THATTA CEMENT

Cost Auditors' Report

For the year ended June 30, 2012

SIDDIQI & COMPANY

Cost & Management Accountants

Suit # 147, First Floor, Haroon Shopping Emporium, Sector 15-A/1, North Karachi-75850 (Pakistan).

Tel: (92-21) 36971814 - 36931527, Fax (92-21) 36931527, E-mail <siddiqicompany@yahoo.com>

COST AUDITORS' REPORT, 2011-2012
THATTA CEMENT COMPANY LIMITED

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Section 1

01. CORPORATE INFORMATION

Board of Directors

Chairman
Muhammad Arif Habib

Chief Executive Officer
Muhammad Fazlullah Shariff

Directors
Nasim Beg
Shahid Aziz Siddiqui
Khawaja Mohammad Salman Younis
Wazir Ali Khoja
Naveed Rabbani

Audit Committee
Shahid Aziz Siddiqui, Chairman
Nasim Beg, Member
Khawaja Mohammad Salman Younis, Member
Naveed Rabbani, Member

Chief Financial Officer & Company Secretary
Muhammad Taha Hamdani

Statutory Auditors
Hyder Bhimji & Co.
Chartered Accountants

Cost Auditors
SIDDIQI & COMPANY
Cost & Management Accountants

Legal Advisor
Usmani & Iqbal

Bankers
National Bank of Pakistan
Sindh Bank Limited
Summit Bank Limited
MCB Bank Limited
Bank Al-Falah Limited
Habib Bank Limited

Registered Office
Pardesi House, Survey No. 2/1, R. Y. 16, Old Queens Road, Karachi-74000.
Tel.: (021) 32423295, 32423478, 32419827 Fax: 32400989
Email: info@thattacement.com Website: www.thattacement.com

Factory
Ghulamullah Road, Makli, District Thatta, Sindh-73160.

02. THE COMPANY & MANUFACTURING PROCESS

1. THE COMPANY AND ITS OPERATIONS

Thatta Cement Company Limited was incorporated in Pakistan in 1980 as a public limited Company. The shares of the Company are quoted at the Karachi Stock Exchange. The Company is a subsidiary of Arif Habib Equity (Private) Limited. The Company's main business activity is manufacturing and marketing of cement.

The company has setup a captive power plant at Ghulamullah Road, Makli, District Thatta, (Sindh) under the name and style of Thatta Power (Private) Limited as a wholly owned company as an addition to its group of companies during the year under review. This subsidiary company has however not yet started its production.

The Group comprises of:

(i) Thatta Cement Company Limited (TCCL) - Holding Company

(ii) Thatta Power (Private) Limited (TPPL) - wholly owned Subsidiary

(iii) Al-Abbas Cement Industries Limited - Associated Company

2. MANUFACTURING PROCESS

The company is using the Dry Process Technology for manufacturing of cement. It has the leased lime stone quarries. The process consists of the following departments:-

(i) Quarry / Transportation

(ii) Crushing

(iii) Raw Mill (Raw Meal)

(iv) Kiln

(v) Grinding (Cement Mill)

(vi) Packing & Storage

The major raw and packing materials include:

(i) Lime Stone

(ii) Clay / Shale

(iii) Laterite / Iron Ore

(iv) Salica Sand

(v) Gypsum

(vi) Slag

Packing – paper / polypropylene bags.

3. FACTORY LOCATION

The company's cement manufacturing plant is located at Ghulamullah Road, Makli, District Thatta, Sindh, Pakistan.

Section 2

Cost Auditors' Report - 2012

SIDDIQI & COMPANY

Cost & Management Accountants

COST AUDITORS' REPORT

We, **SIDDIQI & COMPANY, Cost & Management Accountants** having been appointed to conduct an audit of cost accounts of **THATTA CEMENT COMPANY LIMITED** have examined the books of account and the statement prescribed under clause (e) of sub-section 230 of the Companies Ordinance, 1984 and the other relevant record for the year ended June 30, 2012, 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 purpose of this audit.

2. In our opinion:

   (a) proper cost accounting records as required by clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984 (XLVII of 1984), and as required by these rules, have been kept by the Company;

   (b) proper returns, statements and schedules for the purpose of audit of cost accounts relating to branches were not required as the Company has no branches in or outside Pakistan.

   (c) 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 best of our information:-

   (a) The annexed statement of capacity utilization and stock-in-trade are in agreement with the books of account of the Company and exhibit 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 of the cost of production, processing, manufacturing and marketing of the under mentioned products of the Company, namely,

      1. Ordinary Portland Cement
      2. Sulphate Resistance Cement
      3. Portland Blast Furnace Slag Cement

The matters contained in the ANNEXED Forms are part of this report.

SIDDIQI & COMPANY
Cost & Management Accountants

Karachi: 30 OCT 2012

Suit # 147, First Floor, Haroon Shopping Emporium, Sector 15-A/1, North Karachi, Karachi-75850. (PAKISTAN)
Phones: (92-21) 36971814, 36931527, Fax: 36931527, e-mail <siddiqicompany@yahoo.com>

1. **CAPACITY (Tonne)**

(a)

	Annual Licensed / Installed Capacity	Annual Utilised Capacity	% of Installed Capacity
Clinker (300 days x 1,500 T/D)	450,000	333,601	74%

(b) The clinker production capacity utilization during the year has remained at 74% (2011: 79%). The under capacity utilization is mainly due to hard hitting competition in the industry due to excessive supply and lesser demand and partly due to frequent power break downs and availability of carry over stock.

(c) The company is engaged in the manufacturing and sale of cement.

Other Activities

(Comments under clause 1(b) of Appendix - III of Companies (Audit of Cost Accounts) Rules, 1998 vide SECP SRO # 846(1)/98, dated July 24, 1998).

– The company has setup a captive power plant at Ghulamullah Road, Makli, District Thatta, (Sindh) under the name and style of Thatta Power (Private) Limited as a wholy owned subsidiary during the year under review. The company has however not yet started its production.

2. **COST ACCOUNTING SYSTEM**

– Manufacturing of cement is a continuous process, therefore, the company uses process cost accounting system as prescribed by SECP as per Cement Industry (Cost Accounting Records) Order, 1994.

– The company has classified whole manufacturing process into six major stages / departments for the purpose of maintaining cost accounting records shown as under:
1) Quarry / transportation (Lime stone & shale); 2) Crushing;
3) Raw Meal; 4) Kiln;
5) Grinding (Cement Mill); 6) Packing & storage.

– The company is operating EXCEL based inhouse software, which generates cost statements relating to six stages / departments and allocates cost thereon.

3. **PRODUCTION**

(a)

Qty. in Tonne

		Production		Increase/ (Decrease)	
		YEARS			
		2012	2011	Tonne	%
– Clinker					
Ordinary Portland	(OPC)	277,496	292,111	(14,615)	(5)
Sulphate Resistance	(SRC)	56,105	63,793	(7,688)	(12)
Total		333,601	355,904	(22,303)	(6)
– Cement					
Ordinary Portland	(OPC)	247,045	244,711	2,334	1
Sulphate Resistance	(SRC)	62,310	65,780	(3,470)	(5)
Class G. Cement		150	-	150	100
P.B.F. Slag	(PBFC)	97,296	80,789	16,507	20
		406,801	391,280	15,521	4
Ground Slag		10,545	3,960	6,585	166
		417,346	395,240	22,106	6

– The plant design facilitates production of the various types of cement as per production requirements within the installed capacity limits.

(b) There was no addition in installed capacity during the year under review.

4. RAW MATERIAL

(a) Major Raw Materials Consumed

	2012			2011			2010		
	Quantity (Tonne)	Value Rs. in '000	Rate per Tonne	Quantity (Tonne)	Value Rs. in '000	Rate per Tonne	Quantity (Tonne)	Value Rs. in '000	Rate per Tonne
Limestone	472,768	69,762	148	509,471	66,331	130	499,967	66,797	134
Clay / Shale	67,037	15,168	226	80,891	16,558	205	63,387	9,219	145
Laterite/Iron Ore	30,991	22,277	719	14,880	8,759	589	15,823	7,437	470
Salica Sand	-	-	-	1,503	400	266	14,569	4,215	289
Slag	30,681	31,959	1,042	24,897	18,471	742	10,609	9,488	894
Gypsum	20,507	47,032	2,293	19,507	30,000	1,538	16,007	18,430	1,151
TOTAL		186,198			140,519			115,586	

(b) Major Raw Materials consumption per unit of production compared with standard requirements

		Standard Tonne	2012 Tonne	2011 Tonne	2010 Tonne	% Increase / (Decrease) as compared to Budget Standard		
						2012	2011	2010
Limestone	– Clinker	1.33	1.42	1.43	1.40	6.77	7.52	5.26
Clay / Shale	– Clinker	0.20	0.20	0.23	0.18	-	15.00	(10.00)
Laterite/Iron Ore	– Clinker	0.01	0.09	0.04	0.04	800.00	300.00	300.00
Salica Sand	– Clinker	0.12	-	0.01	0.04	-	(91.67)	(66.67)
TOTAL	– Clinker	1.66	1.71	1.71	1.66	3.01	3.01	-
Gypsum	– Cement	0.05	0.05	0.05	0.05	-	-	-
Slag	– Cement	0.30	0.31	0.30	0.26	3.33	-	(13.33)

(c) Explanation of Variances

- The variance in consumption of lime stone is due to process loss.
- The other variances from standard are attributed to chemical contents of raw material.

(d) Method of Accounting

- Raw material is valued at cost on moving average basis.
- Limestone and shale / clay are extracted from leased mines.
- Laterite, Iron Ore, Silica Sand and Gypsum are purchased from open market. The quantities and values are recorded in the store ledger and general ledger from receiving reports.

5. WAGES AND SALARIES

(a) *Total wages and salaries paid for all categories of employees*

	2012	2011	2010	% Increase / (Decrease)	
	Rs. in '000	Rs. in '000	Rs. in '000	Base 2011	Base 2010
– Direct labour cost on production	36,879	30,036	26,729	23	38
– Indirect labour cost on production	108,817	87,667	71,778	24	52
– Total direct & indirect labour cost	145,696	117,703	98,507	24	48
– Employees' cost on administration	27,540	21,361	20,869	29	32
– Employees' cost on selling and distribution	5,495	5,563	3,916	(1)	40
Total employees cost	178,731	144,627	123,292	24	45
Bonus to employees: (Already included in above wages and salaries)					

– Salaries & wages increased mainly due to inflationary trend and annual increments.

(b) *Salaries and perquisites of chief executive, directors and executives*

Rs. in '000

	Chief Executive		Directors	
	2012	2011	2012	2011
Managerial remuneration	6,426	6,120	-	1,200
Bonus & LFA	926	1,276	-	-
Other benefits	1,805	1,283	-	62
Total	9,157	8,679	-	1,262
Number of person	1	1	-	1

– The chief executive was provided with free use of company maintained car and other benefits in accordance with his entitlements as per rules of the company.

(c) *Total man-days of direct labour*

Available: 300 days x 253 workers = 75,900

Worked: 239 days x 253 workers = 60,467

Worked	Available	% Worked
60,467	75,900	80

(d) *Average number of workers employed*

2012	2011	Increase / (Decrease)	
		Nos.	%
253	278	(25)	(9)

(e) *Direct labour cost per tonne*

	2012	2011	2010	% Increase / (Decrease)	
				Base 2011	Base 2010
Direct Labour Cost (Rs. in '000)	36,879	30,036	26,729	23	38
Production in Tonne - Cement / GBFS	417,346	395,240	324,459	6	29
Cost per Tonne (Rs. / tonne)	88	76	82	16	7

(f) *Explanation of variance*

– Per tonne direct labour cost increased mainly due to inflationery trend and annual increments.

(g) *Comments on Incentives Scheme*

– The company operates an approved funded gratuity scheme for all permanent employees.

– The company also operates an approved contributory Provident Fund for all its permanent employees to which equal monthly contributions are made, both by the Company and the employees.

6. STORES AND SPARE PARTS

(a) Expenditure per unit of output

		2012	2011	2010	% Increase / (Decrease) Base 2011	% Increase / (Decrease) Base 2010
Stores & Spares	(Rs. in '000)	89,372	62,746	68,617	42	30
Fire Brick	(Rs. in '000)	40,414	31,136	13,599	30	197
Grinding Media	(Rs. in '000)	9,471	5,526	8,748	71	8
Lining Plates	(Rs. in '000)	2,001	1,995	466	0	329
Total	(Rs. in '000)	141,258	101,403	91,430	39	54
Production - Cement	(Qty. in tonne)	417,346	395,240	324,459	6	29
Cost per tonne	(Rs. / tonne)	338	257	282	32	20

– Per tonne cost of stores and spares increased partly due to higher maintenance of plant and machinery and partly due to general inflation in prices.

(b) System of stores accounting

– These are stated at cost (calculated on moving average basis) less provision for dead and slow moving stores and spares except for the items in transit, which are valued and stated at cost.

– All items of stores are properly coded and entered by designated staff members of the finance department, on daily basis.

(c) Proportion of closing inventory of stores representing items which have not moved for over twenty four months.

– There is dead stock worth Rs. 8.803 million (2.37%) [2011: Rs. 8.803 million (2.91%)] and slow moving items worth Rs. 31.259 million (8.44%) [Year 2011: Rs. 31.259 million (10.34%)] of the closing inventory.

– The company has made provision for expected loss in the books of account.

7. DEPRECIATION

(a) Method of depreciation

– Depreciation is charged to profit and loss account applying the reducing balance method except leasehold structural improvements which is depreciated / amortized on straight line basis. Depreciation on addition is charged from the month in which the asset is available for use and on disposal upto the month the asset is in use. Assets' residual value and useful lives are reviewed, and adjsuted, if appropriate at each balance sheet date.

Normal maintenance and repairs are charged to profit and loss account as and when incurred whereas major renewals and improvements are capitalized.

Gain or loss on disposal of assets is included in profit and loss account.

(b) Basis of allocation of depreciation on common assets to the different departments.

Depreciation on common assets is allocated as under:

	2012 Rs. in '000	2011 Rs. in '000
(i) Cost of Sales	44,430	46,028
(ii) Administrative overheads	4,924	5,091
(iii) Selling / distribution overheads	1,359	1,477
	50,713	52,596

(c) Basis of charging depreciation to cost of products

– The depreciation is allocated to cost of production on the basis of machine hours in the current year as against predetermined percentage basis in the last year.

8. OVERHEADS

(a) *Total amounts of the overheads*

	2012 Rs. in '000	2011 Rs. in '000	2010 Rs. in '000
(i) Factory	72,717	69,629	68,671
(ii) Administration	70,397	52,185	45,811
(iii) Selling & distribution	108,276	224,608	190,965
(iv) Financial charges	96,498	78,789	45,532
	347,888	425,211	350,979

(i) *Factory Overheads*

	2012	2011	2010	% Increase / (Decrease)	
	Rs. in '000	Rs. in '000	Rs. in '000	Based on 2011	Based on 2010
Repairs & maintenance	4,436	3,244	1,135	37	291
Depreciation	44,430	46,028	45,294	(3)	(2)
Insurance	3,412	3,945	4,025	(14)	(15)
Other manufacturing expenses	20,439	16,412	18,217	25	12
	72,717	69,629	68,671	4	6

– There is no significant variance in total factory overheads except increase in repair & maintenance and other manufacturing expenses as compared to last two years.

(ii) *Administration Overheads*

	2012	2011	2010	% Increase / (Decrease)	
	Rs. in '000	Rs. in '000	Rs. in '000	Based on 2011	Based on 2010
Salaries, wages and other benefits	27,540	21,361	20,869	29	32
Vehicle running expenses	1,925	1,685	1,634	14	18
Travelling and conveyance	1,399	718	548	95	155
Advertisement	166	72	216	131	(23)
Communication, postage, telegram etc.	1,274	1,417	1,445	(10)	(12)
Printing and stationary	1,483	766	712	94	108
Rent, rates and taxes	11,493	9,573	7,335	20	57
Entertainment	622	583	661	7	(6)
Legal and professional charges	9,410	1,851	512	408	1,738
Insurance	295	387	1,641	(24)	(82)
Repair & maintenance	3,731	2,729	2,515	37	48
Utilities	7	2	6	250	17
Fees & subscription	1,363	751	138	81	888
Corporate expenses	1,464	2,181	876	(33)	67
Charity & donation	93	1,932	156	(95)	(40)
Auditor's remuneration	1,212	693	447	75	171
Depreciation	4,924	5,091	3,826	(3)	29
Provision for doubtful debt	221	179	242	23	(9)
Fixed assets written off	1,252	-		100	100
Miscellaneous	523	214	2,032	144	(74)
	70,397	52,185	45,811	35	54

– Admin. overheads increased on account of increase in salaries & wages, vehicle running, travelling & conveyance, advertisement, printing & stationery and legal and professional charges as compared to last year.

(iii) *Selling and Distribution Overheads*

	2012 Rs. in '000	2011 Rs. in '000	2010 Rs. in '000	% Increase / (Decrease) Based on 2011	% Increase / (Decrease) Based on 2010
Salaries, wages and other benefits	5,495	5,563	3,916	(1)	40
Vehicle running expenses	563	434	227	30	148
Travelling & conveyance	158	953	1,184	(83)	(87)
Communication	524	214	217	145	141
Printing & stationery	58	28	34	107	71
Entertainment	144	547	263	(74)	(45)
Advertisements	229	317	368	(28)	(38)
Freight charges - local sales	14,207	22,812	9,251	(38)	54
Export logistic and related charges	75,303	174,008	155,911	(57)	(52)
Commission	7,380	15,118	15,308	(51)	(52)
Depreciation	1,359	1,477	1,611	(8)	(16)
Miscellaneous	2,856	3,137	2,675	(9)	7
	108,276	224,608	190,965	(52)	(43)

- Selling & distribution overheads decreased mainly on account of decrease in export logistics as compared to last two years.

(iv) *Financial Charges*

	2012 Rs. in '000	2011 Rs. in '000	2010 Rs. in '000	% Increase / (Decrease) Based on 2011	% Increase / (Decrease) Based on 2010
– Mark-up on long term financing	31,603	11,983	16,394	164	93
– Mark-up on short term borrowing	63,333	64,995	27,259	(3)	132
– Interest on WPPF	-	16	732	(100)	(100)
– Bank charges and commission	1,562	1,795	1,147	(13)	36
	96,498	78,789	45,532	22	112

- Financial charges increased mainly on account of increase in markup on long term financing as compared to last two years.

(b) *Reasons for any significant variances*

- Reasons have been given in the above mentioned paras wherever necessary.

(c) *Basis of allocation of overheads*

- The allocation was made on the basis of machine hours.

(d) Cost of Packing

	Qty in Tonne 2012	Qty in Tonne 2011
– Packed Cement	352,281	336,473
– Bulk Cement	66,065	56,753
Total	418,346	393,226

	2012		2011		Increase / (Decrease)	
	Rs. in '000	Rupees/Ton	Rs. in '000	Rupees/Ton	Rupees/Ton	%
Packing material	136,993	388.87	134,697	400.32	(11.45)	(2.86)
Salaries, wages & benefits	3,661	8.75	3,005	7.64	1.11	14.51
Power	8,651	20.68	6,409	16.30	4.38	26.88
Repairs and maintenance	24	0.06	335	0.85	(0.79)	(93.27)
Depreciation	9,133	21.83	859	2.18	19.65	901.37
Insurance	804	1.92	-	-	1.92	-
Utility	97	0.23	-	-	-	-
Other overheads	1,550	3.71	2,422	6.16	(2.45)	(39.85)
Store and spares	2,536	6.06	1,307	3.32	2.74	82.38
Compressed air	442	1.06	322	0.82	0.24	29.02
Other factory expenses	34,927	83.49	2,118	5.39	78.10	1,450.04
	198,818	536.66	151,474	442.98	93.68	21.15

- Per tonne cost of packing material is calculated on the basis of cement packed into bags.
- Per tonne cost of packing increased due to change of basis of allocation of depreciation, insurance, utility and other factory expenses.

9. ROYALTY / TECHNICAL AID PAYMENTS

	2012			2011		
	Consumption in Tonne	Rupees in '000	Rupees / Tonne	Consumption in Tonne	Rupees in '000	Rupees / Tonne
Limestone	483,927	7,259	15	509,471	7,638	15
Clay / Shale	67,037	604	9	80,891	718	9
		7,863			8,356	

- Royalty and excise duty are paid to the provincial government on the quantity of limestone, shale / clay consumed and transported to mill from quarries at statutory rates.

10. ABNORMAL NON-RECURRING FEATURES

(a) Features affecting production

= NONE =

(b) Special expenses

= NONE =

11. COST OF PRODUCTION
(As per Schedule-I attached)

	2012			2011			Increase / (Decrease) % Rs. P/Ton
	Qty. in Tonne	Rs. in 000	Rs. Per Ton	Qty. in Tonne	Rs. in 000	Rs. Per Ton	
Cement							
OPC	247,045	1,282,730	5,192	244,711	980,891	4,008	30
SRC	62,310	347,130	5,571	65,134	281,221	4,318	29
PBFSC	97,296	407,514	4,188	79,695	261,036	3,275	28
Class G Cement	150	811	5,407	-	-	-	100
Sub-total	406,801	2,038,185	5,010	389,540	1,523,148	3,910	28
GGBFS	10,545	26,857	2,547	3,960	10,105	2,552	(0)
Clinker							
OPC / SRC	-	-	-	30,865	98,423	3,189	(100)
		2,065,042			1,631,676		

- Per tonne cost increased due to higher maintenance cost, higher coal cost, electricity surcharge, frequent power break downs and partly from inflationery impact of cost of production.

12. SALES
(As per Schedule-II attached)

	2012			2011			Increase / (Decrease) % Rs. P/Ton
	Qty. in Tonne	Rs. in '000	Rs. Per Ton	Qty. in Tonne	Rs. in '000	Rs. Per Ton	
Local Sales (Cement)							
OPC	170,338	917,463	5,386	143,612	604,679	4,211	28
SRC	62,421	352,624	5,649	62,334	266,307	4,272	32
PBFSC	97,983	496,694	5,069	79,695	316,082	3,966	28
Class G Cement	150	1,630	10,867	-	-	-	100
Sub-total	330,892	1,768,411	5,344	285,641	1,187,068	4,156	29
GGBFS	10,545	51,526	4,886	3,960	15,091	3,811	28
Export Sales (Cement)							
OPC	78,196	494,274	6,321	99,537	536,249	5,387	17
SRC	-	-	-	2,800	12,643	4,515	(100)
Sub-total	78,196	494,274	6,321	102,337	548,892	5,364	18
Export Sales (Clinker)							
OPC	-	-	-	30,865	103,598	3,356	(100)
		2,314,211			1,854,649		

- *Export Sales*
  Export sales were made to Sri Lanka and Sudan during the year under review.

13. PROFITABILITY / (LOSS)
(As per Schedule-III attached)

	2012 Qty. in Tonne	2012 Rs. in '000	2012 Rs. Per Ton	2011 Qty. in Tonne	2011 Rs. in '000	2011 Rs. Per Ton	Increase / (Decrease) % Rs. P/Ton
Local (Cement)							
OPC	170,338	(40,960)	(240)	143,612	(15,033)	(105)	130
SRC	62,421	(19,156)	(307)	62,334	(21,360)	(343)	(10)
PBFSC	97,983	44,465	454	79,695	30,714	385	18
Class G Cement	150	751	5,008	-	-	-	100
Sub-total	330,892	(14,900)	(45)	285,641	(5,680)	(20)	126
GGBFS	10,545	19,900	1,887	3,960	3,557	898	110
Export (Cement)							
OPC	78,196	(12,423)	(159)	99,537	(17,555)	(176)	(10)
SRC	-	-	-	2,800	(3,625)	(1,295)	(100)
Sub-total	78,196	(12,423)	(159)	102,337	(21,180)	(207)	(23)
Export (Clinker)							
OPC	-	-	-	30,865	(40,885)	(1,325)	(100)
(Loss) / Profit before taxation		(7,422)			(64,188)		

Reasons for Loss

- The loss is attributed to the increase in the prices of inputs, higher maintenance cost of the plant and machinery, frequent electricity break downs and electricity surcharge.

14. COST AUDITORS' OBSERVATIONS AND CONCLUSIONS

(a) *Matters which appear to him to be clearly wrong in principle or apparently unjustifiable.*

- No such matters have so far come to our notice during the year except that the company has the accumulated loss of Rs. 138.659 million as on 30-06-2012 (Rs. 94.777 million as on 30-06-2011) which has adversely affected shareholders equity.

(b) *Cases where the company funds have been used in a negligent or inefficient manner.*

- NONE

(c) *Factors which could have been controlled but have not been done resulting in increase in the cost of production.*

- Fuel and power consumption per ton of clinker / cement appear to be higher as compared to usual consumption norms. The reasons attributed to this abnormality are stated as technical contraints in plant design.

(d) (i) *The Adequacy or otherwise of Budgetary Control System, if any, in vogue in the company.*

- The company prepares its budget on annual basis. A monthly report comparing actual results with budget is generated alongwith the reasons for major variances. On the basis of such variances corrective measures are initiated, implemented and followed up.

(ii) *The scope and performance of Internal Audit, if any.*

- Internal audit function of the company has been outsourced to M/s. Yousuf Adil Saleem & Company, Chartered Accountants. The audit findings are reported to the audit committee and top management and corrective measuers are immediately adopted wherever necessary.

(e) ***Suggestion for improvements in performance.***

(i) rectification of general imbalance in production facilities

– Apparently, there is no general imbalance in production facilities.

(ii) fuller utilitization of installed capacity

– The management may consider ways and means to increase production / sale to improve performance.

(iii) Comments on areas offering scope for

(a) Cost reduction

– The 'Wastages' in the process may be controlled.

– In order to keep the fuel consumption within normal limits the management may consider rectification in plant design.

(b) Increased productivity

– The productivity may be increased to utilize maximum plant capacity.

(c) Key limiting factors causing production bottle necks

– Inadequate power supply from WAPDA is the key limiting factor.

(d) Improved inventory policies

– Present inventory policies are reasonable.

(e) Energy conservancy

– Coal being the cheapest energy is used as against gas which is more costlier.

(iv) State of technology

– The company uses 'Dry Process' which is the latest technology in cement production.

(v) Plant

– The plant was new when installed.

15. RECONCILIATIONS WITH FINANCIAL STATEMENTS

– The cost accounts are reconciled with audited financial accounts for the year ended June 30, 2012 as per reconciliation statement annexed herewith.

16. COST STATEMENTS

– Copies of all cost statements on the formats prescribed by Securities and Exchange Commission of Pakistan under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984, duly authenticated by the chief executive and Chief Financial Officer of the company, and verified by us are appended to the report.

17. MISCELLANEOUS

– Figures have been rounded off to nearest thousand. Previous year's figures have been re-arranged and regrouped where necessary to facilitate comparison.

SIDDIQI & COMPANY
Cost & Management Accountants

Karachi : 30 OCT 2012

Schedule-I

COST OF PRODUCTION

Year : 2012

Quantitative Data	Quantity in Tonne						
	CEMENT			Clinker	Ground Slag	Class G Cement	TOTAL
	OPC	SRC	PBFSC				
Production (Tonne)	247,045	62,310	97,296	-	10,545	150	417,346

Cost Elements	CEMENT			Clinker	Ground Slag	Class G Cement	TOTAL
	OPC	SRC	PBFSC				
	Rs. in '000	Rs. in '000	Rs. in '000	Rs. in '000	Rs. in '000	Rs. in '000	Rs. in '000
Cost of sales	1,284,978	343,553	407,920	-	26,857	811	2,064,119
Finished goods (Inventory adjustment)	(2,248)	3,577	(406)	-	-	-	923
Cost of goods manufactured	1,282,730	347,130	407,514	-	26,857	811	2,065,042

Year : 2011

Quantitative Data	Quantity in Tonne						
	CEMENT			Clinker	Ground Slag	Class G Cement	TOTAL
	OPC	SRC	PBFSC				
Production (Tonne)	244,711	65,134	79,695	30,865	3,960	-	424,365

Cost Elements	CEMENT			Clinker	Ground Slag	Class G Cement	TOTAL
	OPC	SRC	PBFSC				
	Rs. in '000	Rs. in '000	Rs. in '000	Rs. in '000	Rs. in '000	Rs. in '000	Rs. in '000
Cost of sales	973,187	277,275	256,627	98,423	10,105	-	1,615,618
Finished goods (Inventory adjustment)	7,704	3,945	4,409	-	-	-	16,058
Cost of goods manufactured	980,891	281,220	261,036	98,423	10,105	-	1,631,676

Schedule-II

NET SALES REALIZATION

YEAR : 2012

a) Quantitative Data

Quantity in Tonne

	LOCAL SALES					EXPORT SALES			TOTAL
	CEMENT SALES			Ground Slag	Class G Cement	CEMENT SALES		Clinker	
	OPC	SRC	PBFSC			OPC	SRC		
Total quantity sold	170,338	62,421	97,983	10,545	150	78,196	-	-	419,633

b) Net Sales Value

Rupees in '000

	LOCAL SALES					EXPORT SALES			TOTAL
	CEMENT SALES			Ground Slag	Class G Cement	CEMENT SALES		Clinker	
	OPC	SRC	PBFSC			OPC	SRC		
Gross Sales	1,163,460	445,783	632,997	59,597	1,630	494,274	-	-	2,797,741
Less:									
Sales tax	160,828	61,874	87,310	8,071	-	-	-	-	318,083
Federal excise duty	85,169	31,285	48,993	-	-	-	-	-	165,447
	245,997	93,159	136,303	8,071	-	-	-	-	483,530
Net sales realization	917,463	352,624	496,694	51,526	1,630	494,274	-	-	2,314,211

YEAR : 2011

a) Quantitative Data

Quantity in Tonne

	LOCAL SALES					EXPORT SALES			TOTAL
	CEMENT SALES			Ground Slag	Class G Cement	CEMENT SALES		Clinker	
	OPC	SRC	PBFSC			OPC	SRC		
Total quantity sold	143,612	62,334	79,695	3,960	-	99,537	2,800	30,865	422,803

b) Net Sales Value

Rupees in '000

	LOCAL SALES					EXPORT SALES			TOTAL
	CEMENT SALES			Ground Slag	Class G Cement	CEMENT SALES		Clinker	
	OPC	SRC	PBFSC			OPC	SRC		
Gross Sales	834,553	367,144	440,254	17,943	-	536,249	12,643	103,598	2,312,384
Less:									
Sales tax	119,923	52,690	63,218	2,565	-	-	-	-	238,396
Federal excise duty	100,528	43,634	55,786	-	-	-	-	-	199,948
Special excise duty	9,423	4,513	5,168	287	-	-	-	-	19,391
	229,874	100,837	124,172	2,852	-	-	-	-	457,735
Net sales realization	604,679	266,307	316,082	15,091	-	536,249	12,643	103,598	1,854,649

Schedule-III

PROFITABILITY

Year : 2012

Qty. in Tonne

Product wise Qty.	LOCAL OPC	LOCAL SRC	LOCAL PBFSC	LOCAL Ground Slag	LOCAL Class G	EXPORT OPC	EXPORT SRC	EXPORT Clinker	TOTAL
Quantity Sold (Tonne)	170,338	62,421	97,983	10,545	150	78,196	-	-	419,633

Rs. in '000

Product wise profitability	LOCAL OPC	LOCAL SRC	LOCAL PBFSC	LOCAL Ground Slag	LOCAL Class G	EXPORT OPC	EXPORT SRC	EXPORT Clinker	TOTAL
Net Sales	917,463	352,624	496,694	51,526	1,630	494,274	-	-	2,314,211
Less:									
Cost of goods manufactured	879,146	347,130	407,514	26,857	811	403,584	-	-	2,065,042
Inventory adjustment (finished)	2,248	(3,577)	406	-	-	-	-	-	(923)
Cost of goods sold	881,394	343,553	407,920	26,857	811	403,584	-	-	2,064,119
Gross Profit	36,069	9,071	88,774	24,669	819	90,690	-	-	250,092
Less:									
Selling & distribution	16,450	6,028	9,462	1,018	14	-	-	-	32,973
Export expenses	-	-	-	-	-	75,303	-	-	75,303
Admin. expenses	28,576	10,472	16,437	1,769	25	13,118	-	-	70,397
Financial charges	39,171	14,354	22,532	2,425	34	17,982	-	-	96,498
Other (income)	(8,233)	(3,017)	(4,736)	(510)	(7)	(3,780)	-	-	(20,283)
Other charges	1,066	391	613	66	1	489	-	-	2,626
	77,029	28,227	44,309	4,769	68	103,113	-	-	257,514
Net profit before tax	(40,960)	(19,156)	44,465	19,900	751	(12,423)	-	-	(7,422)

Year : 2011

Qty. in Tonne

Product wise Qty.	LOCAL OPC	LOCAL SRC	LOCAL PBFSC	LOCAL Ground Slag	LOCAL Class G	EXPORT OPC	EXPORT SRC	EXPORT Clinker	TOTAL
Quantity Sold (Tonne)	143,612	62,334	79,695	3,960	-	99,537	2,800	30,865	422,803

Rs. in '000

	LOCAL OPC	LOCAL SRC	LOCAL PBFSC	LOCAL Ground Slag	LOCAL Class G	EXPORT OPC	EXPORT SRC	EXPORT Clinker	TOTAL
Net Sales	604,679	266,307	316,082	15,091	-	536,249	12,643	103,598	1,854,649
Less:									
Cost of goods manufactured	575,623	269,131	261,036	10,105	-	405,268	12,089	98,423	1,631,676
Inventory adjustment (finished)	(7,704)	(3,945)	(4,409)	-	-	-	-	-	(16,058)
Cost of goods sold	567,919	265,186	256,627	10,105	-	405,268	12,089	98,423	1,615,618
Gross Profit	36,760	1,121	59,455	4,986	-	130,981	554	5,175	239,031
Less:									
Selling & distribution	25,092	10,891	13,925	692	-	-	-	-	50,600
Export expenses	-	-	-	-	-	130,029	3,658	40,321	174,008
Admin. expenses	17,725	7,694	9,836	489	-	12,285	346	3,810	52,185
Financial charges	26,762	11,616	14,850	738	-	18,549	522	5,752	78,789
Other (income)	(19,881)	(8,629)	(11,033)	(548)	-	(13,779)	(388)	(4,273)	(58,531)
Other charges	2,095	909	1,163	58	-	1,452	41	450	6,168
	51,793	22,481	28,740	1,429	-	148,537	4,179	46,060	303,219
Net profit before tax	(15,033)	(21,360)	30,714	3,557	-	(17,555)	(3,625)	(40,885)	(64,188)