

COST AUDITORS' REPORT

We, **SIDDIQI & COMPANY, Cost & Management Accountants** having been appointed to conduct an audit of cost accounts of **PIONEER CEMENT 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 records for the year ended June 30, 2010, 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 have been received from offices of the Company situated in 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,
 - Ordinary Portland Cement

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

SIDDIQI & COMPANY
Cost & Management Accountants

Karachi : 26 OCT 2010

1. CAPACITY (Tonne)

(a)

Clinker:

- Line-I (300 days x 2,350 T/D)
- Line-II (300 days x 4,300 T/D)
- Total

Licensed / Installed Capacity	Utilized Capacity	% of Rated Operational Capacity
705,000	469,240	67%
1,290,000	693,990	54%
1,995,000	1,163,230	58%

- Full production capacity of Kilns could not be utilized due to certain modifications in the plant and decline in prices as well as low demand due to recessionary conditions.

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

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:

- i) Lime stone / Clay / Shale Quarries and Transportation
- ii) Crushing
- iii) Raw Mill
- iv) Kiln
- v) Grinding (Cement Mill)
- vi) Packing & Storage

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

3. PRODUCTION

Qty. in Tonne

(a)

Clinker

- **Line-I**
Ordinary Portland
- **Line-II**
Ordinary Portland

Production		Increase / Decrease	
Y e a r s		Tonne	%
2010	2009		
469,240	493,426	(24,186)	(5%)
693,990	651,668	42,322	6%
1,163,230	1,145,094	18,136	2%

Cement

- Ordinary Portland

1,266,968	1,033,587	233,381	23%
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(b) The plant design facilitates production of the various types of cement as per production requirements within the installed capacity limits.

(c) There was no addition in production capacity in the last two years.

4. RAW MATERIAL

(a) Major Raw Materials Consumed

	2010			2009			2008		
	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	1,506,361	160,803	107	1,501,810	139,133	93	2,122,977	188,396	89
Shale / Clay	182,731	11,539	63	190,062	11,133	59	291,022	16,401	56
Laterite	52,694	36,072	685	66,207	35,879	542	121,933	62,485	512
Bauxite	20,405	12,370	606	11,472	6,670	581	23,068	10,422	452
Gypsum	62,255	29,213	469	42,657	15,573	365	89,032	35,747	402
Fly Ash	-	-	-	809	307	379	-	-	-
Salica Sand	774	500	646	-	-	-	-	-	-
Additives	40,061	4,276	107	15,639	1,375	88	-	-	-
Direct raw material cost		254,773			210,070			313,451	
Add / (less):									
Material handling & other cost		11,658			11,669			24,329	
Duty draw back on exports		(3,059)			(1,530)			(1,050)	
Total cost of raw material consumed		263,372			220,209			336,730	

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

Description	Budget Standard Tonne	ACTUAL			% Increase / (Decrease) as compared to Budget Standard		
		2010	2009	2008	2010	2009	2008
		Tonne	Tonne	Tonne			
Limestone – Clinker	1.32	1.29	1.30	1.29	(2.12)	(1.74)	(2.49)
Clay / Shale – Clinker	0.16	0.16	0.17	0.18	-	6.92	13.21
Laterite/Iron Ore – Clinker	0.04	0.05	0.06	0.07	19.21	57.89	84.21
Bauxite – Clinker	0.01	0.02	0.01	0.01	75.42	-	-
TOTAL – Clinker	1.53	1.51	1.54	1.52	1.31	0.65	(0.65)
Gypsum – Cement	0.05	0.05	0.04	0.06	-	(20.00)	20.00

(c) Explanation of Variances

- The variances from budget / standards are attributed to chemical contents of raw materials.

(d) Method of Accounting

- The company is maintaining raw material records using weighted average cost.
- Limestone and shale / clay are extracted from leased mines.
- Laterite, Iron ore, Bauxite, Salica Sand and Gypsum are purchased from open market. The quantities and values are recorded in the stores ledgers and general ledgers from receiving reports.

5. WAGES AND SALARIES**(a) Total wages and salaries paid for all categories of employees**

	2010	2009	2008	% Increase / (Decrease)	
	Rs. in '000	Rs. in '000	Rs. in '000	Base 2009	Base 2008
– Direct labour cost on production	137,915	137,841	117,291	0	18
– Indirect labour cost on production	66,528	57,219	59,006	16	13
– Total Direct & Indirect Labour Cost	204,443	195,060	176,297	5	16
– Employees' cost on administration	52,048	69,126	57,529	(25)	(10)
– Employees' cost on selling and distribution	22,730	31,425	31,895	(28)	(29)
Total employees cost	279,221	295,611	265,721	(6)	5

- There is no significant variance in wages and salaries.

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

Rs. in '000

	Chief Executive		Executives	
	2010	2009	2010	2009
Total number	1	1	17	17
(Rupees in '000')				
Basic salary	3,563	4,784	20,845	19,764
Contribution to provident fund and gratuity	84	1,660	1,393	6,329
Allowances & benefits	5,244	5,774	21,111	20,276
	8,891	12,218	43,349	46,369

- In addition, the chief executive and all the executives of the company have been provided with free use of company owned and maintained cars with other benefits in accordance with their entitlements as per rules of the company.

(c) Total man-days of direct labour**Available:** 300 days x 488 workers = 146,400 days**Worked:** 234 days x 488 workers = 114,192 days

Worked	Available	% Worked
114,192	146,400	78

(d) Average number of production workers employed

2010	2009	% of Increase/(Decrease)
488	510	(4)

(e) Direct labour cost per tonne

	2010	2009	2008	% of Increase/(Decrease)	
				Base 2009	Base 2008
Direct Labour Cost (Rs. in '000)	137,915	137,841	117,291	0	18
Production in Tonne - Cement	1,266,968	1,033,587	1,492,353	23	(15)
Cost per Tonne (Rs. / tonne)	109	133	79	(18)	39

- (f) Per tonne direct labour cost decreased mainly due to increase in volume of production.

(g) Comments on Incentives Scheme– *Defined Benefit Plan*

The company operates gratuity scheme as follows:

– *Contractual Workers*

The company operates unfunded gratuity scheme for its contractual workers.

– *Defined Contribution Plan*

The company also operates an approved contributory provident fund for all its permanent employees and equal monthly contributions are made both by the company and the employees of at the rate of 10 percent of basic salary.

– *Compensated Absences*

Accrual for compensated absences is made to the extent of the value of accrued absences of the employees at the balance sheet date using their current salary levels.

6. STORES AND SPARE PARTS**(a) Expenditure per unit of output**

Stores & Spares	(Rs. in '000)
Production	(Qty. in tonne)
Cost per tonne	(Rs. / tonne)

2010	2009	Increase / (Decrease) %
163,565	156,177	5
1,266,968	1,033,587	23
129	151	(15)

- Per tonne cost of stores and spares decreased due to increase in volume of production.

(b) System of stores

- These are valued at lower of weighted average cost and net realizable value. Cost comprises invoice value and other direct costs. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.
- Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make a sale.

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

- There are no slow moving items as such except necessary long term use items of stores / spares to meet emergency requirements compatible with size of cement production of the company.

7. DEPRECIATION**(a) Method of depreciation**

- As stated by the management fixed assets register is maintained but its physical verification has not been carried out.
- Depreciation is calculated on straight line method except plant and machinery and coal firing system on which depreciation is charged on the basis of units of production method. Depreciation on additions is charged from the month in which the asset is available for use and on disposals upto the month of disposal.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized. Gains and losses on disposals of assets, if any, are included in the 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:

- (i) Cost of Sales
- (ii) Admin. & General
- (iii) Selling & Distribution

2010		2009	
Rs. in '000	% age	Rs. in '000	% age
387,256	99	373,493	98
2,202	1	3,106	1
2,385	1	3,719	1
391,843	100	380,318	100

(c) Basis of charging depreciation to cost of products

- The depreciation is allocated to cost of production on the value of assets employed.

8. OVERHEADS

(a) Total amounts of the overheads

	2010	2009	2008
	Rs. in '000	Rs. in '000	Rs. in '000
(i) Factory	467,329	449,846	507,475
(ii) Administration	78,835	97,654	89,978
(iii) Selling & distribution	158,842	359,975	466,047
(iv) Financial charges	392,658	451,465	413,203
	1,097,664	1,358,940	1,476,703

(i) Factory Overheads

	2010	2009	2008	% Increase / (Decrease)	
				Based on 2009	Based on 2008
	Rs. in '000	Rs. in '000	Rs. in '000		
Travelling and conveyance	26,114	27,318	23,284	(4)	12
Insurance	10,120	10,236	10,423	(1)	(3)
Repairs & maintenance	42,318	37,935	44,131	12	(4)
Communication	1,815	2,324	2,695	(22)	(33)
Depreciation	376,054	362,299	416,238	4	(10)
Other manufacturing expenses	10,908	9,734	10,704	12	2
	467,329	449,846	507,475	4	(8)

– Factory overheads increased mainly due to increase in repair & maintenance, depreciation and other expenses.

(ii) Administration Overheads

	2010	2009	2008	% Increase / (Decrease)	
				Based on 2009	Based on 2008
	Rs. in '000	Rs. in '000	Rs. in '000		
Salaries, wages and benefits	52,048	69,126	57,529	(25)	(10)
Travelling and conveyance	1,807	2,095	4,177	(14)	(57)
Vehicle running expenses	3,551	4,150	3,319	(14)	7
Communication	1,696	2,232	2,262	(24)	(25)
Printing and stationery	1,352	1,528	1,786	(12)	(24)
Utilities	3,574	3,809	2,583	(6)	38
Repair & maintenance	1,737	1,667	1,544	4	13
Rent, rates and taxes	959	1,846	1,995	(48)	(52)
Legal and professional charges	3,081	1,835	3,108	68	(1)
Insurance	428	799	892	(46)	(52)
Auditors' remuneration	2,695	3,381	3,033	(20)	(11)
Fee and subscription	3,081	548	2,402	462	28
Entertainment	539	707	693	(24)	(22)
Depreciation	2,202	3,106	4,434	(29)	(50)
Others	85	825	221	(90)	(62)
	78,835	97,654	89,978	(19)	(12)

– The overall admin. overheads decreased except increase in legal & professional charges and fees and subscription as compared to last year.

(iii) Selling and Distribution Overheads

	2010 Rs. in '000	2009 Rs. in '000	2008 Rs. in '000	% Increase / (Decrease)	
				Based on 2009	Based on 2008
Salaries, wages and benefits	22,730	31,425	31,895	(28)	(29)
Travelling and conveyance	378	722	1,011	(48)	(63)
Vehicle running expenses	2,101	3,474	3,128	(40)	(33)
Communication	1,513	2,335	3,005	(35)	(50)
Printing and stationery	586	1,454	1,490	(60)	(61)
Rent, rates and taxes	1,803	1,789	2,676	1	(33)
Utilities	1,272	1,457	1,331	(13)	(4)
Repairs & maintenance	792	1,597	1,269	(50)	(38)
Legal and professional charges	5,921	5,038	3,447	18	72
Insurance	490	830	847	(41)	(42)
Fee & subscription	433	1,661	1,036	(74)	(58)
Advertisements / sales promotion	1,727	2,137	1,236	(19)	40
Frieght & handling Charges	116,138	301,599	409,457	(61)	(72)
Entertainment	573	738	787	(22)	(27)
Depreciation	2,385	3,719	3,432	(36)	(31)
	158,842	359,975	466,047	(56)	(66)

- Selling and distribution overheads decreased mainly due to decrease in frieght and handling charges which relates directly to exports.

(iv) Financial Charges

	2010 Rs. in '000	2009 Rs. in '000	2008 Rs. in '000	% Increase / (Decrease)	
				Based on 2009	Based on 2008
– Mark-up on long term financing / loans / lease / profit on murhaba financing	270,590	361,790	354,226	(25)	(24)
– Interest on long / short term finances	106,804	74,974	34,314	42	211
– Fee, charges and commission	15,264	14,701	22,897	4	(33)
– Advisory, arrangements and upfront fee	-	-	1,766	-	(100)
	392,658	451,465	413,203	(13)	(5)

- The financial charges decreased due to decrease in markup on long term finances / loans.

(b) Reasons for any significant variances

- Reasons are already stated against each para shown above.

(c) Basis of allocation of overheads

- The allocation was made on activity based on %age basis.

**(d) Cost of Packing
(OPC + SRC)**

	Quantity in Tonne	
	2010	2009
– Packed Cement	1,272,418	1,015,044
– Bulk Cement	706	11,701
Total	1,273,124	1,026,745

	2010		2009		Increase / (Decrease)	
	Rs. in '000	Rupees/Ton	Rs. in '000	Rupees/Ton	Rupees/Ton	%
Packing material	389,454	306.07	322,517	317.74	(11.66)	(4)
Power	10,446	8.21	8,256	8.04	0.16	2
Stores and spares	1,872	1.47	3,530	3.44	(1.97)	(57)
Salaries and other benefits	17,185	13.50	23,969	23.34	(9.85)	(42)
Insurance	202	0.16	205	0.20	(0.04)	(20)
Repairs and maintenance	1,854	1.46	866	0.84	0.61	73
Depreciation	7,125	5.60	7,285	7.09	(1.50)	(21)
Other overheads	14,914	11.71	12,827	12.49	(0.78)	(6)
	443,052	348.17	379,454	373.19	(25.02)	(7)

- Per tonne cost of packing material has been calculated on the basis of cement packed into bags.
- The per tonne packing cost decreased due to increase in volume of packed cement.

9. ROYALTY / TECHNICAL AID PAYMENTS

	2 0 1 0			2 0 0 9		
	Production in Tonne	Rupees in '000	Rupees / Tonne	Production in Tonne	Rupees in '000	Rupees / Tonne
Limestone / Clay	1,729,152	52,859	30.57	1,706,702	29,610	17.35

- Royalty and excise duty is paid to the Provincial Govt. on the quantity of lime stone / clay extracted and transported to mill from land at statutory rates.

10. ABNORMAL NON-RECURRING FEATURES**(a) Features affecting production**

= NONE =

(b) Special expenses

= NONE =

11. COST OF PRODUCTION*(As per Schedule-1 attached)*

	2 0 1 0			2 0 0 9			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	1,266,968	3,934,572	3,106	1,033,587	3,330,921	3,223	(4)
Clinker consumed for sale							
OPC	440	1,106	2,514	139,350	359,228	2,578	(2)
		3,935,678			3,690,150		

– There is no significant variance in per ton cost of production.

12. SALES*(As per Schedule-2 attached)*

	2 0 1 0			2 0 0 9			Increase / (Decrease) % Rs. P/Ton
	Qty. in Tonne	Rs. in 000	Rs. Per Ton	Qty. in Tonne	Rs. in 000	Rs. Per Ton	
Local							
– OPC	1,081,500	3,196,103	2,955	922,510	3,973,092	4,307	(31)
– Clinker	200	579	2,895	-	-	-	-
	1,081,700	3,196,682	2,955	922,510	3,973,092	4,307	(31)
Export							
– OPC	191,624	675,279	3,524	104,235	456,064	4,375	(19)
– Clinker	240	873	3,638	139,350	571,079	4,098	(11)
	191,864	676,152	3,524	243,585	1,027,143	4,217	(16)
Total	1,273,564	3,872,834	3,041	1,166,095	5,000,235	4,288	(29)

– Selling price per ton of cement decreased due to cut throat competition in the market.

– Cement was exported to Aghanistan, India, Singapore, Eritrea and Sudan.

– Clinker was exported to India.

13. PROFITABILITY*(As per Schedule-3 attached)*

Profit / (Loss) Local	2 0 1 0			2 0 0 9			Increase / (Decrease) % Rs. P/Ton
	Qty. in Tonne	Rs. in 000	Rs. Per Ton	Qty. in Tonne	Rs. in 000	Rs. Per Ton	
– OPC	1,081,500	(726,729)	(672)	922,510	342,166	371	(281)
– Clinker	200	(28)	(139)	-	-	-	-
	1,081,700	(726,757)	(672)	922,510	342,166	371	(281)
Export							
– OPC	191,624	(132,562)	(692)	104,235	(104,760)	(1,005)	(31)
– Clinker	240	-	-	139,350	(63,099)	(453)	(100)
	191,864	(132,562)	(691)	243,585	(167,859)	(689)	0
Total	1,273,564	(859,319)	(675)	1,166,095	174,306	149	(551)

- The company incurred a loss of Rs. 859.319 million during the year under review mainly on account of:
 - i) Low selling prices of local sales as well as export of cement.
 - ii) Under utilization of plant capacity.
 - iii) Exchange loss of Rs. 168 million on account of devaluation of pak rupee.

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 except that current liabilities of Rs. 4,908,339 million against current assets Rs. 1,334,028 million which shows that current liabilities increased by Rs. 3,574,311 (OR 268%) over the current assets. The current ratio is negative which speaks of weak liquidity position of the company.

(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.

= NONE =

(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.*

- A full fledged internal audit department has been established by the company. The audit findings are reported to the top management through the audit committee and corrective measures are immediately adopted wherever necessary.

(e) Suggestion for improvements in performance.

(i) *rectification of general imbalance in production facilities*

- Cement grinding capacity of 1,620,000 M.Tonne is not in harmony with clinker capacity of 1,995,000 M.Tonne. Management may consider to rectify the imbalance in the plant.

(ii) *fuller utilization of installed capacity*

- Optimum plant capacity has not been fully utilized in the year under review. Efforts should be made to utilize the company at the maximum level.

(iii) *Comments on areas offering scope for*

(a) Cost reduction

- The management shall have to fully utilize the plant capacity to reduce per tonne cost on larger volume of production.

(b) Increased productivity

- Same comments as above.

(c) Key limiting factors causing production bottle necks

- As stated at item e(i) above grinding capacity of cement is lower than clinker production capacity.

(d) Improved inventory policies

- Present inventory policies appear to be satisfactory.

(e) Energy conservancy

- The company is using 'COAL' as one of the cheapest source of energy.

(iv) *State of technology*

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

(v) *Plant*

- Initially the plant was new when installed. However during the year 2005-2006, a second line (Kiln-II) was installed and commissioned which includes new and used equipments.

15. RECONCILIATIONS WITH FINANCIAL STATEMENTS

- The cost accounts are reconciled with audited financial accounts for the year ended June 30, 2010 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 the nearest thousand and rupee one.
- Previous year's figures have been re-arranged and regrouped where necessary to facilitate comparison.

SIDDIQI & COMPANY
Cost & Management Accountants

Karachi :