

Frontier Ceramics Limited

Annual Report 2001

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BOARD OF DIRECTORS

Mr. S.U. Durrani	Chairman
Mr. Shahid Mehboob (B.E.L)	
Mr. Asadullah Khawaja (I.C.P.)	
Mr. Humayun Raza (NDFC)	
Mr. Shamsul Hassan	Chief Executive & Company Secretary
Mr. Azhar Amin	
Mr. M. Fayyaz Khan	

BANKERS

National Bank of Pakistan

United Bank Limited

The Bank of Khyber

Banker's Equity Limited

Pakistan Industrial Credit 8, Investment Corporation Limited

National Development Finance Corporation

AUDITORS

Messrs Rahim Jan & Co. Chartered Accountants.

LEGAL ADVISOR

Mian Noor ul Ghani Advocate

REGISTRAR AND SHARE TRANSFER OFFICE

Saeed Methani Mushtaq & Co., Chartered Accountants, Suite # 23C, Block B, 2nd Floor,

Cantonment Plaza, Fakh-e-Alam Road, Peshawar Cantt.

HEAD OFFICE / REGISTERED OFFICE

Industrial Estate, Jamrud Road, Peshawar, N.W.F.P.

Tel: 92-91-812360, 812746 Fax: 92-91-812757

ZONAL OFFICES

PESHAWAR Industrial Estate, Jamrud Road, Peshawar
Tel: 92-91-812360, 812746

RAWALPINDI 82-A, Satellite Town, Rawalpindi.
Tel: 92-51-4410998 Fax: 92-51-4425523

KARACHI 1st Floor, Kashif Centre,
Shahra-e-Faisal, Karachi.
Tel: 92-21-5673006

LAHORE 186-A/I, Township Lahore
Tel & Fax: 042-5118081

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Nineteenth Annual General Meeting of FRONTIER CERAMICS LIMITED will be held at 29-Industrial Estate, Jamrud Road, Peshawar on Thursday, December 27, 2001 at 9:00 a.m. to transact the following business:

1. To confirm the minutes of the Eighteenth Annual General Meeting of the Company held on December 23, 2000.
2. To receive, consider and approve the Audited Accounts together with the Directors' & Auditors' Reports for the year ended June 30, 2001.
3. To approve payment of cash dividend for the year ended June 30,2001 as recommended.
4. To appoint Auditors for the year ending June 30, 2002 and fix their remuneration. The present Auditors, M/s Rahim Jan & Co. Chartered Accountants, being eligible have offered themselves for reappointment.
5. To elect Directors of the Company, including the Chief Executive, for a period of three years, commencing from 16th January 2002, under Section 178 of the Companies Ordinance 1984.

5.1 Pursuant to section 178 2(b) and 3 of the Companies Ordinance 1984, names of the retiring Directors are as under and they have offered themselves for re-election:

- | | |
|----------------------------|------------------------|
| i) Mr. S.U Durrani | v) Mr. Humayun Raza |
| ii) Mr. Shamsul Hassan | vi) Mr. M. Fayyaz Khan |
| iii) Mr. Asadullah Khawaja | vii) Mr. Azhar Amin |
| iv) Mr. Shahid Mehboob | |

To transact any other business with the permission of the chair.

BY ORDER OF THE BOARD

Peshawar.
December 5, 2001

(Company Secretary)

NOTES:

1. The register of Member of the company will be closed from December 20, 2001 to December 27, 2001 (both days inclusive).
2. A member entitled to attend and vote at the General Meeting is entitled to appoint a proxy to attend and vote on his/her behalf. Proxy Forms must be deposited at the Company's Registered Office, at least than 48 hours before the meeting.
3. Members are requested to notify the company or the Registrar of the Company M/s. Saeed Methani Mushtaq & CO., Chartered Accountant, Suite No. 23-c, 2nd Floor, New Canto Plaza, Saddar Road, Peshawar for any change in their address.

DIRECTORS' REPORT

The Directors are pleased to present the Nineteenth Annual Report together with the audited accounts of the company for the year ended June 30, 2001.

TURN AROUND

We are grateful to Almighty ALLAH that after sustaining losses for four years and in spite of serious operational difficulties, your company has been able to achieve a turnaround during the year under review. Operating profit increased to Rs.32.316 million from Rs. 30.05 million earned during the preceding year. Net profit for the year, including prior year adjustment amounted to Rs. 10.218 million against loss of Rs. (22.680) million incurred during 1999-2000. The profit was earned on sales of Rs. 150.1 million which were 8.25% lower than the previous year sales of Rs. 163.6 million.

The above profits have been earned after paying Rs.31 million to the Federal Government as customs duty and sales tax. Your company has by now contributed over Rs. 477 million to the national exchequer as excise duty and sales tax, from the start of commercial production to date.

The above results speak for the efforts made by management in cutting down cost of production and improving the operating results of the company. I am also pleased to inform you that the company has recently obtained ISO-9001:2000 certification, the first company to achieve this in the ceramics sector in Pakistan.

The management has made continuous efforts to optimize tile production and as a result the production capacity of the kiln has been increased from 1308 Sqm. per day last year to 1482 Sqm. per day during the year under review, against the rated capacity of 1388 Sqm. per day. This has had a positive impact on cost of production, and the ratio of cost of goods sold to sales has come down from 63.50% to 61.25%.

Selling and administrative expenses have been reduced from Rs.29.725 million during last year to Rs. 25.861 million during the year under review. Financial charges have been reduced from Rs. 27.327 million in year 2000 To Rs. 14.933 million for the year under review.

APPROPRIATIONS

(Rs. in million)
2001

Sales	150.137

Gross Profit	58.178

Less: Admin, Selling & Distribution Expenses	25.862

Operating Profit/(Loss)	32.317
Add: Other Income	1.461

	33.777
Less: Financial Expenses & Depreciation	28.558
Workers Profit Participation Fund	0.223
Provision for Taxation	0.751

Profit/(Loss) for the year	4.245
Prior Year Adjustment	5.973

	10.218
<u>Proposed Dividend @ 5%</u>	3.871
	6.347
Accumulated Loss Brought Forward	(66.540)

Profit/(Loss) carried to Balance Sheet	(60.192)
	=====

DIVIDEND

Your Directors recommend the payment of a cash dividend @5% out of the current year's profit.

FUTURE OUTLOOK

With continuous innovation the company is able to increase both the production of tiles and the variety of tile sizes. Work has also commenced on making value added decorative tiles, which will soon be introduced in the market. The company plans to install a roller kiln which will increase production capacity by 1000 Sqm/day.

On the Sanitary Ware side the company will introduce at least two new designs and accessories.

ACKNOWLEDGEMENT

The Board acknowledges the dedication and hard work of the Company's staff during the year.

PATTERN OF SHAREHOLDING

The pattern of shareholding is given on page No. 28.

AUDITORS

The present Auditors, M/s Rahim Jan & Co. Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

On behalf of the Board of Directors

S.U. DURRANI
Chairman

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of FRONTIER CERAMICS LIMITED as at June 30, 2001 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 accounts have been kept by the company as required by the Companies Ordinance, 1984.

(b) in our opinion-

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied.

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

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the object 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 30th June 2001 and of the profit, its cash flow and changes in equity for the year then ended; and

(d) No Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Date: 26, October 2001

RAHIM JAN & CO.
Chartered Accountants.

BALANCE SHEET AS AT JUNE 30, 2001

	<i>NOTES</i>	<i>2001</i> <i>(Rs.)</i>	<i>2000</i> <i>(Rs.)</i>
TANGIBLE FIXED ASSETS			
Fixed Assets - at cost less Depreciation	12	321,533,246	335,459,859
		-----	-----
		321,533,246	335,459,859

Long term deposits	13	298,250	105,750
		-----	-----
		321,831,496	335,565,609
Long term Loans (PICIC/NDFC)	7	69,203,047	80,382,764
Long term Loans BEL consortium	6	39,569,745	47,470,713
Deferred Liabilities	5	36,068,480	42,041,258
		-----	-----
		144,841,272	169,894,735
CURRENT ASSETS			
Stores, spares and loose tools - at cost	14	29,858,315	27,208,863
Stock in trade - at cost	15	170,948,428	155,881,632
Trade debts	16	71,625,864	67,561,765
Advances, Deposits, Pre-payments and other Receivables	17	15,151,766	21,770,740
Cash and bank balances	18	9,121,415	11,852,645
		-----	-----
		296,705,788	284,275,645
CURRENT LIABILITIES			
Finance under Markup Arrangements	8	89,434,406	90,402,942
Current portion of long term loan liabilities	9	20,530,610	20,814,000
Creditors, accrual and other liabilities	10	587,144,001	43,931,365
Dividends		38,706,001	--
		-----	-----
		172,550,016	155,148,307
NET CURRENT ASSETS		-----	-----
		124,155,772	129,127,338
		-----	-----
		301,145,996	294,798,212
		=====	=====
REPRESENTED BY			
Issued, Subscribed & Paidup Capital	3	77,412,000	77,412,000
Unappropriated Profit/(Loss)		(60,191,780)	(66,539,564)
		-----	-----
SHAREHOLDERS' EQUITY		17,220,220	10,872,436
Surplus on Revaluation of Fixed Assets	4	283,925,776	283,925,776
		-----	-----
Contingencies and Commitments	11	301,145,996	294,798,212
		=====	=====

The annexed notes form an integral part of these accounts.

SHAMSUL HASSAN
Chief Executive

MUHAMMAD FAYYAZ
Director

**PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2001**

NOTES

2001
(Rs.)

2000
(Rs.)

Sales - Net	19	150,137,255	163,600,945
Cost of Sales	20	91,959,069	103,816,370
		-----	-----
Gross Profit		58,178,186	59,784,575
		-----	-----
OPERATING EXPENSES			
Administrative Expenses	21	14,120,326	17,450,344
Selling and Distribution Expenses	22	11,741,347	12,275,055
		-----	-----
		25,861,673	29,725,399
		-----	-----
Operating Profit / (Loss)		32,316,513	30,059,176
		-----	-----
Gain/(Loss) on disposal of fixed assets		1,428,103	6,395,887
Profit on PLS Saving Account		32,921	400,489
Other Income		--	18,138
		-----	-----
		1,461,024	6,814,514
		-----	-----
		33,777,537	36,873,690
Financial Charges	24	14,933,935	27,327,713
Depreciation	12	13,623,966	29,454,385
Worker Profit Participation Fund		223,449	--
		-----	-----
		28,781,350	56,782,098
Profit before Taxation		4,996,187	(19,908,408)
Taxation: Current - Turnover Tax	25	750,686	1,025,264
Prior year adjustment		5,972,883	(1,746,592)
Profit after Taxation		10,218,384	(22,680,264)
		-----	-----
Appropriations:			
Proposed Dividend @ 5%		(3,870,600)	--
		-----	-----
		6,347,784	(22,680,264)
Accumulated loss brought forward		(66,539,564)	(43,859,300)
Accumulated loss carried over to Balance Sheet		(60,191,780)	(66,539,564)
		=====	=====
Earning per Share	27	1.32	(2.92)
		=====	=====

The Annexed Notes form an integral part of these accounts.

SHAMSUL HASSAN
Chief Executive

MUHAMMAD FAYYAZ
Director

**STATEMENT OF CHANGES IN FINANCIAL POSITION
(CASH FLOW STATEMENT) FOR THE YEAR ENDED JUNE 30, 2001**

2001

2000

	(Rs.)	(Rs.)
Cash collected from customers	146,073,156	168,814,011
Cash paid to suppliers	(90,438,817)	(103,816,370)
Administrative Expenses paid	(13,644,508)	(16,808,785)
Selling & Distribution expenses paid	(11,741,347)	(12,275,055)
Bank Charges paid	(444,321)	(640,523)
Other Income received	1,461,024	6,814,514
Decrease / (Increase) in pre-payments and other receivables	6,618,977	6,848,438
Increase/Decrease in accruals and other liabilities	12,717,368	(2,526,523)
(Decrease) / Increase in loan (net)	(3,066,539)	5,689,608
(Decrease) / Increase in finance under mark-up arrangements	(968,536)	215,775
Decrease / (Increase) in inventory	(17,716,248)	4,479,198
	-----	-----
Cash generated from operation	28,850,209	56,794,288
CASH (OUTFLOWS) INFLOWS FROM INVESTING ACTIVITIES		
Addition in fixed assets	(2,005,073)	(117,400)
Change due to sale of fixed assets	1,831,897	1,469,301
Long Term Deposits	(192,500)	646,950
	-----	-----
	(365,676)	1,998,851
CASH (OUTFLOWS) INFLOWS FROM FINANCE ACTIVITIES		
Deferred Mark-up	--	(7,187,364)
Long Term Loan PICIC	(11,535,720)	(11,535,720)
NDFC	--	(4,272,000)
BEL & Consortium	(8,184,358)	(10,547,340)
Interest Expenses	(11,495,685)	(27,761,412)
	-----	-----
	(31,215,763)	(61,303,836)
Net - Increase/(Decrease) in Cash & Cash equivalent	(2,731,230)	(2,510,697)
Cash and Cash equivalent as at July 1st	11,852,645	14,363,342
	-----	-----
Cash and Cash equivalent as June 30th	9,121,415	11,852,645
	=====	=====

SHAMSUL HASSAN
Chief Executive

MUHAMMAD FAYYAZ
Director

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2001**

<i>Issued</i>	<i>Revaluation</i>	<i>Accumulated</i>	<i>Total</i>
<i>Subscribed and</i>	<i>Reserve</i>	<i>Profit / (Loss)</i>	
<i>Paid-up Capital</i>			

Balance at 30th June 1999	77,412,000	283,925,776	(43,859,300)	317,478,476
Issue of Shares Capital	--	--	--	--
Profit/(Loss) after taxation	--	--	(22,680,264)	(22,680,264)
	-----	-----	-----	-----
Balance at 30th June 2000	77,412,000	283,925,776	(66,539,564)	294,798,212
Proposed Dividend	--	--	(3,870,600)	(3,870,600)
Profit/(Loss) after taxation	--	--	10,218,384	218,384
	-----	-----	-----	-----
Balance at 30th June 2001	77,412,000	283,925,776	(60,191,780)	301,145,996
	=====	=====	=====	=====

SHAMSUL HASSAN
Chief Executive

MUHAMMAD FAYYAZ
Director

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2001

1. THE COMPANY AND ITS OPERATIONS

Frontier Ceramics Limited was incorporated in Pakistan in July 1982 as a Public Limited Company, and was listed on the Karachi and Lahore Stock Exchange in March 1992.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.01 Basis of Preparation of Financial Statements

These financial statement have been prepared in accordance with International Accounting standard as applicable in Pakistan, and under the historical cost convention as modified by capitalisation of certain exchange difference in the cost of relevant assets without any adjustments for the effects of inflation, except plant and machinery which has been re-valued (Note No.4)

2.02 Staff Retirement Benefits

The Company operates a provident fund scheme for all its employees, contributions in respect thereof are made in accordance with the terms of the scheme.

2.03 Taxation

Charge for current taxation in the accounts is based on taxable income of the Company after taking into account rebate, if any allowable to the company. The company accounts for deferred taxation using liability method arising on all major timing differences.

2.04 Fixed Assets

Fixed assets are stated at cost less accumulated depreciation, except leasehold land and capital work in progress, which are stated at cost. Depreciation is charged on reducing balance method at the rates specified in Note No. 12. Full year depreciation is charged on fixed assets, purchased during the first half of the accounting year, but no depreciation is charged on fixed assets acquired during the second half of the accounting year. No depreciation is charged if the assets are disposed off/deleted in the first half of the accounting year but charged if disposal/deletion is made in the second half of the accounting year.

Normal repairs and maintenance are charged to expenses, as and when incurred, while major renewals and replacements are capitalised. Gains and losses on disposal of fixed assets are taken to Profit and Loss Account currently.

The Company's management decided to reduce the rate of depreciation of Plant & Machinery and Building on lease hold land. The depreciation were charged on the said assets previously @ 6.6% and 10% respectively.

Now the depreciation is charged on Plant & Machinery imported @ 4% and on Building @ 5% during the year under review. The basic motive of reduction in depreciation rates is to minimize the cost of production and improve the profitability of the company.

2.05 Stock in Trade, Stores, Spares and Loose Tools

These are stated as follows:

Stores, Spares and Loose Tools	At average cost
Raw & Packing Material	At average cost, except in transit, which are stated at actual cost.
Work in process	At cost
Finished Goods	At lower of cost or market value

2.06 Rate of Exchange

Foreign currency loans and other foreign currency transactions are recorded at the rate prevailing on the date of transaction. Repayment of foreign currency loans are made at the rate at which the same were disbursed because of exchange risk having been covered.

2.07 Revenue Recognition

Sales are recorded on dispatch of goods to customers.

	<i>NOTES</i>	<i>2001</i> <i>(Rs.)</i>	<i>2000</i> <i>(Rs.)</i>
SHARE CAPITAL			
AUTHORISED			
8,000,000 Ordinary Shares Rs. 10/- each	3	80,000,000	80,000,000
		=====	=====
Issued Subscribed and Paid-up Capital 7,741,200			
Ordinary shares of Rs. 10/- each issued for cash		77,412,000	77,412,000
		=====	=====
SURPLUS ON REVALUATION			
OF FIXED ASSETS	4	283,925,776	283,925,776
		=====	=====
Revaluation of plant & machinery has been carried out as on June 30, 1996 by an independent valuer, M/s Global Engineers (Pvt) Ltd. Faisalabad, and duly certified by R.H. & Co. Chartered Accountants, a firm approve by the State Bank of Pakistan for the purpose of revaluation of fixed assets. Revaluation has been carried out on the basis of depreciated replacement value (Refer to note No. 12).			
DEFERRED LIABILITIES			
	5		
a. Remission/Waiver of PICIC Mark-up			
loan restructured		39,181,468	45,995,640
Less: Remission / Waiver adjusted		14,366,677	6,814,172
		-----	-----
		24,814,791	39,181,468

b. Add: Deferred Mark-up	5,489,704	7,437,260
Add: Profit on sales proceed of Kashif Centre paid from 03-03-2000 to 30-06-2000	--	116,615
	5,489,704	7,553,875
Less: Payment	--	6,970,803
Deferred Mark-up o/s PICIC	5,489,704	583,072
c. Deferred Mark-up o/s BEL	5,763,985	2,493,279
Less: Payment to MCB	--	216,561
Deferred Mark-up o/s BEL Consortium	5,763,985	2,276,718
Total (b + c)	11,253,689	2,859,790
	36,068,480	42,041,258

The restructured loan liabilities entails remission/waiver which would be allowed and in proportion to the actual payment made by the company over the period.

Future mark-up of the restructured loan @ 10% p.a. on the principal amount on reducing balance over a period 84 months shall be payable on any of the first available options as noted below:

1. If the Company receive refund of Sales Tax of Rs. 150 million then the full amount shall be paid by the company.
2. In case the Sales Tax is not refunded to the company within the end of this year then the company shall sell/dispose their office at Kashif Centre, Karachi and full amount shall be paid by the company out of the sales proceed of the office by 30-06-2001.
3. In case either of the above two options not materialise then the amount shall be paid by the company from the month following immediately after payment of restructured loan.
4. BEL, HBL, UBL, MCB, ABL has approved loan restructuring while NBP has not yet issued approval letter. However, markup has been provided on the basis of other consortium members.
5. Restructuring of loan with NDFC is under negotiation.

BEL CONSORT LOANS	NOTE									(in rupees)	
	6	BEL	NBP	HBL	UBL	MCB	ABL	2001	2000		
Redeemable Capital Restructured/ Rescheduled into loan (Secured)		29,573,976	7,340,059	7,422,304	5,596,047	4,145,172	2,671,435	56,748,993	67,296,333		
Paid during the year		4,492,260	--	1,141,896	789,184	1,023,008	738,010	8,184,358	10,547,340		
		25,081,716	7,340,059	6,280,408	4,806,863	3,122,164	1,933,425	48,564,635	56,748,993		

Current Portion of Loan**Liabilities**

Overdues	--	--	--	--	--	--	--	715,104
Current Maturity	4,492,260	1,048,572	1,141,896	860,928	959,234	492,000	8,994,890	8,563,176
	-----	-----	-----	-----	-----	-----	-----	-----
	4,492,260	1,048,572	1,141,896	860,928	959,234	492,000	8,994,890	9,278,280
	-----	-----	-----	-----	-----	-----	-----	-----
	20,589,456	6,291,487	5,138,512	3,945,935	2,162,930	1,441,425	39,569,745	47,470,713
	=====	=====	=====	=====	=====	=====	=====	=====

All the BEL led consortium members approved restructuring proposal from 1st Jan - 2000 on the basis mentioned here under:

1. Outstanding principal amount and 20% of the outstanding mark-up be restructured and merged into single loan and will be payable in 84 equal monthly installments commencing from January 2000.

2. Future mark-up to be accrued @ 10% p.a. on the outstanding principal loan amount on a reducing balances over a period of 84 months shall be payable on any of the first available options as noted below:

From the refund of sales tax of Rs. 150 million or from the sales of Kashif Centre premises or on completion of the 84 monthly installments, the same installments to be continued to pay off the said interest.

3. The restructured / rescheduled loans are secured by first charge already created on the fixed assets of the company both moveable and immovable floating charge and hypothecation of all other assets i.e. book debt and other current assets present and future ranking pari passu with NDFC, PICIC.

4. BEL, HBL, UBL, MCB and ABL approved restructuring / rescheduling whereas NBP rescheduling has not yet been finalised. The amount of NBP as stated above determined on the basis of other consortium members.

	<i>NOTES</i>	<i>2001</i> <i>(Rs.)</i>	<i>2000</i> <i>(Rs.)</i>
LONG TERM LOANS (SECURED)	7		
Foreign Currency			
Pakistan Industrial Credit & Investment Corporation	7.01	66,330,350	77,866,070
Less: Paid during the year		11,535,720	11,535,720
		-----	-----
		54,794,630	66,330,350
National Development Finance Corporation	7.02	25,944,137	29,860,134
Less: Paid during the year		--	4,272,000
		-----	-----
		25,944,137	25,588,134
		-----	-----
		80,738,767	91,918,484
Less: Transfer to current maturity			
PICIC		11,535,720	11,535,720
NDFC		--	--

-----	-----
11,535,720	11,535,720
-----	-----
69,203,047	80,382,764
=====	=====

7.01 PICIC Loan

PICIC has extended a restructuring/rescheduling facility to the company through consent decree in the Sindh High Court on June 8, 1999 on the basis of following terms and conditions.

Part-I

Principal amount of Rs. 64.907 million together with foreign exchange risk fee and partial accrued interest thereon of Rs. 15.843 million totalling Rs. 80.750 million.

Part-II (Future Interest)

Interest Accrued on Principal @ 10% p.a. on the original principal loan amount of Rs. 64.907 million on reducing balance over a period of 84 months amounting to Rs. 22.988 million. The total restructured loan liability of Rs. 103.738 million entails remission/waiver of Rs. 68.435 million according to PICIC original claims of Rs. 172.173 million as on 31 - 12-1998. The remission/waiver will be allowed over the period and in proportion of the actual payment made by the company.

REPAYMENTS

Part-I

Rs. 80.750 million shall be repaid in 84 equal monthly installments of Rs. 961,310/- each commencing from 15-04-1999.

Part-II

Future interest shall be paid on the following alternatives:

- (a) If the company receive refund of Sales Tax of Rs. 150 million then the full amount of Rs. 22.988 million shall be paid/adjusted by the company to PICIC immediately henceforth.
- (b) In case the aforesaid sales tax of Rs. 150 million is not refunded to the company within the end of this year 30-06-2001 then the company shall sell/dispose their office at Kashif Centre Karachi at any price (which the company have assured to PICIC shall be in the region of Rs. 25 million) and the full amount of Rs. 22.988 million shall be paid by the company to PICIC out of the aforesaid sale proceeds of the office by 30-06-2001.
- (c) In case either of the above two options does not materialize then this amount of Rs. 22.988 million shall be paid by the company through their own sources in monthly installments of Rs. 961,310/- from the month following immediately after payment of Rs. 80.750 million.
- (d) The restructured/rescheduled loans are secured by a first charge already created on the fixed assets of the company both moveable and immovable floating charge and hypothecation of all other assets i.e. book debts and other current assets, present and future ranking pari pasu with NDFC & BEL Syndicate.

7.02 NDFC Loan

The rate of interest is 11% and foreign exchange risk is 3% per annum payable on the 15th day of March and 15th day of September each year. Total amount of foreign currency disbursed has since been fixed in Pak Rupee. The above loan is repayable in sixteen half yearly installments, commencing from 1st March

1993. Against this loan, the Company has regularly paid Rs. 0.5 million p.m. till March 1997, which NDFC has set-off against their markup dues and Rs. 4.272 million paid during the year commencing July 1, 1999 to June 30, 2000 on the basis of liabilities settled with PICIC. Inspire of this no positive response from NDFC has yet been received. The Company also made several attempts to settle the loan under the S.B.R loans scheme, circular No. 19 dt. 05-06-1997, under which the company claims remission in markup, etc. The company expected an amicable settlement. However, after the failure of the negotiations, it has filed a suit in Court of law. Markup on markup has been deferred by the company till the final decision of the courts. The loan are secured by first pari passu charge with NDFC & BEL Syndicate on the fixed assets of the company both moveable & immoveable floating charge and hypothecation of all other assets i.e. book debts and another current assets, present and future.

8. FINANCES UNDER MARK-UP ARRANGEMENTS - (SECURED)

From Banks	8.01	60,000,000	60,000,000
Cash Finance - Hypothecation	8.02	9,824,882	10,410,496
Cash Finance - Pledge	8.03	19,609,524	19,992,446
		-----	-----
Running Finance		89,434,406	90,402,942
		=====	=====

8.10 National Bank of Pakistan has sanctioned a credit facility of Rs. 60.000 million for cash finance. The above finance is secured by first charge against hypothecation of stock in trade, spares, book debts, current assets and risk sharing guarantee of BEL and NCB's. The validity of the facility has expired on 30-06-98, however, its further renewal is under process.

The rate of markup is Rs. 0.43836 (2000 Rs. 0.54) per 1000 per day on daily product basis payable half yearly. A rebate of paisa 2 per 1000 per day on product basis is available on prompt payment basis.

8.02 National Bank of Pakistan has guaranteed cash finance facility of Rs. 10 million against pledge of stock of finished goods. Rs. 20 million for import of L/C limit, Rs. 5.00 million for Inland L/C limit and Rs. 5.00 million for guarantee limit. The above finance is secured against 50% margin of finished goods. The rate of markup is 0.43836 paisa per Rs. 1000 per day on daily product basis payable half yearly.

A rebate of 2 paisa per Rs. 1000 per day on daily products basis is admissible if markup is paid on due date. The validity of this facility has been renewed upto June 30, 2001.

8.03 The Bank of Khyber has sanctioned credit facility of Rs. 20 million for cash finance, and Rs. one million for guarantee limit.

The above finance is secured by hypothecation of stocks, stores and spares of the company. The rate of markup is Rs. 0.46 (2000 Rs. 0.52) per 1000 per day on daily product basis, payable quarterly. A rebate in markup @ 2% will be allowed on timely repayment.

The validity of the facility has been renewed for a full period of one year ending 30-04-2002.

9. CURRENT PORTION OF LONG TERM LIABILITIES

Redeemable Capital (Note No. 6)		8,994,890	9,278,280
Long Term Loans (Note No. 7)		11,535,720	11,535,720
		-----	-----
		20,530,610	20,814,000

10. CREDITORS, ACCRUALS AND OTHER LIABILITIES

Creditors	3,109,249	2,790,353
Accrued Liabilities	1,961,032	370,375
Other Liabilities	14,647,695	3,770,182
Interest Accrued on Secured Loans	37,538,236	34,544,307
Workers Profit Participation Fund	707,502	852,659
Taxation	750,686	1,603,489
Dividend	3,870,600	--
	-----	-----
	62,585,000	43,931,365
	=====	=====

11. CONTINGENCIES AND COMMITMENTS

Bank Guarantee to Sui Northern Gas security against bill	4,097,000	4,097,000
Letters of Credit for Import of Raw Material and Spare Parts	4,144,000	4,989,000
	=====	=====

SALES TAX

Since March 1995 till November 1995 company stopped payment of Sales Tax after finding and decision of Honourable Wafaqi Mohtasib in favour of the company against our Sales Tax appeal as explained in Note No. 27. The department imposed complete embargo on the clearance of goods from the factory till payment of Rs. 14,772,024/- in respect of principal amount of Sales Tax and Additional Sales Tax. The company paid Rs. 7,502,925/- the principal amount of Sales Tax and appealed under Sales Tax Act 1990 for the waiver of Additional Sales Tax amounting to Rs. 7,269,099/-. The appeal is lying pending before the Tribunal Islamabad Bench.

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FIXED CAPITAL EXPENDITURE AS ON 30-06-2000

Note No. 12

<i>PARTICULARS</i>	<i>Cost or Revaluation as at 1-7-00</i>	<i>Addition Deletion Adjustments</i>	<i>Cost or Revaluation as at 30-6-01</i>	<i>Accumulated Depreciation as at 30-6-01</i>	<i>Net Book Value at 30-6-01</i>	<i>Depreciation for the Year</i>	<i>Rate of Depreciation %</i>
Leasehold Land	3,518,245	--	3,518,245	--	3,518,245	--	--
Buildings							
Factory on Leasehold Land	62,641,108	12,212	62,653,320	(44,701,872)	17,951,448	944,170	5
Office on Freehold Land	4,648,885	(2,000,000)	2,648,885	(1,425,437)	1,675,883	64,392	5
				452,435			
Plant & Machinery Imported	399,160,725	--	399,160,725	(117,129,725)	282,031,000	11,751,293	4
Plant & Machinery Local	5,907,532	--	5,907,532	(1,600,941)	4,306,591	478,510	10
Electrification	12,055,064	--	12,055,064	(5,718,787)	6,336,277	333,488	5
Casting Benches	1,796,000	--	1,796,000	(1,339,480)	456,520	50,724	10
Furniture & Fixture	2,285,372	93,585	2,378,957	(1,515,592)	863,365	85,531	10
Vehicles	5,803,225	1,470,000	5,665,225	(5,258,857)	1,730,031	136,092	20
		(1,608,000)		1,323,663			

Airconditioners & Coolers	1,029,437	100,600	1,130,037	(611,379)	518,658	46,450	10
Office Equipments	2,687,570	253,150	2,940,720	(1,493,824)	1,446,896	135,194	10
Generators	430,000	30,000	460,000	(270,070)	189,930	17,770	10
Laboratory Ware	30,130	--	30,130	(26,330)	3,800	950	20
Other Assets	1,051,778	45,526	1,097,304	(592,702)	504,602	55,220	10
	-----	-----	-----	-----	-----	-----	
Rupees	503,045,071	2,005,073 (3,608,000)	501,442,144	(181,684,996) 1,776,098	321,533,246	14,099,784	
	=====	=====	=====	=====	=====	=====	
Total 2000 Rupees	506,414,474	130,400 (3,499,803)	503,045,071	(169,610,714) 2,025,502	335,459,859	(30,095,944)	
	=====	=====	=====	=====	=====	=====	

NOTES**2001
(Rs.)****2000
(Rs.)****13. LONG TERM DEPOSITS**

Security Deposits	298,250	105,750
	=====	=====

14. STORES, SPARES AND LOOSE**TOOLS - AT COST**

Stores	10,996,135	9,467,768
Spares	18,862,180	17,741,095
	-----	-----
	29,858,315	27,208,863
	=====	=====

15. STOCK IN TRADE - AT COST

Local Raw Material	9,298,554	6,334,898
Imported Raw Material	23,059,455	22,431,388
Packing Material	4,918,812	4,876,074
Fitting and Accessories	6,733,434	6,129,158
Work in Process	38,303,205	37,440,248
Finished Goods	88,634,968	78,669,866
	-----	-----
	170,948,428	155,881,632
	=====	=====

16. TRADE DEBTORS

Considered Goods	71,625,864	67,561,765
Considered Doubtful	6,739,876	6,739,875
	-----	-----
	78,365,740	74,301,640
Less: Provision for Doubtful Debts	6,739,876	6,739,875
	-----	-----
	71,625,864	67,561,765
	=====	=====

17. ADVANCES, DEPOSITS, PREPAYMENTS

AND OTHER RECEIVABLES

Supplies	2,377,581	2,448,961
Contractors & Consultants	354,750	328,750
Due from Employees: for Expenses	423,031	393,977
Advance against Salaries	777,786	488,791
Sales Tax paid in Advance	5,125,694	6,122,095
Excise Duty paid in Advance	75,114	75,114
Duty & Taxes Refundable	627,869	627,869
Deposits & Advances	2,610,121	312,833
L/G Margin Deposits	1,018,250	1,018,250
Prepayments	--	2,581,571
Tax Deduction u/s 50	1,725,170	7,372,529
Staff Income Tax	36,400	--
	-----	-----
	15,151,766	21,770,740
	=====	=====

18. CASH AND BANK BALANCES

Cash in Hand	464,618	388,000
Cash in Transit	7,262,520	8,240,948
Cash at Bank in Current Account	1,394,277	3,223,697
	-----	-----
	9,121,415	11,852,645
	=====	=====

19. SALES

	150,137,255	163,600,945
	=====	=====

20. COST OF SALES

Raw Material Consumed	20.01	45,237,497	53,018,141
Mould dyes & Consumable store		366,500	361,579
Gas & Electricity		29,292,368	24,220,034
Oil & Lubricants Consumed		381,229	967,046
Wages, salaries & Other Benefits		13,354,096	12,437,789
Insurance		1,583,894	1,929,924
Repairs and Maintenance		6,920,062	5,528,920
Research & Development		31,239	31,650
Other Production Expenses		681,207	657,372
Packing Charges	20.02	4,509,327	3,711,547
		-----	-----
		102,357,419	2,864,002
Beginning Stock W.I.P. July 1st		37,440,248	28,085,498
		-----	-----
		139,797,667	30,949,500
Less: Closing Stock W.I.P. July 30th		38,303,205	37,440,248
		-----	-----
		101,494,462	93,509,252
Add: Stock of Finished Goods July 1st		78,669,866	87,055,002
Consumption of fittings and accessories		429,709	1,921,982
		-----	-----
		180,594,037	82,486,236
Less: Stock of Finished Goods June 30th		88,634,968	78,669,866
		-----	-----

	91,959,069	3,816,370
	=====	=====
20.01 RAW MATERIAL CONSUMED		
Opening		
Local	6,334,898	5,113,952
Imported	22,431,388	23,583,532
	-----	-----
	28,766,286	28,697,484
Purchases		
Local	14,955,833	6,525,343
Imported	33,873,388	46,561,600
	-----	-----
	48,829,221	53,086,943
	-----	-----
	77,595,507	81,784,427
Closing Stock		
Local	9,298,555	6,334,898
Imported	23,059,455	22,431,388
	-----	-----
	32,358,010	28,766,286
Raw Material Consumed		
Local	11,992,176	5,304,397
Imported	33,245,321	47,713,744
	-----	-----
	45,237,497	53,018,141
	-----	-----
20.02 Packing Material		
Opening	4,876,074	5,107,204
Purchases	4,552,065	3,480,417
	-----	-----
	9,428,139	8,587,621
Closing Stock	4,918,812	4,876,074
	-----	-----
	4,509,327	3,711,547
	=====	=====
21. ADMINISTRATION EXPENSES		
Salaries, Allowance & Benefits	6,171,483	5,656,524
Rent, Rates and Taxes	232,921	511,266
Printing and Stationery	324,097	311,863
Postage, Telegrams, Telephones & Telex	1,647,593	2,001,563
Fee and Subscriptions	151,315	115,878
Travelling and Conveyance	532,890	581,018
Legal and Professional Charges	1,524,812	3,209,546
Electricity, Gas and Water Charges	536,075	710,413
Lease Rentals	2,204	41,925
Repairs & Maintenance	195,638	291,170
Motor Vehicle Expenses	1,678,880	1,728,135
General Expenses	567,600	581,511
Audit Fee	45,000	45,000

Provision for Doubtful Debts	--	1,000,000
Charity & Donation (21.1)	34,000	22,973
Depreciation	475,818	641,559
	-----	-----
	14,120,326	17,450,344
	=====	=====

(21.1) Directors and their spouses have no interest in organisations who received donations.

22. SELLING & DISTRIBUTION EXPENSES

Salaries, Allowances & Benefits	4,467,753	4,038,541
Advertisements and Promotion	281,280	282,391
Travelling and Conveyance	472,194	452,999
Postage, Telephones, Telegrams & Telex	630,295	651,731
Motor Vehicle Expenses	1,860,692	2,055,089
Entertainment	389,511	220,536
Printing & Stationary	106,258	70,053
Rent, Rates & Taxes	859,956	1,221,188
Freight Cartage, etc.	2,311,613	2,912,491
Other Expenses	361,795	370,036
	-----	-----
	11,741,347	12,275,055
	=====	=====

23. DISPOSAL OF FIXED ASSETS

<i>DESCRIPTION</i>	<i>Mode of Disposal</i>	<i>Particular of Buyer</i>	<i>Original Cost</i>	<i>Accumulated Depreciation</i>	<i>W.D.V.</i>	<i>Sale Proceed</i>	<i>2001 Profit (Loss)</i>	<i>2000</i>
Office Building Cantt Plaza	Through agreement	M/s Pak Afghan Traders, Peshawar	2,000,000	452,439	1,547,561	1,885,000	337,439	--
Suzuki Pickup	By Negotiation	Mr. Samin Ahmad Rawalpindi	90,000	80,336	9,664	115,000	105,336	--
Toyota Corolla	By Negotiation	Mr. Saadat Hussain Ex-Director FCL	229,000	216,411	12,589	290,000	277,411	--
Suzuki FX	By Negotiation	Mr. Afzal Karachi	100,500	96,080	4,420	30,000	25,580	--
Honda Civic	By Negotiation	Mr. Aziz Khan	615,000	453,781	161,219	540,000	378,781	--
Suzuki Margala	By Negotiation	Mr. Aziz Khan	355,000	280,551	74.45	310,000	235,551	--
Suzuki Swift	By Negotiation	M/s Zeb Engineering Peshawar	200,000	178,525	21,475	80,000	58,525	--
Honda M/Cycle	By Negotiation	Mr. Alam Zeb Peshawar	18,500	17,980	520	10,000	9,480	--
		2000-2001	-----	-----	-----	-----	-----	-----
			3,608,000	1,776,103	1,831,897	3,260,000	1,428,103	--

1999-2000	3,499,803	2,025,502	1,474,301	7,870,188	--	6,395,887
-----------	-----------	-----------	-----------	-----------	----	-----------

NOTES**2001
(Rs.)****2000
(Rs.)****24. FINANCIAL CHARGES**

Interest on Long Term Loans	--	9,239,180
Mark-up on Short Term Running Finance	14,489,614	17,378,312
Bank Charges	444,321	710,221
	-----	-----
	14,933,935	27,327,713
	=====	=====

25. TAXATION

The income tax assessment, of the company have been finalized upto and including assessment year 2000-2001 provision for taxation for the year has been made on the basis of the T.O. Tax u/s 80-D of the income tax Ordinance 1979 as the management is of the opinion that the losses of the peceeding years will be assessed and set off against the current year income.

26. PRIOR YEAR ADJUSTMENTS

Water charges relating to Kashif Centre Karachi for the period 01-07-1994 to 30-06-1999	--	(1,746,592)
Amount of remission of long term liability by PICIC	5,972,883	--
	-----	-----
	5,972,883	(1,746,592)
	=====	=====

27. BASIC EARNING PER SHARE

Profit/(Loss) for the year after taxation	10,218,384	(22,680,264)
---	------------	--------------

Number of Shares

Average issued ordinary share	7,741,200	7,741,200
Net profit after taxation	10,218,384	(22,680,264)
EPS =	-----	-----
Average issued ordinary shares	7,741,200	7,741,200
	=====	=====
Earning per share	1.32	(2.92)

28. SALES TAX

Sales Tax has been paid under protest to the Sales Tax and Excise department since 1988. The contention is that this should be exempted to the Company, vide SRO No. 529(I)/88 dr. 26th June 1988, wherein the units which were setup between 1st July 1988 to 30th June 1991 were exempted from payment of Sales Tax for a period of eight years. The company commenced its production from 1st July 1988 and therefore qualifies for exemption under the above SRO. The amount of Sales Tax paid by the company from 1st July 1988 to 30th June 1996 is Rs. 157.995 million. The Wafaqi Mohtasib has since decided the case in our favour. However, the related government department has filed an appeal before the President of Pakistan

against the said order. The suit is subjudice in the Supreme Court of Pakistan.

29. CAPACITY

The installed production capacity of the plant is 3,000 tons for Sanitaryware and 500,000 Sqm. for Tiles. Actual capacities attained during the year in respect of Sanitaryware & Tiles were 503 tons and 533,308 Sqm. respectively (2000 Sanitary 949 tons and Tiles 470,909 Sqm.)

30. REMUNERATION OF DIRECTORS AND EXECUTIVES

<i>Managerial</i>	<i>Chief Executive</i>		<i>Other Executive</i>		<i>2001</i>	<i>2000</i>
	<i>Directors</i>					
Remuneration	400,000	1,153,000		1,552,747	3,105,747	2,812,000
House Rent	160,000	461,200		621,099	1,242,299	1,124,800
Utilities	40,000	115,300		155,275	310,575	281,200
Total 2001	600,000	1,729,500		2,329,121	4,658,621	--
Total 2000	600,000	1,518,000		2,100,000	--	4,218,000
No. of Persons						
2001	1	2		15	18	--
2000	1	4		11	--	16

In addition to the above, all the directors and executives are provided free use of company cars as per their entitlement. Aggregate amount charged in the accounts for fee to directors was Nil, (2000 Rs. Nil).

31. FINANCIAL ASSETS AND LIABILITIES

	<i>Interest/Markup bearing</i>			<i>Non-interest Markup bearing</i>			<i>2001</i>	<i>Total</i>	<i>2000</i>
	<i>Maturity upto one year</i>	<i>Maturity after one year</i>	<i>Sub-total</i>	<i>Maturity upto one year</i>	<i>Maturity after one year</i>	<i>Sub-total</i>			
Financial Assets									
Advances, Deposits, Prepayments and other receivables	--	--	--	15,151,763	--	15,151,763	15,151,763	21,770,740	
Trade Debtors	--	--	--	71,625,864	--	71,625,864	71,625,864	67,561,765	
Long Term Deposits	--	--	--	--	298,250	298,250	298,250	105,750	
Cash and bank balance	--	--	--	9,121,415	--	9,121,415	9,121,415	11,852,645	
June 30, 2001	--	--	--	95,899,042	298,250	96,197,292	96,197,292	101,290,900	
June 30, 2000	--	--	--	101,185,150	105,750	101,290,900	101,290,900	--	
Financial Liabilities									
Redeemable capital	8,994,890	39,569,745	48,564,635	--	--	--	48,564,635	56,748,993	
Long-term loans	--	80,738,764	80,738,764	--	--	--	80,738,764	91,918,484	
Short-term finances	89,434,406	--	89,434,406	--	--	--	89,434,406	90,402,942	
Creditors accrued									

and other liabilities	--	--	--	58,714,400	--	58,714,400	58,714,400	43,931,365
Proposed dividend	--	--	--	3,870,600	--	3,870,600	3,870,600	
June 30, 2001	98,429,296	120,308,509	218,737,805	62,585,000		62,585,000	281,322,805	283,001,784
June 30, 2000	136,805,076	102,265,343	239,070,419	43,931,365	--	43,931,365	283,001,784	--

31.1 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail completely to perform as contracted. Out of the total financial assets of Rs. 96,197,292 (2000: Rs. 101,290,900) the financial assets which are subject to credit risk amounted to Rs. 87,075,877 (2000: Rs. 89,438,255). The Company believes that it is not exposed to major concentration of credit risk.

31.2 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payable exist due to transactions with foreign undertakings. Payable exposed to foreign currency risks are covered through forward foreign exchange contracts.

31.3 Fair value of financial assets and liabilities

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

32. NUMBER OF EMPLOYEES

Total number of employees as at June 30, 2001 was 400 (2000: 360)

33. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison.

SHAMSUL HASSAN
Chief Executive

MUHAMMAD FAYYAZ
Director

PATTERN OF SHAREHOLDING AT 30 JUNE, 2001

<i>Number of Share Holders</i>	<i>Shareholding</i>	<i>Total Shares Held</i>	
58	1	100	5,800
4,646	101	500	2,019,900
88	501	1,000	90,100
76	1,001	5,000	186,200
10	5,001	10,000	74,200
2	10,001	15,000	27,100
1	15,001	20,000	20,000
3	40,001	45,000	135,000
1	45,001	50,000	47,500
1	75,001	80,000	77,000
3	95,001	100,000	300,000
1	135,001	140,000	135,900

1	145,001	150,000	147,500
1	460,001	465,000	464,000
1	470,001	475,000	471,805
1	960,001	965,000	960,400
1	1,205,001	1,210,000	1,208,195
1	1,370,001	1,375,000	1,370,600
-----			-----
4,896			7,741,200
=====			=====

<i>Categories of Share Holders</i>	<i>Number of Share Holders</i>	<i>Share Held</i>	<i>Percentage</i>
Individuals	4,889	4,897,300	63.26
Investment Companies	1	135,900	1.75
Insurance Companies	2	200,000	2.59
Joint Stock Companies	1	1,370,600	17.70
Financial Institutions	3	1,137,400	14.70
Modaraba	--	--	--
Foreign Investors	--	--	--
Co-operative Societies	--	--	--
Charitable Trusts	--	--	--
Others	--	--	--
	-----	-----	-----
	4,896	7,741,200	100.00