

FRONTIER CERAMICS LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

1. LEGAL STATUS AND OPERATIONS

Frontier Ceramics Limited was incorporated in July 1982 as a Public Company with its shares quoted on Karachi and Lahore Stock Exchanges of Pakistan. The registered office of the company is situated in 29-Industrial Estate, Jamrud Road, Peshawar. The principal activities of the company are manufacturing of ceramic tiles, sanitary wares and related ceramic products.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been adopted in the preparation of these financial statements are summarized as under. These policies have been applied consistently to all the years presented, unless otherwise stated.

2.1 ACCOUNTING CONVENTION

These financial statements have been prepared under historical cost convention except for certain items of property, plant and equipment which are stated at revalued amount.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance 1984. Approved accounting standards comprise of such International Financial Reporting Standards issued by International Accounting Standards Board as are applicable under the Companies Ordinance 1984. Wherever, the requirements of the Ordinance or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Ordinance or the said directives take precedence.

The preparation of these financial statements in conformity with IASs requires management to make judgment, estimates and assumption that affect the application of policies and reported amounts of an asset, liability, income or expenditure. The estimates and associated assumptions are based on the historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. However, assumption and judgments made by the management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amount of assets and liabilities in the next year.

In the process of applying the accounting policies management has made the following judgments which are significant to the financial statements:

- (i) Determining the residual values and useful lives of property, plant and equipment (Note 2.3)
- (ii) Recognition of taxation (Note 2.4)
- (iii) Contingencies

2.3 PROPERTY, PLANT AND EQUIPMENT

These are stated at cost less accumulated depreciation except lease hold land which is stated at cost. Cost comprises of revalued amount of acquisition and other directly attributable costs.

Property, plant and equipment are depreciated on reducing balance method at the annual rates specified in note 10 to the financial statements so as to write off the cost of property, plant and equipment over their estimated useful life's without taking into account any residual value. Depreciation on addition is charged from the month in which the asset is available for use and on disposal up to the preceding month of disposal.

Maintenance and repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized. Gain or loss, if any, on disposal is credited or charged to income in the year of disposal.

During the year, company has adopted to charge depreciation on additions made during the year from the month in which asset is available for use and on disposal up to the preceding month of disposal. The change has been applied prospectively.

Had there been no change in the policy the effects would have been as follows :

Depreciation expense would have been higher by

Rupees

Accounting profit would have been lower by

97,674

(97,674)

2.4 TAXATION

CURRENT

Provision for current taxation is based on taxable income of the company after taking into account rebates, if any, allowable to the company. In case of loss the tax liability is calculated according to the provision of section 113 of Income Tax Ordinance 2001. The current year charge also includes adjustments for prior years or otherwise considered necessary for such years.

DEFERRED

Deferred tax, if any, is accounted for using the balance sheet liability method in respect of all temporary differences arising between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit and loss account except in the cases where it is included in equity.

2.5 STORES, SPARE PARTS AND LOOSE TOOLS

These are valued at moving average cost less allowance for obsolete items.

2.6 STOCK IN TRADE

Stock in trade is stated at the lower of average cost and net realizable value, less allowance for obsolete items.

Raw material at moving average purchase cost and directly attributable expenses.

Work in process and finished goods at moving average cost of raw materials and applicable manufacturing expenses.

Raw material in transit at invoice value plus other charges incurred up to the balance sheet date.

2.7 REVENUE RECOGNITION

Revenue from sales is recognized on delivery of products, ex-factory, to the customers. Other income is recognized on actual basis

2.8 FOREIGN CURRENCY TRANSACTIONS AND TRANSLATIONS

Foreign Exchange transactions are translated into reporting currency at the rates of exchange prevailing on the date of transactions except repayments of foreign currency loans, which are covered against exchange rate risk. Monetary assets and liabilities denominated in foreign currency are translated into reporting currency equivalents using balance sheet date exchange rates except for foreign currency loans for the same reason stated before. Non monetary assets and liabilities are stated using exchange rates that existed when the values were determined. Exchange differences on foreign currency transactions are charged to income.

2.9 FINANCIAL INSTRUMENTS

Financial assets are recognized when the company becomes a party to the contractual provisions of the instrument and de-recognized when the company loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged cancelled or expired. The particular measurement methods adopted are disclosed in the individual policy statements associated with each items as shown below:

a) Long term loans and accrued interest

All loans are initially recognized at cost. After initial recognition, all loans and accrued interest thereon are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the profit and loss account.

b) Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received. Payable to related parties are recognized and carried at cost.

c) Provisions

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

d) Trade and other receivables

Trade and other receivables are recognized and carried at original invoice amount / cost less an allowance for any uncollectible amounts.

e) Cash and bank balances

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, cash with banks on current, saving and deposit accounts and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

e) Related party transactions

The comparable uncontrolled price method is used for valuation of transfer of any asset .

| | 2009 Rupees | 2008 Rupees |
|--|----------------------------|---------------------------|
| 3. SHARE CAPITAL | | |
| Authorized share capital 8,000,000 (2008 : 8,000,000) Ordinary shares of Rs. 10/- each. | <u><u>80,000,000</u></u> | <u><u>80,000,000</u></u> |
| Issued, subscribed and paid up share capital | | |
| Ordinary shares issued for cash 7,741,200 (2008: 7,741,200) Ordinary shares of Rs. 10/- each. | <u><u>77,412,000</u></u> | <u><u>77,412,000</u></u> |
| 4. SURPLUS ON REVALUATION OF FIXED ASSETS | | |
| Land and building 4.1 | 57,665,001 | 57,665,001 |
| Plant and machinery 4.2 | <u><u>166,884,236</u></u> | <u>166,884,236</u> |
| | 224,549,237 | 224,549,237 |
| Less: Accumulated depreciation | <u><u>(18,706,061)</u></u> | <u>(9,558,619)</u> |
| | <u><u>205,843,176</u></u> | <u><u>214,990,618</u></u> |

4.1 Revaluation of land and building was carried out on June 08, 2004 by M/s Industrial Consultants and Machinery linkers Peshawar an independent valuer firm approved by State Bank of Pakistan for the purpose of revaluation of fixed assets. Revaluation was carried out on the basis of replacement cost of similar assets under similar conditions.

4.2 Revaluation of plant and machinery was carried out on June 30, 1996 by M/s Global Engineering (Private) Limited. Faisalabad, an independent valuer. The valuation was duly certified by R.H. & Co. Chartered Accountants, a firm approved by the State Bank of Pakistan for the purpose of revaluation of fixed assets. Revaluation was carried out on the basis of depreciated replacement value.

4.3 Surplus on revaluation of fixed assets is amortized for the incremental depreciation arising out of revaluation.

| | | 2009 Rupees | 2008 Rupees |
|---------------------------|-----|--------------------|--------------------|
| 5. LONG TERM LOANS | | | |
| Financial institutions | 5.1 | 88,855,089 | 281,350,845 |
| Directors | 5.2 | 102,005,130 | 111,562,907 |
| | | <u>190,860,219</u> | <u>392,913,752</u> |

5.1 Outstanding balances of borrowings from financial institutions as under:

| | 2009 Rupees | 2008 Rupees |
|---|---------------------|--------------------|
| National Bank of Pakistan | 73,749,115 | 69,348,000 |
| Banker's Equity Limited (U/L) | 11,229,540 | 38,882,922 |
| Habib Bank Limited | 3,154,834 | - |
| National Bank of Pakistan (BEL syndicate) | 4,170,887 | - |
| Allied Bank Limited | 1,909,663 | - |
| MCB Bank Limited | 2,369,353 | - |
| United Bank Limited | 2,465,292 | - |
| ORIX Investment Bank Pakistan Limited | 8,613,872 | 12,555,778 |
| NIB Bank | 18,508,935 | 29,775,340 |
| Bank of Khyber | 15,350,326 | 49,180,915 |
| Accrued interest on loans | - | 44,727,708 |
| Deferred liabilities | - | 36,880,182 |
| | <u>141,521,817</u> | <u>281,350,845</u> |
| Less: Current portion | <u>(52,666,728)</u> | - |
| | <u>88,855,089</u> | <u>281,350,845</u> |

5.1.1 In 2006, company approached The State Bank of Pakistan's Committee for Revival of Sick Industrial Units (CRSIU) for restructuring of these liabilities. CRSIU arranged the meeting of all participant financial institutions in which CRSIU directed all the financial institutions to reduce their respective loans proportionately to the forced sale value (FSV) of the project of Rs. 168 Million.

5.1.2 On march 5, 2009 the settlement agreement was signed by all the above mentioned banks resulting into:

- (a) Waiver of principal and mark up of Rupees 114,126,275 (outstanding loan Rs 281,350,845 minus forced sale value 168,000,000);
- (b) Revised repayment terms as under:

| Name of bank | No of installment | Amount of each installment (Rs) | Commencing from |
|---|-------------------|---------------------------------|-----------------|
| National bank of Pakistan | 36 Monthly | 2,234,825 | March-09 |
| Banker's Equity limited (U/L) | 36 Monthly | 340,290 | March-09 |
| Habib bank limited | 36 Monthly | 95,602 | March-09 |
| National bank of Pakistan (BEL syndicate) | 36 Monthly | 126,391 | March-09 |
| Allied bank limited | 36 Monthly | 57,869 | March-09 |
| MCB bank limited | 36 Monthly | 71,799 | March-09 |
| United bank limited | 36 Monthly | 74,706 | March-09 |
| ORIX Investment bank Pakistan limited | 36 Monthly | 261,027 | March-09 |
| NIB Bank | 36 Monthly | 597,063 | March-09 |
| Bank of Khyber | 36 Monthly | 529,322 | March-09 |
| | | <u>4,388,894</u> | |

- (c) No further markup.

5.1.3 These are secured against 1st charge on Project Assets ranking Pari Passu with PICIC, 1st charge on stocks, book debts, and other current assets, hypothecation of stocks, pledge of stocks and personal guarantees of sponsors.

5.2 This represents unsecured, interest free borrowings from director of the company for undefined period.

| | | 2009 Rupees | 2008 Rupees |
|------------------------------------|-----|-------------------|-------------------|
| 6. TRADE AND OTHER PAYABLES | | | |
| Trade creditors | | 20,465,746 | 12,924,070 |
| Accrued liabilities | | 11,122,138 | 9,600,648 |
| Advances from customers | | 41,332,421 | - |
| Advance rental income | | 376,573 | 1,176,000 |
| Unclaimed dividend | | 3,189,224 | 3,189,224 |
| Other payables | | 1,923,700 | 1,705,900 |
| Workers Profit Participation Fund | | 5,737,908 | 710,002 |
| Due to Government | 6.1 | 6,302,054 | 6,074,855 |
| | | <u>90,449,764</u> | <u>35,380,699</u> |
| 6.1 Due to Government | | | |
| Sales tax payable | | 1,724,652 | 4,282,846 |
| With holding tax payable | | 2,589,434 | 1,714,645 |
| Workers Welfare Fund | | 1,987,968 | 77,364 |
| | | <u>6,302,054</u> | <u>6,074,855</u> |

| | | 2009 Rupees | 2008 Rupees |
|---------------------------------|-----|------------------|------------------|
| 7. SHORT TERM BORROWINGS | | | |
| Associated undertakings | 7.1 | 448,101 | 1,796,521 |
| Musharaka finance facility | 7.2 | 1,910,000 | 2,030,000 |
| | | <u>2,358,101</u> | <u>3,826,521</u> |

7.1 This is from Toyota Rawal Motors (Private) Limited, an associated company. This is unsecured and carries mark-up @ 11.5% per annum.

7.2 This is from Innovative Investment Bank Limited and carries mark-up @ 15% per annum.

| | | 2009 Rupees | 2008 Rupees |
|----------------------------------|--|------------------|------------------|
| 8. PROVISION FOR TAXATION | | | |
| Opening balance | | 1,429,369 | 1,021,675 |
| Provision made during the year | | | |
| Current | | 180,200 | 407,694 |
| | | <u>1,609,569</u> | <u>1,429,369</u> |
| Paid/ adjusted | | - | - |
| | | <u>1,609,569</u> | <u>1,429,369</u> |

9. CONTINGENCIES AND COMMITMENTS

The company is contingently liable in respect of Sales Tax liability of Rs 18.5 million (2008 : Rs 18.5 million) pursuant to the charges for the non payment of Sales Tax on certain items of taxable supply. The case is pending before Inland Revenue Appellate Tribunal. No provision has been recognized in the financial statements as the management of the company and legal advisor is of the opinion that the case will be settled in favor of the company. However, company has paid Rs 4,760,039 under protest as reflected in Note No. 14 of these financial statements.

10. PROPERTY, PLANT AND EQUIPMENT

| PARTICULARS | COST | | | R A T E | DEPRECIATION | | | WRITTEN DOWN VALUE AS AT JUNE 30, 2009 |
|------------------------------|------------------------|----------------------|------------------------|------------------|------------------------|---------------------------------|------------------------|--|
| | AS AT JULY 01, 2008 | ADDITION/ (DELETION) | AS AT JUNE 30, 2009 | | AS AT JULY 01, 2008 | FOR THE YEAR / (ADJUSTMENTS) | AS AT JUNE 30, 2009 | |
| | -----2009----- | | | | | | | |
| Lease hold land | 20,580,000 | - | 20,580,000 | - | - | - | - | 20,580,000 |
| Buildings on lease hold land | | | | | | | | |
| - Factory | 111,951,197 | - | 111,951,197 | 5% | 59,261,602 | 2,634,480 | 61,896,082 | 50,055,115 |
| - Office | 2,648,885 | - | 2,648,885 | 5% | 1,478,552 | 58,517 | 1,537,069 | 1,111,816 |
| Plant and machinery | | | | | | | | |
| - Imported | 449,226,252 | 5,311,433 | 454,537,685 | 4% | 191,540,550 | 10,463,079 | 202,003,629 | 252,534,056 |
| - Local | 9,326,373 | 126,000 | 9,452,373 | 10% | 5,035,961 | 433,275 | 5,469,236 | 3,983,137 |
| - Electrification | 12,761,146 | 819,550 | 13,580,696 | 5% | 7,731,370 | 273,742 | 8,005,112 | 5,575,584 |
| - Casting benches | 1,796,000 | - | 1,796,000 | 10% | 1,577,649 | 21,835 | 1,599,484 | 196,516 |
| Furniture and fixtures | 2,456,836 | 238,225 | 2,695,061 | 10% | 1,972,542 | 71,398 | 2,043,940 | 651,121 |
| Vehicles | 1,387,530 | - | 1,387,530 | 20% | 374,360 | 202,634 | 576,994 | 810,536 |
| Office equipment | 4,495,686 | 8,100 | 4,503,786 | 10% | 3,240,292 | 126,282 | 3,366,574 | 1,137,212 |
| Generators | 460,000 | 175,000 | 635,000 | 10% | 369,157 | 19,293 | 388,450 | 246,550 |
| Laboratory ware | 30,130 | 19,500 | 49,630 | 20% | 29,333 | 809 | 30,142 | 19,488 |
| Computers | 126,650 | 25,950 | 152,600 | 30% | 37,995 | 32,067 | 70,062 | 82,538 |
| Rupees | 617,246,685 | 6,723,758 | 623,970,442 | | 272,649,363 | 14,337,411 | 286,986,774 | 336,983,668 |

| PARTICULARS | COST | | | R A T E | DEPRECIATION | | | WRITTEN DOWN VALUE AS AT JUNE 30, 2008 |
|------------------------------|------------------------|----------------------|------------------------|------------------|------------------------|-------------------|------------------------|--|
| | AS AT JULY 01, 2007 | ADDITION/ (DELETION) | AS AT JUNE 30, 2008 | | AS AT JULY 01, 2007 | FOR THE YEAR | AS AT JUNE 30, 2008 | |
| | -----2008----- | | | | | | | |
| Lease hold land | 20,580,000 | - | 20,580,000 | - | - | - | - | 20,580,000 |
| Buildings on lease hold land | | | | | | | | |
| - Factory | 111,951,197 | - | 111,951,197 | 5% | 56,488,465 | 2,773,137 | 59,261,602 | 52,689,595 |
| - Office | 2,648,885 | - | 2,648,885 | 5% | 1,416,956 | 61,596 | 1,478,552 | 1,170,333 |
| Plant and machinery | | | | | | | | |
| - Imported | 415,123,745 | 34,102,507 | 449,226,252 | 4% | 180,803,646 | 10,736,904 | 191,540,550 | 257,685,702 |
| - Local | 7,491,581 | 1,834,792 | 9,326,373 | 10% | 4,559,248 | 476,713 | 5,035,961 | 4,290,412 |
| - Electrification | 12,761,146 | - | 12,761,146 | 5% | 7,466,645 | 264,725 | 7,731,370 | 5,029,776 |
| - Casting benches | 1,796,000 | - | 1,796,000 | 10% | 1,553,388 | 24,261 | 1,577,649 | 218,351 |
| Furniture and fixtures | 2,389,767 | 67,069 | 2,456,836 | 10% | 1,918,731 | 53,811 | 1,972,542 | 484,294 |
| Vehicles | 220,310 | 1,167,220 | 1,387,530 | 20% | 121,067 | 253,293 | 374,360 | 1,013,170 |
| Office equipment | 4,465,936 | 29,750 | 4,495,686 | 10% | 3,100,804 | 139,488 | 3,240,292 | 1,255,394 |
| Generators | 460,000 | - | 460,000 | 10% | 359,063 | 10,094 | 369,157 | 90,843 |
| Laboratory ware | 30,130 | - | 30,130 | 20% | 29,134 | 199 | 29,333 | 797 |
| Computers | - | 126,650 | 126,650 | 30% | - | 37,995 | 37,995 | 88,655 |
| Rupees | 579,918,696 | 37,327,988 | 617,246,685 | | 257,817,147 | 14,832,216 | 272,649,363 | 344,597,322 |

| | 2009 Rupees | 2008 Rupees |
|---|-------------------|-------------------|
| 10.1 Depreciation has been allocated as under: | | |
| Cost of sales | 11,469,929 | 11,865,773 |
| Administrative Expenses | 1,433,741 | 1,483,222 |
| Selling Expenses | 1,433,741 | 1,483,222 |
| | <u>14,337,411</u> | <u>14,832,216</u> |

10.2 Cost of lease hold land, building on lease hold land and plant and machinery are stated at revalued amounts (see Note No. 4). The carrying amount of these items of property, plant and equipment measured using the cost model are as under:

| | 2009 | | | 2008 | | |
|----------------------------|--------------------|--------------------------|--------------------|--------------------|--------------------------|--------------------|
| | Cost | Accumulated Depreciation | Written Down Value | Cost | Accumulated Depreciation | Written Down Value |
| Lease hold land | 3,518,245 | - | 3,518,245 | 3,518,245 | - | 3,518,245 |
| Building on leasehold land | 62,653,320 | 16,597,372 | 46,055,948 | 62,653,320 | 14,173,375 | 48,479,945 |
| Plant & machinery | 225,847,963 | 168,855,861 | 56,992,102 | 225,847,963 | 162,523,405 | 63,324,558 |
| | <u>292,019,528</u> | <u>185,453,233</u> | <u>106,566,295</u> | <u>292,019,528</u> | <u>176,696,780</u> | <u>115,322,748</u> |

| | 2009 Rupees | 2008 Rupees |
|--|-------------------|-------------------|
| 11. STORES, SPARE PARTS AND LOOSE TOOLS | | |
| Spare parts and loose tools | 645,850 | 61,423 |
| Stores | 2,595,863 | 3,895,044 |
| | <u>3,241,714</u> | <u>3,956,467</u> |
| 12. STOCK IN TRADE | | |
| Raw material | 16,054,319 | 6,747,559 |
| Work in process | 419,661 | 40,112 |
| Finished goods | 12.1 51,836,187 | 51,161,825 |
| | <u>68,310,167</u> | <u>57,949,496</u> |

12.1 Stocks amounted to Rs 43,548,725 (2008 : 43,548,725) are pledged with the financial institutions against long term loans.

| | 2009 Rupees | 2008 Rupees |
|--|-------------------|-------------------|
| 13. TRADE DEBTS | | |
| Considered good - un secured | 13,401,578 | 22,975,004 |
| Considered doubtful - un secured | 3,000,000 | 3,000,000 |
| | <u>16,401,578</u> | <u>25,975,004</u> |
| Less: Provision for doubtful debts | (3,000,000) | (3,000,000) |
| | <u>13,401,578</u> | <u>22,975,004</u> |
| 14. ADVANCES | | |
| Advance to suppliers and contractors | 5,463,206 | 2,442,253 |
| Advance for expenses | 1,196,957 | 932,451 |
| Advance against salaries | 619,297 | 690,113 |
| Sales tax against contingent liability | 9 4,760,039 | 1,641,988 |
| Excise duty | 78,152 | 371,556 |
| Income Tax | 2,980,081 | 674,053 |
| Letter of credit and guarantee | 1,181,250 | 2,597,950 |
| | <u>16,278,982</u> | <u>9,350,364</u> |

15. CASH AND BANK BALANCES

| | | |
|---------------------------------|------------------|----------------|
| Cash in hand | 2,727,002 | 92,672 |
| Cash at bank - Current accounts | 881,869 | 871,591 |
| | <u>3,608,870</u> | <u>964,262</u> |

16. SALES

| | 2009 Rupees | 2008 Rupees |
|-------------------------|--------------------|-------------------|
| Tiles | 152,596,737 | 92,624,112 |
| Sanitary Wares | 1,259,693 | 1,701,900 |
| | <u>153,856,430</u> | <u>94,326,012</u> |
| Less: | | |
| Sales tax & excise duty | 21,120,504 | 10,502,810 |
| Trade discount | 8,497,671 | 13,804,470 |
| | <u>29,618,175</u> | <u>24,307,280</u> |
| | <u>124,238,255</u> | <u>70,018,732</u> |

17. COST OF SALES

| | | | |
|------------------------------|------|--------------------|--------------------|
| Opening stock finished goods | | 51,161,825 | 82,459,593 |
| Cost of goods manufactured | 17.1 | 122,456,065 | 123,634,565 |
| | | <u>173,617,890</u> | <u>206,094,158</u> |
| Closing stock finished goods | | (51,836,187) | (51,161,825) |
| | | <u>121,781,704</u> | <u>154,932,332</u> |

17.1 Cost of goods manufactured

| | | | |
|-------------------------------------|--------|--------------------|--------------------|
| Raw material consumed | 17.1.1 | 39,549,100 | 34,236,515 |
| Gas and electricity | | 41,962,104 | 33,534,346 |
| Salaries, wages and other benefits. | | 11,166,759 | 14,942,684 |
| Traveling and conveyance | | 832,070 | 1,146,524 |
| Insurance | | 45,529 | 288,406 |
| Repairs and maintenance | 17.1.2 | 17,221,920 | 23,768,309 |
| Canteen Expenses | | 588,204 | 1,509,022 |
| Depreciation | | 11,469,929 | 11,865,773 |
| | | <u>122,835,614</u> | <u>121,291,579</u> |
| Adjustment for work in process | | | |
| Opening stock | | 40,112 | 2,383,098 |
| Closing stock | | (419,661) | (40,112) |
| | | <u>(379,549)</u> | <u>2,342,986</u> |
| Cost of goods manufactured | | <u>122,456,065</u> | <u>123,634,565</u> |

17.1.1 Raw material consumed

| | | |
|-----------------------|-------------------|-------------------|
| Opening balance | 6,747,559 | 4,949,765 |
| Add: Import purchases | 34,548,854 | 27,025,729 |
| Local purchases | 14,307,006 | 9,008,580 |
| | <u>48,855,860</u> | <u>36,034,309</u> |
| | <u>55,603,419</u> | <u>40,984,074</u> |
| Less: Closing stock | (16,054,319) | (6,747,559) |
| | <u>39,549,100</u> | <u>34,236,515</u> |

17.1.2 Repairs and maintenance

| | | | |
|--|----------|-------------------|-------------------|
| Store, spares parts and loose tools consumed | 17.1.2.1 | 17,221,920 | 22,184,917 |
| Others | | - | 1,583,392 |
| | | <u>17,221,920</u> | <u>23,768,309</u> |
| 17.1.2.1 Opening balance | | 3,956,467 | 13,135,652 |
| Add: Purchases | | 16,507,167 | 13,005,732 |
| | | <u>20,463,634</u> | <u>26,141,384</u> |
| Less: Closing stock | | (3,241,714) | (3,956,467) |
| | | <u>17,221,920</u> | <u>22,184,917</u> |
| | | 2009 | 2008 |
| | | Rupees | Rupees |

18. ADMINISTRATIVE EXPENSES

| | | | |
|------------------------------------|-----------|-------------------|-------------------|
| Salaries, allowances and benefits | 18.1 | 6,196,891 | 9,705,276 |
| Rent, rates and taxes | | 187,765 | 533,574 |
| Printing and stationery | | 141,775 | 227,322 |
| Communication | | 300,629 | 400,975 |
| Fees and subscription | | 105,220 | 131,225 |
| Traveling and conveyance | | 455,795 | 494,891 |
| Legal and professional | | 248,070 | 285,792 |
| Repair and maintenance | | 337,304 | 242,164 |
| Vehicle running and maintenance | | 224,480 | 255,823 |
| Advertisement and promotion | | - | 102,660 |
| Miscellaneous | | 105,162 | 42,291 |
| Auditors' remuneration | 18.2 | 201,325 | 200,000 |
| Charity and donation | | 318,950 | 76,890 |
| Workers' welfare fund | 1,910,604 | 1,910,604 | - |
| Workers' profit participation fund | 5,027,906 | 5,027,906 | - |
| Depreciation | | 1,433,741 | 1,483,222 |
| | | <u>17,195,617</u> | <u>14,182,105</u> |

18.1 Remuneration of Chief executive and Executives

The aggregate amount for the year in respect of remuneration and benefits to the Chief Executive and Executives are as follows:

| | 2009 | | 2008 | |
|---|------------------|------------------|-----------------|------------------|
| | Chief Executive | Executives | Chief Executive | Executives |
| | -----RUPEES----- | | | |
| Managerial remuneration | 580,644 | 1,509,672 | 258,064 | 2,790,378 |
| Housing and utilities | 319,356 | 830,328 | 141,936 | 1,898,782 |
| | <u>900,000</u> | <u>2,340,000</u> | <u>400,000</u> | <u>4,689,160</u> |
| Number, including those who worked part of the year | 1 | 3 | 1 | 10 |

18.2 Auditors' remuneration

| | | |
|-------------------------|----------------|----------------|
| Audit fee | 150,000 | 150,000 |
| Out of pocket expenses. | 51,325 | 4,040 |
| | <u>201,325</u> | <u>154,040</u> |

19. SELLING AND DISTRIBUTION EXPENSES

| | | |
|-----------------------------------|------------------|-------------------|
| Salaries, allowances and benefits | 2,871,394 | 3,521,220 |
| Advertisements and promotion | 55,610 | 137,709 |
| Traveling and conveyance | 281,336 | 443,361 |
| Communication | - | 135,550 |
| Carriage outwards | - | 4,444,523 |
| Other expenses | - | 14,182 |
| Depreciation | 1,433,741 | 1,483,222 |
| | <u>4,642,081</u> | <u>10,179,766</u> |

| | 2009 Rupees | 2008 Rupees |
|--|--------------------|------------------|
| 20. FINANCIAL CHARGES | | |
| Bank Charges | 301,964 | 85,332 |
| Markup on short term borrowings | 512,381 | 150,170 |
| | <u>814,345</u> | <u>235,502</u> |
| 21. OTHER INCOME | | |
| Rental income | 1,152,000 | 1,152,000 |
| Sale of scrap | 25,900 | 49,426 |
| Balances written back | 21.1 112,637,204 | 3,519,960 |
| | <u>113,815,104</u> | <u>4,721,386</u> |
| 21.1 Credit balances written back | | |
| Long term loans as per CRSIU agreement | 114,126,275 | - |
| Payables | 2,119,659 | - |
| Musharaka finance facility | 120,000 | - |
| Provision for doubtful debts | - | 5,690,376 |
| | <u>116,365,934</u> | <u>5,690,376</u> |
| Less: Debit balances written off | | |
| Provident Fund | 2,620,861 | - |
| Due from Government | 627,869 | - |
| Receivable from Ex-CEO | 480,000 | - |
| Advances written off | - | 2,170,416 |
| | <u>3,728,730</u> | <u>2,170,416</u> |
| | <u>112,637,204</u> | <u>3,519,960</u> |
| 22. EARNINGS / (LOSS) PER SHARE | | |
| Profit after taxation - Rupees | 93,439,412 | (105,197,281) |
| Weighted average number of ordinary shares during the year - No. | 7,741,200 | 7,741,200 |
| Earnings / loss per share - Rupees | 12.07 | (13.59) |
| 23. FINANCIAL INSTRUMENTS | | |
| These comprises of advances, deposits, cash, loans and certain other assets and liabilities. | | |
| 24. FINANCIAL ASSETS | | |

| | Interest /Mark-up bearing | | | Non-Interest bearing | | | 2009 | 2008 | |
|-------------------------|---------------------------|--------------------|-----------|----------------------|--------------------|------------|------------|------------|--|
| | with in one year | more than one year | sub-total | with in one year | more than one year | sub-total | | | |
| Financial assets | ------(Rupees)----- | | | | | | | | |
| Long term deposits | - | - | - | - | 1,583,450 | 1,583,450 | 1,583,450 | 1,553,450 | |
| Trade debts | - | - | - | 13,401,578 | - | 13,401,578 | 13,401,578 | 22,975,004 | |

| | | | | | | | | |
|------------------------------|-----------|---|-----------|------------|-------------|-------------|-------------|-------------|
| Advances | - | - | - | 619,297 | - | 619,297 | 619,297 | 690,113 |
| Other receivables | - | - | - | - | - | - | - | 3,100,861 |
| Cash and bank balances | - | - | - | 3,608,870 | - | 3,608,870 | 3,608,870 | 964,262 |
| | - | - | - | 17,629,745 | 1,583,450 | 19,213,195 | 19,213,195 | 29,283,690 |
| Financial Liabilities | | | | | | | | |
| Non-current liabilities | - | - | - | 52,666,728 | 190,860,219 | 243,526,947 | 243,526,947 | 392,913,752 |
| Trade and other payables | - | - | - | 36,700,808 | - | 36,700,808 | 36,700,808 | 27,419,842 |
| Accrued interest | - | - | - | 662,551 | - | 662,551 | 662,551 | 150,169 |
| Short term borrowings | 2,358,101 | - | 2,358,101 | - | - | - | 2,358,101 | 3,826,521 |
| | 2,358,101 | - | 2,358,101 | 90,030,087 | 190,860,219 | 280,890,306 | 283,248,407 | 424,310,284 |

24.1 CURRENCY RISK

Currency risk is the risk that value of a financial instrument will fluctuate due to change in foreign exchange rates. This risk arises mainly where financial instruments are receivable and payable in foreign currency. The company has no outstanding balance in foreign currency at year end. However, The company is exposed to foreign exchange risk in lieu of import purchases as there are no forward contracts.

24.2 CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk represents that accounting loss would be recognized at the reporting date if counter parties failed to completely perform as contracted. The company's credit risk is primarily attributed to trade debts amounting to Rupees 13,401,578 (2008 - Rupees 22,975,004). The company believes that it is not exposed to major concentration of credit risk as credit worthiness of its trade debts is sound.

24.3 INTEREST RATE RISK

Interest rate risk is the risk that value of financial instrument will fluctuate due to changes in market interest rates. The company is not exposed to any material interest rate risks.

24.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

25. PLANT CAPACITY AND PRODUCTION

| | Production Capacity | Ideal Capacity | Actual production | Reason for under utilization |
|---------------|---------------------|-------------------|-------------------|---|
| Ceramic tiles | 2,700,000 sq. mtr | 2,160,000 sq. mtr | 1,095,000 sq. mtr | Non supply of gas during the winter season and political instability in the factory area. |
| Sanitary ware | 3000 tons | 3000 tons | NIL | Non availability of skilled workers and unfavorable market conditions. |

26. RELATED PARTY TRANSACTIONS

The related parties comprise of directors, key management personnel, entities over which the directors are able to exercise influence, major suppliers and employers funds. Balances outstanding with related parties at the year end is as follows:

| | 2009 Rupees | 2008 Rupees |
|---|----------------|----------------|
| Short term borrowings from associated undertaking | 448,100 | 1,716,521 |
| Mark up on borrowings | 139,451 | 150,170 |

No purchase and sales made from any related parties.

27. DATE OF AUTHORIZATION FOR ISSUE

These Financial Statements were authorized for issue on 19th May, 2010 by the Board of Directors of the Company.

28. FIGURES

In these financial statements figures have been rounded off to the nearest rupee and of the previous year have been re-arranged and re-grouped wherever necessary to facilitate comparison.

Peshawar,

CHIEF EXECUTIVE

DIRECTOR