u>(2.91)</u>

38.2 Diluted earnings per share

There is no dilution effect on the basic earnings per share of the Company as the Company has no such commitments.

39. Number of employees

Number of employees at year end	<u>605</u>	<u>621</u>
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40. Date of authorisation

These financial statements were authorised for issue on September 26,2002 by the Board of Director of the Comapany

41. During the year, the management carried out a comprehensive review of the useful lives of plant and machinery and depreciated a component i.e. Production Unit II on annual installments so as to write oft its book value over their remaining re-estimated useful lives taking into account their residual value as reported in their interim financial statements for the year.

However, at year end, the management based on the revised recommendation of the technical commettee in consultation with plant supplier has decided to change the useful life of all plant and machinery and depreciate it on annual instalments basis as refered to in note 2.4.

Had no such re-estimation of useful life taken place at year end, the depreciation charge would have been higher by Rs 86.728 million.

42. Corresponding figures

Previous year's figures have been re-arranged, wherever necessary, for the purpose of comparison. No significant re-arrangements have been made this year.

PATTERN OF SHARE HOLDING AS AT JUNE 30, 2002

NO. OF SHAREHOLDERS	FROM	SHARE HOLDING TO	TOTAL SHARES HELD
380		1 100 Shares	18,796
809		101 500 Shares	275,789
699		501 1000 Shares	595,203
1145		1001 5000 Shares	2,854,364
219		5001 10000 Shares	1,776,637
84		10001 15000 Shares	1,090,587
46		15001 20000 Shares	819,932
42		20001 25000 Shares	977,918
23		25001 30000 Shares	630,750
14		30001 35000 Shares	457,410
7		35001 40000 Shares	269,075
6		40001 45000 Shares	258,075
15		45001 50000 Shares	747,730
8		50001 55000 Shares	416,511
6		55001 60000 Shares	352,253
3		60001 65000 Shares	188,959
7		65001 70000 Shares	485,000
8		70001 75000 Shares	592,109

7	75001 80000 Shares	544,353
2	80001 85000 Shares	167,500
4	85001 90000 Shares	349,350
2	90001 95000 Shares	188,500
14	95001 100000 Shares	1,389,281
3	100001 105000 Shares	308,207
3	105001 110000 Shares	326,000
2	110001 115000 Shares	222,102
2	115001 120000 Shares	233,048
1	120001 125000 Shares	124,144
2	130001 135000 Shares	265,505
1	140001 145000 Shares	143,500
4	145001 150000 Shares	594,697
3	155001 160000 Shares	479,350
1	165001 170000 Shares	170,000
2	175001 180000 Shares	355,500
1	190001 195000 Shares	191,000
2	195001 200000 Shares	400,000
1	200001 205000 Shares	202,000
1	205001 210000 Shares	207,100
2	220001 225000 Shares	446,500
1	230001 235000 Shares	231,000
1	235001 240000 Shares	240,000
1	245001 250000 Shares	250,000
1	250001 255000 Shares	250,500
2	255001 260000 Shares	516,012
1	270001 275000 Shares	273,500
1	275001 280000 Shares	278,500
1	290001 295000 Shares	290,388
1	295001 300000 Shares	300,000
1	300001 305000 Shares	305,000
1	310001 315000 Shares	311,000
1	340001 345000 Shares	344,072
1	345001 350000 Shares	348,500
1	370001 375000 Shares	371,000
1	410001 415000 Shares	414,000
1	425001 430000 Shares	425,100
1	455001 460000 Shares	457,382
1	485001 490000 Shares	489,500
3	495001 500000 Shares	1,500,000

1	500001 505000 Shares	502,152
1	545001 550000 Shares	550,000
1	550001 555000 Shares	553,111
1	570001 575000 Shares	570,500
1	590001 595000 Shares	594,000
1	605001 610000 Shares	609,207
1	610001 615000 Shares	612,000
1	685001 690000 Shares	686,280
1	695001 700000 Shares	700,000
1	705001 710000 Shares	710,000
1	825001 830000 Shares	829,000
1	850001 855000 Shares	854,642
1	855001 860000 Shares	855,208
1	870001 875000 Shares	870,034
1	895001 900000 Shares	900,000
1	925001 930000 Shares	925,850
1	990001 995000 Shares	995,000
1	995001 1000000 Shares	1,000,000
1	1040001 1045000 Shares	1,043,485
1	1160001 1165000 Shares	1,163,400
1	1285001 1290000 Shares	1,286,500
1	1350001 1355000 Shares	1,354,000
2	1465001 1470000 Shares	2,933,334
1	1525001 1530000 Shares	1,530,000
1	1600001 1605000 Shares	1,601,000
1	1995001 2000000 Shares	2,000,000
1	2110001 2115000 Shares	2,111,548
1	3275001 3280000 Shares	3,277,000
2	3360001 3365000 Shares	6,727,611
1	3370001 3375000 Shares	3,374,639
1	3550001 3555000 Shares	3,550,542
1	5020001 5025000 Shares	5,022,050
1	6775001 6780000 Shares	6,779,913
1	7400001 7405000 Shares	7,401,414
1	12355001 12360000 Shares	12,355,208
1	47850001 47855000 Shares	47,852,563

3641 TOTAL

152,391,380

CLASSIFICATION OF SHARES BY CATEGORIES AS AT JUNE 30, 2002

CATEGORIES OF MEMBERS	NUMBERS	SHARES HELD	PERCENTAGE
Individuals	3,384	44,694,718	29.33
Investment Companies	34	11,618,362	7.62
Insurance Companies	6	3,408,220	2.24
Joint Stock Companies	79	68,218,010	44.77
Financial Institutions	29	10,127,977	6.65
Modaraba Companies	13	359,232	0.24
Foreign Investors	69	13,882,464	9.11
Others	27	82,397	0.05
TOTAL	3,641	152,391,380	100.00

INFORMATION UNDER CLAUSE XIX (i) OF THE CODE OF CORPORATE GOVERNANCE

	PERCENTAGE	
(A) ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES AS ON JUNE 30, 2002		
NISHAT MILLS LIMITED	47,852,563	31.40
(B) NITANDICP:-		
1. INVESTMENT CORPORATION OF PAKISTAN	857,888	0.56
2. NATIONAL BANK OF PAKISTAN-TRUSTEE WING (NATIONAL INVESTMENT (UNIT) TRUST)	6,785,013	4.45
(C) DIRECTORS, CEO, THEIR SPOUSE AND MINOR CHILDREN:-		
1. MRS. NAZ MANSHA CHIEF EXECUTIVE/DIRECTOR	39,340	0.03
2. MR. SAQIB ELAHI DIRECTOR	3,000	-
3. MR. INAYAT ULLAH NIAZI DIRECTOR/CFO	16,000	0.01
(D) EXECUTIVES:-	-	-
(E) PUBLIC SECTOR, COMPANIES & CORPORATIONS:-		
JOINT STOCK COMPAINES	68,218,010	44.77
(F) BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE INSTITUTIONS INSURANCE COMPANIES, MODARABAS AND MUTUAL FUND:-		
1. INVESTMENT COMPANIES	11,618,362	7.62
2. INSURANCE COMPANIES	3,408,220	2.24
3. FINANCIAL INSTITUTIONS	10,127,977	6.65

4. MODARABA COMPANIES

359,232

0.24

**(G) SHAREHOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST IN
THE LISTED COMPANY:-
NISHAT MILLS LIMITED**

47,852,563

31.40

INFORMATION UNDER CLAUSE XIX (j) OF THE CODE OF CORPORATE GOVERNANCE

The CEO, Directors, CFO, Company Secretary and their spouse and minor children have made no Sale / Purchase of Company's shares during the year July 1,2001 to June 30,2002.