# DEWAN CEMENT LIMITED

COST AUDIT REPORT FOR THE YEAR ENDED 30 JUNE 2011



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### COST AUDITORS' REPORT

We, M/s. Rafaqat Mansha Mohsin Dossani Masoom & Co., Chartered Accountants having been appointed to conduct the audit of cost accounts of Messrs Dewan Cement Limited; have examined the books of accounts and the statements prescribed under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984 and the other relevant records for the year ended on 30 June 2011 and report that:

- 1 we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of this audit;
- 2 in our opinion:
  - proper cost accounting records as required by clause (e) of subsection (1) of section 230 of the Companies Ordinance, 1984 (XLVII of 1984), and as required by these Rules have been kept by the Company;
  - proper returns, statement and schedules for the purposes of audit of cost accounts have been received from factories; which were also visited by us;
  - the said books and records give the information required by the Rules in the manner so required; and
- 3 in our opinion and subject to the best of our information:
  - the annexed statements of capacity utilization and stock-in-trade are in agreement with the books of accounts of the Company and exhibit a true and fair view of the Company's affairs; and
  - b) cost accounting records have been properly kept so as to give a true and fair view to the cost of production, processing, manufacturing and marketing of the under mentioned product of the Company, namely: Ordinary Portland Cement.

The matter contained in the Annexures forms an integral part of this report.

Date: 26 Oct 2011 Karachi. Refagrat Mansha Mohsin Dossani Masoom &Co.
Chartered Accountants
Engagement Partner
Afzal H Dossani

Other offices:

Lahore T: 042 3755 2728-9 F: 042 3755 2730 Islamabad T: 051 227 3126 F: 051 227 3105 Peshawar T: 091 570 3151-2 F: 091 570 3153

Suite 113, 3rd Floor, Hafeez Centre, A/34, KCHS, Block 7&8, Shahrah-e-Faisal, Karachi. T: 021 3439 2361-2, 3439 6247 F: 021 3439 6247 e-mail: karachi@mmdk.com.pk URL: www.rmdm.com.pk





### INTRODUCTION

Dewan Cement Limited (the Company / DCL) was incorporated in Pakistan as a public limited company in March, 1980. Its shares are quoted on the Karachi and Lahore Stock Exchanges since June, 1989. The registered office of the Company is situated at 7th Floor, Block A, Finance and Trade Centre, Shahrah-e-Faisal, Karachi. The principal activity of the Company is manufacture and sale of cement. The Company has two production facilities at Deh Dhando, Dhabeji Karachi, Sindh and Kamilpur Hattar Industrial Estate, District Hattar Khyber Pakhtoonkhuwa.

### **FACTORIES LOCATIONS**

There are two factories of Dewan Cement Limited located as follows:

South Unit (Line-I & II) Deh Dhando, Dhabeji

District Malir, Karachi.

North Unit (Line-I & II) Kamilpur Near Hattar District Haripur, Khyber Pakhtoonkhuwa.

### **PRODUCTS**

The Company was engaged in manufacturing and sales of following types of cement products.

South Unit (Line-I & II) Sulphate Resistant Cement - (SRC) Ordinary Portland Cement - (OPC) Slag Cement - (Slag) Clinker

North Unit (Line-I &II) Ordinary Portland Cement - (OPC) Clinker

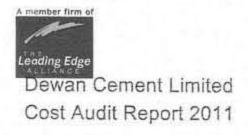
### CAPACITY

The installed and utilized capacities of the factories for cement and clinker products were as tabled below.

### Other offices:

Lahore T: 042 3755 2728-9 F: 042 3755 2730 Islamabad T: 051 227 3126 F: 051 227 3105 Peshawar T: 091 570 3151-2 F: 091 570 3153

Suite 113, 3rd Floor, Hafeez Centre, A/34, KCHS, Block 7&8, Shahrah-e-Faisal, Karachi, T: 021 3439 2361-2, 3439 6247 F: 021 3439 6247 e-mail: karachi@mmdk.com.pk URL: www.rmdm.com.pk

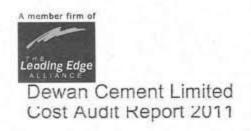




4.1 The installed and utilized capacities of the factories for clinker products were as follows:

		2011	2010
CLINKER	PRODUCTS	(IN TONS)	(IN TONS)
	We have a second of the second		- 12
A. Installed Capacity			
South Unit (Line-I)		900,000	900,000
South Unit (Line-II)		960,000	960,000
Sub Total		1,860,000	1,860,000
North Unit (Line-I)		540,000	540,000
North Unit (Line-II)		540,000	540,000
Sub Total		1,080,000	1,080,000
Grand Total	- 44.	2,940,000	2,940,000
B. Utilized Capacity			
South Unit (Line-I)			
	SRC	9,554	54,082
	OPC	49,532	106,987
Sub Total		59,086	161,069
South Unit (Line-II)			
	SRC	47,434	40,270
	OPC	600,097	438,500
Sub Total		647,531	478,770
Total South Unit		706,617	639,839
North Unit			
LINE-I	OPC	133,279	109,508
LINE-II	OPC	328,795	85,566
Total North Unit		462,074	195,074
Grand Total		1,168,691	834,913

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4.2 The installed and utilized capacities of the factories for cement products were as follows:

		2011	2010
CEMENT	PRODUCTS	(IN TONS)	(IN TONS)
A. Installed Capacity			
South Unit (Line-I)		945,000	945,000
South Unit (Line-II)		1,008,000	1,008,000
Sub Total		1,953,000	1,953,000
North Unit (Line-I)		567,000	567,000
North Unit (Line-II)		567,000	567,000
Sub Total		1,134,000	1,134,000
Grand Total	3.11	3,087,000	3,087,000
B. Utilized Capacity			
South Unit (Line-I & Line II)			
	SRC	58,904	106,333
	OPC	661,136	566,017
	SLAG	11,765	20,345
Total South Unit		731,805	692,695
North Unit			
Line-I	OPC	344,766	94,263
Line-II	OPC	140,774	131,089
Total North Unit		485,540	225,352
		1,217,345	918,047





### 5 COST ACCOUNTING SYSTEM

The Company follows process cost system that comprises production and service departments. An analysis number was allocated to each of the cost centre and the related costs were charged to the respective cost centres on the basis of that number.

The costs are thus accumulated and transferred from one process to the next, and finally charged / absorbed into the cost of the final product.

Other accounting policies have been considered as reflected in the financial statements of the Company.

### 6 PRODUCTION

North Unit

(Line-I & Line-II)

Production of cement and clinker in quantities during the year was as follows:

485,540

1,217,345

IS) (IN To	ONS)	INCREASE/ (DECREASE)	UTILIZATION OF CAPACITY
086 1	61,069	-63.32%	6.57%
531 4	78,770	35.25%	67.45%
617 63	39,839	10.44%	
279 1	09,508	21.71%	24.68%
795	85,566	284.26%	60.89%
074 19	95,074	136.87%	
691 83	34,913		
,	,531 4 ,617 63 ,279 1 ,795 3 ,074 19	,531 478,770 ,617 639,839 ,279 109,508 ,795 85,566 ,074 195,074	,531 478,770 35.25% ,617 639,839 10.44% ,279 109,508 21.71% ,795 85,566 284.26% ,074 195,074 136.87%

225,352

918,047

115.46%

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42.82%



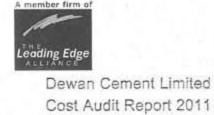


a) Percentage of production of both the products in relation to the installed capacity were:

Production	X 100	_	%age
Installed Capacity	75. 1.0.0		70090

DESCRIPTION	CALCULATION	PERCENTAGE
Clinker		
South Unit (Line-I)	59,086 X 100	6.57%
South Unit (Line-II)	647,531 960,000 X 100	67.45%
North Unit (Line-I)	133,279 540,000 X 100	24.68%
North Unit (Line-II)	328,795 540,000 X 100	60.89%
Cement		
South Unit (Line-I & Line-II)	731,805 1,953,000 X 100	37.47%
North Unit (Line-I & Line-II)	485,540 1,134,000 X 100	42.82%

2010						
DESCRIPTION	CALCULATION	PERCENTAGE				
Clinker						
South Unit (Line-I)	161,069 900,000 X 100	17.90%				
South Unit (Line-II)	478,770 960,000 X 100	49.87%				
North Unit (Line-I)	109,508 540,000 X 100	20.28%				
North Unit (Line-II)	85,566 540,000 X 100	15.85%				
Cement						
South Unit (Line-I & Line-II)	692,695 1,953,000 X 100	35.47%				
North Unit (Line-I & Line-II)	225,352 1,134,000 X 100	19.87%				





# REASONS FOR INCREASE / (DECREASE)

a) The reasons for decrease in production was mainly due to the number of shut downs; plant performance and market behaviour during the year.

### 7 RAW MATERIALS

a) Major raw material consumed in production of cement inclusive of other cost were as follows:

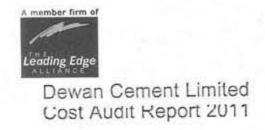
Quantity	/ in (	(TM)	

DESCRIPTION  RAW  MATERIAL	S	SOUTH UNIT			2011	2010
	SRC	OPC	SLAG OPC	OPC	2011	2010
Lime Stone	92,812	968,833	12,864	602,484	1,676,993	1,296,021
Laterite	6,617	9,945	-	20,026	36,588	26,391
Clay	(576)	108,699	1,444		110,143	77,240
Shale Stone	2 20			936	936	1,453
Slate Stone	E#8 11	-	3.00	90,050	90,050	33,272
Slag	550	- 1	3,095		3,095	5,592
Gypsum	1,916	21,890	292	20,464	44,562	36,114

#### Amount in Rupees

					Amount in	Rupees
DESCRIPTION	SOUTH UNIT			NORTH UNIT (LINE-I &II)	2011	2010
RAW MATERIAL	SRC	OPC	SLAG	OPC	2011	2010
Lime Stone	9,747,216	102,808,313	1,350,992	53,386,914	167,293,434	170,257,184
Laterite	4,541,029	6,824,926		15,212,034	26,577,988	16,282,176
Clay	3.0	6,884,489			6,884,489	6,239,301
Shale Stone			-	200,380	200,380	409,893
Slate Stone	V 150	-	553	13,500,790	13,500,790	8,499,237
Slag		-	2,492,706	-	2,492,706	4,509,387
Gypsum	2,917,936	32,422,451	445,433	12,396,247	48,182,068	41,294,033

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b) The ratios of major raw material consumed per unit of production were as follows:

	2011 -			NORTH UNIT	
CLINICED	S	SOUTH UNIT			
CLINKER	SRC	OPC	SLAG	OPC	
11	93.34%	89.09%	89.91%	84.44%	
Lime Stone	6.66%	0.91%	0.00%	2.81%	
Laterite Clay	0.00%	10.00%	10.09%	0.00%	
Shale Stone	0.00%	0.00%	0.00%	0.13%	
Slate Stone	0.00%	0.00%	0.00%	12.62%	
Oldio Otono	100.00%	100.00%	100.00%	100.00%	
OFMENT		NORTH UNIT			
CEMENT	SRC	OPC	SLAG	OPC	
Clinker	98.11%	98.03%	80.86%	97.21%	
Slag	0.00%	0.00%	17.49%	0.00%	
Gypsum	1.89%	1.97%	1.65%	2.79%	
	100.00%	100.00%	100.00%	100.00%	

	2010 -	SOUTH UNI	Г	NORTH UNIT
CLINKER	SRC	OPC	SLAG	(LINE-I &II) OPC
Lime Stone	94.52%	91.44%	91.94%	95.34%
Laterite	4.95%	0.55%	0.00%	4.15%
Clay	0.53%	8.02%	8.06%	0.00%
Shale Stone	0.00%	0.00%	0.00%	0.46%
Bauxite	0.00%	0.00%	0.00%	0.00%
Slate Stone	0.00%	0.00%	0.00%	10.49%
	100.00%	100.00%	100.00%	110.44%





		NORTH UNIT (LINE-I &II)		
CEMENT	SRC	OPC	SLAG	OPC
Clinker	97.49%	97.60%	80.36%	97.42%
Slag	0.00%	0.00%	17.69%	0.00%
Gypsum	2.51%	2.40%	1.95%	2.58%
-11	100.00%	100.00%	100.00%	100.00%

C) Standard variances in raw material consumed per unit of production were as follows:

Input quantity per unit of quantity produced- Cement (In Tons)

DECODIDEION	SOUTH UNIT			NORTH UNIT	STANDARD	VARIANCE	
DESCRIPTION	SRC	OPC	SLAG	AVERAGE	(LINE-I &II)	STANDARD	V/11 (1) (11 O E
Lime Stone	1.576	1.465	1.093	1.468	1.2409	Nil	Nil
Laterite	0.112	0.015	-	0.023	0.0412	Nil	Nil
Clay		0.164	0.123	0.151		Nil	Nil
Shale Stone	-	2	-	-	0.0019	Nil	Nil
Slate Stone	-	2	-		0.1855	Nil	Nil
Slag	-	-	0.263	0.004		Nil	Nil
Gypsum	0.033	0.033	0.025	0.033	0.0421	Nil	Nil

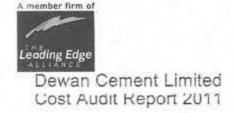
It has been observed that there was no standard costing system in practice in the Company therefore; no variance could be worked out in this regard.

As per explanation provided to us by the Company, input mix of raw material depends on many factors; the mix required varies from quarry to quarry and unit to unit due to following reasons:

- Composition of Raw Material
- Capacity and Efficiency of the Plant

d) Quantity variances of raw material consumed per unit of production (year-wise)

DESCRIPTION	SOUTH UNIT			
DESCRIPTION	AVG. 2011	AVG. 2010	VARIANCE	
Lime Stone	1.468	1.605	(0.14)	
Laterite	0.023	0.021	0.00	
Clay	0.151	0.121	0.03	
Slag	0.004	- 2	0.00	
Gypsum	0.033	0.043	(0.01)	



DESCRIPTION	NORTH UNIT ( LINE-I & II)			
	AVG. 2011	AVG. 2010	VARIANCE	
Lime Stone	1.241	1.380	(0.1394)	
Laterite	0.041	0.067	(0.0262)	
Shale Stone	0.002	0.007	(0.0055)	
Slate Stone	0.185	0.171	0.0149	
Gypsum	0.042	0.043	(0.0009)	

### d) REASONS FOR VARIANCES

Actual results during the current year in the consumption of individual items, within the mix were different as compared with previous year, due to the varying composition of the raw material. In order to maintain standard quality, the Company adjusted by varying the quantity of inputs.

e) The method of accounting for recording the quantities and value of receipts, issues and balances of all raw materials directly used in production was at weighted average.

### 8- WAGES AND SALARIES

a) Total wages and salaries paid for all categories of employees were as follows:

DECODIDION		RUPEES IN THOUSAND	
DESCRIPTION	UNIT	2011	2010
South Unit & North Unit (Line-I & II)			
i) Direct labour cost on production		46,736	52,018
ii) Indirect labour cost on production		123,090	132,884
iii) Employees cost on administration		60,391	58,859
iv) Employees' cost on selling and distribution		7,302	9,975
v) Director's remuneration			16,205
vi) Staff provident fund contribution		8,001	9,442
vii) Total man-days of direct labour- Line-l	South Unit	31	84
viii) Total man-days of direct labour- Line-II	South Unit	244	209
ix) Total man-days of direct labour- Line-l	North Unit	83	70
x) Total man-days of direct labour- Line-II	North Unit	192	55

b) Variance of Direct Labour, Cost per Unit of Output (Clinker)

	Amount in Rs.				
	2011	2010	Variance	Variance%	
South Unit & North Unit (Line-I & II)	39.99	62.30	(22.31)	(35.81)	





# 9 - STORES AND SPARE PARTS

# a) Expenditure per unit of output of stores

	Stores and Spa			
	2011	2010	Variance	Variance %
Store and spares consumed per unit of output of Clinker	208,308,000	253,841,000		
South Unit & North Unit (Line-I & II)	1,168,691	834,913		
Rupees / Ton	178.240	304.033	(125.79)	-41.37%

Note: During the year no obsolete stock was found.

# b) System of stores accounting

The system of Stores Accounting for recording of receipts, issues and balances both in quantities and amount were valued at weighted average cost.

### 10. DEPRECIATION

## Method of Depreciation

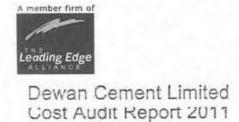
Depreciation on additions to fixed assets was charged from the month in which the asset was put into use, whereas on disposal of fixed assets; depreciation was charged up to the month prior to disposal. Depreciation on all other tangible fixed assets except Plant and Machinery was charged to profit and loss account using the reducing balance method, while depreciation on plant and machinery was charged on unit of production method.





# 11. OVERHEADS

a) Details of overheads were as follows:		
a)(i) Factory Overheads		
ACCOUNT HEAD	RUPEES	
	2011	2010
Total of factory overheads	4,499,686	3,094,203
Stores and spares	208,308	253,841
Fuel & power	3,569,607	2,189,113
Salaries and wages	169,706	184,902
Repair and maintenance	84,450	87,152
Depreciation	364,147	283,247
Insurance	14,677	18,572
Laboratory	1,132	1,005
Travelling & conveyance	13,462	11,557
Transportation expense	11,483	10,055
Vehicle running expense	3,514	3,582
Consultancy fees	5,482	7,716
Printing & stationery	1,253	814
Communication	741	566
Local taxes	2,568	179
Handling charges	15,019	10,381
Others	34,137	31,521
a)(ii) Distribution Cost		
ACCOUNTLIEAD	RUPEES	IN '000
ACCOUNT HEAD	2011	2010
Total of distribution cost	81,652	120,332
Salaries, wages & benefits	7,302	9,975
Rent, rates & taxes	5,690	6,858
Export expense	64,572	99,418
Postage	1,034	925
Advertisement	215	201
Insurance	961	887
Repairs & maintenance	805	517
Depreciation	139	443
Travelling and conveyance	22	14
Communication	130	84
Others	782	1,010





ACCOUNTLIEAD	RUPEES	IN '000
ACCOUNT HEAD	2011	2010
Total of administrative expenses	202,737	180,579
Salaries, wages & benefits	60,391	58,859
Legal & professional fee	42,911	25,857
Repair & maintenance	42,942	37,576
Insurance	3,515	2,730
Depreciation	4,394	5,311
Rent, rates & taxes	7,984	9,747
Fees and subscription	2,784	615
Vehicle running expenses	12,898	12,026
Communication	5,219	5,714
Utilities	3,496	3,602
Newspapers & periodicals	174	143
Travelling, conveyance	2,505	4,178
Printing & stationery	2,862	2,189
Entertainment	779	507
Security service charges	4,526	3,344
Other expenses	5,357	8,181
a)(iv) Financial Charges		
ACCOUNTLIEAD	RUPEES	IN '000
ACCOUNT HEAD	2011	2010
Finance Cost	10,044	11,153

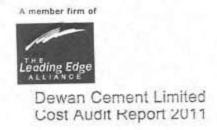
b) Reasons for significant variances In overheads:

b)(i) Factory Overheads

Factory Overheads were increased as stated above due to the major increase in fuel and power prices and local taxes.

b)(ii) Distribution Cost

Selling expenses were decreased due to major decrease in export expenses.



### b)(iii) Administrative Expenses

As a whole major expense increased in salaries and wages, legal and professional charges, repair and maintenance, insurance, fees and subscription and security and service charges.

### b)(iv) Finance Cost

Decrease in the amount of finance cost during the year was due to Company has not made the provision of markup for the year amounting to Rs. 1,122.836 million (for the year ended June 30, 2010: Rs.1,466.137 million) Management is hopeful that the restructuring proposal will be accepted by the lenders. Had the provision been made the loss for the year would have been higher by Rs. 1,122.836 millions and accrued markup would have been higher and shareholders' equity would have been lower by Rs. 2,588.973 million. The said non provisioning is a departure from the requirements of IAS-23 'Borrowing Costs'

Basis of allocation of overheads to cost centres and absorption to products.

# Basis of Allocation to all cost centres

	Overheads	Basis
1.	Indirect Material	Material issue notes raised by the concerned cost centre.
2.	Power & Electricity	KW/H used.
3.	Depreciation	Value of plant and machinery in the cost centre concerned.
4.	Insurance	Value of assets used in the cost centre concerned.
5.	Repairs and Maintenance	Actual repairing work done to the concerned cost centre.
6.	Fuel, Oil & Lubricants	Material issue notes.
7.	Royalties and Duties	On the basis of transported material.
8.	Loading Expenses	Directly to the packing plant.
	Overheads	Basis
1.1	Factory General	Apportionment on the basis of plant and machinery.
1,000	Laboratory Allocation he year.	Number of samples taken during



RAFAQAT MANSHA
MOHSIN DOSSANI
MASOOM & CO.
Chartered Accountants

Dewan Cement Limited Cost Audit Report 2011

	Overheads	Basis
3.	Grid station	Actual KW/H used in production centre during the period.
4.	Water supply	Distribution of water consumed at plant.
5.	Mechanical workshop	Direct labour hours worked for each department.
6.	Electrical Instrument workshop	Direct labour hours worked for each department.
7.	Mechanical Control	Direct labour hours worked for each department.

### 12. ROYALTY PAYMENTS

ACCOUNTLIEAD	RUPEES IN '000	
ACCOUNT HEAD	2011	2010
Royalty fee paid in (South and North Unit)	24,452	12,319

### ABNORMAL NON-RECURRING FEATURES

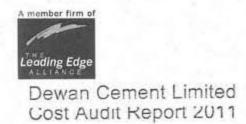
- a) As per information and explanations provided to us; we are of the opinion that there was no abnormal feature like strikes, lockouts, major breakdowns in the plant, substantial power cuts, serious accidents, etc., that have any material bearing on production during the year. However frequent short stoppages were made for urgent repairs of the different parts of the plant.
- b) We have noted no special expenses that have been directly allocated to the product.

# 14. COST OF PRODUCTION

DESCRIPTION	STATUS	2011	2010			
South Unit						
Clinker for the year	Avg. per Bag	170.39	169.64			
	SRC	174.17	166.86			
	OPC	170.07	164.05			
	SLAG	169.43	163.65			



DESCRIPTION	STATUS	2011	2010		
Cement (unpacked)	Avg.per bag	189.66	178.32		
Sement (unpacked)	SRC	193.70	181.67		
	OPC	189.81	178.75		
	SLAG	158.48	149.66		
Cement (packed)	Avg.Per Bag	210.58	246.53		
	SRC	214.62 210.73	199.41 196.48		
	OPC				
	SLAG	179.39	167.39		
North Unit (Line-I & II)			170.00		
Clinker for the year	OPC	179.49	178.68		
Cement (unpacked) / 50 KG	OPC	196.54	196.54		
Cement (packed)	OPC	213.31	216.55		
15. SALES					
QUANTITY SOLD		2011	2010		
		Qty. in Tons			
Cement		1111111111111111			
South Unit & North Unit (Line-I & II)		1,213,421	937,418		
Clinker			10.110		
South Unit		2,000	19,413		
		1,215,421	956,831		
SALES AMOUNT (NET)		2011	2010		
		Rupees in '000			
Cement					
South Unit & North Unit (Line-I & II)		5,094,036	3,464,915		
Clinker					
South Unit & North Unit (Line-I & II)		65,749			
Less: Inter Unit Transfers		(5,200)	(35,880)		
Total Cement and Clinker	5,088,836	3,494,784			
Total Sales Per Unit					
Sales per ton	Rs.	4,187	3,652		
Sales per bag	Rs.	209	183		



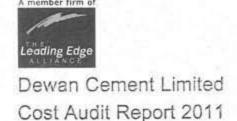


# 16. PROFITABILITY

A summary of cost is as follows:

	7 7 V	2011	2010
TOTAL COST		Rupees in '000  3,068,894 2,777,39 2,074,784 995,49  6,808 63,6  - (5,200) (35,8)  5,145,286 3,800,6	
Cost of Cement Sold			H. C. L.
South Unit (Line-I & II)		3,068,894	2,777,394
North Unit (Line-I & II)	2,074,784	995,452	
Cost of Clinker Sold			
South Unit (Line-I & II)		6,808	63,696
North Unit (Line-I & II)		-	-
Less: Sales between Units	(5,200)	(35,880)	
Total Cost of Goods Sold	5,145,286	3,800,662	
Distribution Cost	414-1	81,652	120,332
Administrative Expenses		202,737	180,579
Other Operating Charges		4,085	4,589
Less: Other Operating Income		(17,217)	(3,046)
Finance Cost		10,044	11,153
Total Cost		5,426,587	4,114,269
Total Cost Per Unit			
Cost per ton- Rupees	4.14	4,464.78	4,299.89
Cost per Bag- Rupees		223.24	214.99
LOSS/PROFIT		2011	2010
Total (Loss) / Profit per Ton of Goods Sold	Rs. / Ton	(277.89)	(647.43)
Total (Loss) / Profit per Bag of Goods Sold	Rs. / Bag	(13.89)	(32.37)
		2011	2010
(Loss) / Profit per Ton	Rs: / Ton	(277.89)	(647.43)
Cement & Clinker Sold	Tons	1,215,421	956,831
Total (Loss) / Profit	Rs. '000	(337,750)	(619,485)

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### Comments

During the year, Company had mostly used coal instead of fuel and gasses to reduce the cost of production. Despite, all these efforts Company's other factors of cost increased considerably. These increases in cost did not bring the desired increase in the revenue, thereby resulting in a loss.

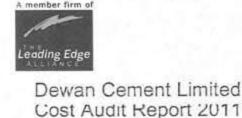
### Analysis

All the major factors of cost have increased substantially, especially in fuel & power and salaries & wages.

# OBSERVATIONS AND CONCLUSIONS

To the best of our knowledge and belief, there were no:

- Matters that appear to be clearly wrong in principle or apparently unjustifiable.
- b) Cases where the Company's funds have been used in a negligent or inefficient manner.
- c) Factors that would had been controlled, but have not been controlled that resulting in increase in the cost of production.
- d) Comments on areas offering scope for improvement:
  - The Company must focus on cost reduction, especially in the case of fuel and power and other manufacturing expenses.
  - II. Increase in productivity, which can be possibly having full utilization of the total capacity as a result of which overall cost of production can be reduced.
  - III. There have been no key limiting factors causing production bottlenecks except high cost of production. Because the Company's cost of production per metric ton is much higher in comparison with the rest of cement industries.
  - IV. We strongly recommend to have certain arrangements for modernization of plant, for better and cost effective production that would generate considerable revenue for the Company.





## 18. GENERAL

- In order to compete in the market, the Company has to utilize its resources more effectively and efficiently.
- Due to high inflationary pressure to the economy of Pakistan even globally, local future sales may not increase. However, due to the floods, there may be reconstruction which will increase cement demand in Pakistan. Export demand of Pakistani cement will be higher; therefore, Company should focus more on exports especially to Iraq and Afghanistan and now opportunities may also open up in Libya. The cement players in the country are trying to find new markets in the world. Management is striving it's best to control the cost, and increase the sales at a considerable level.

Rafagat Mansha Mohsin Dossani Masoom & Co.

Chartered Accountants

Karachi.

**Dewan Cement Limited** Reconciliation Statement Between Financial Accounts & Cost Sheets For the year ended June 30 2011

	As Per Accounts			Summary As Per Cost Sheet			Difference					
	South Unit	North Unit	Total	South Unit	North Unit	Total	South Unit	North Unit	Tota!			
COST OF SALES												
Cost of Raw and packing material	s consumed											
Opening stock	21,637	5,124	26,761	21,637	5,124	26,761						
Purchases / expenses	431,632	243,415	675,047	431,632	248,615	680,247		(5,200)	(5,200)			
	453,269	248,539	701,808	453,269	253,739	707,008		(5,200)	(5,200)			
Closing stock	(40,409)	(6.767)	(47, 176)	(40,409)	(6,767)	(47.176)						
	412,860	241,772	654,632	412,860	246,972	659,832		(5,200)	(5,200)			
Manufacturing overheads	2,673,849	1,825,837	4,499,686	2,673,849	1,825,837	4,499,686		***************************************				
Total Manufacturing Cost	3,086,709	2,067,609	5,154,318	3,086,709	2,072,809	5,159,518		(5,200)	(5,200)			
Work-in-process - opening	23,652	36,946	60,598	23,652	36,946	60,598	+		+			
- closing	(22,291)	(32,150)	(54,441)	(22,291)	(32,150)	(54,441)						
	1,361	4,796	6,157	1,361	4,796	6,157						
Cost of goods manufactured	3,088,070	2,072,405	5,160,475	3,088,070	2,077,605	5,165,675		(5,200)	(5,200)			
Finished goods - opening	17,897	14,768	32,665	17,897	14,768	32,665	-		+			
- closing	(30,265)	(17,589)	(47,854)	(30,265)	(17,589)	(47,854)						
AN ORGANIZATION	(12,368)	(2,821)	(15,189)	(12,368)	(2,821)	(15,189)		- 0				
Total Cost of Sales	3,075,702	2,069,584	5,145,286	3,075,702	2,074,784	5,150,486		(5,200)	(5,200)			

Reason for Difference
Represents the elimination of value of clinker transferred from South Unit to North Unit.

Chief Accountant

Chief Executive