PIONEER CEMENT LTD.

ENDURING STRENGTH




FOR THE PERIOD ENDED DECEMBER 31, 2010

HALF YEARLY ACCOUNTS

2010

Contents

Corporate Information

Board of Directors

Chairman
Mr. Manzoor Hayat Noon

Managing Director & CEO
Syed Mazher Iqbal

Directors
Mr. Aly Khan
Mr. Omer Adil Jaffar
Mr. William Gordon Rodgers
Mr. Javaid Haider
Mr. Rafique Dawood (FDIB)
Mr. Cevdet DAL
Mr. Etrat Hussain Rizvi
Mr. Saleem Shahzada

Audit Committee

Chairman
Mr. Rafique Dawood (FDIB)

Members
Mr. Aly Khan
Mr. William Gordon Rodgers
Mr. Javaid Haider
Mr. Saleem Shahzada

Chief Financial Officer
Mr. Amjad Waqar

Company Secretary
Syed Anwar Ali

Internal Auditor
Mr. Muhammad Zafar Qidwai

Senior Management
Mr. Javed Elahi
Executive Director Operations

Mr. Rizwan Butt
GM Marketing & Sales

Statutory Auditors
Ernst & Young Ford Rhodes Sidat Hyder (Chartered Accountants)

Cost Auditors
Siddiqui & Co.

Legal Advisor
Hassan & Hassan

Bankers
Askari Commercial Bank Limited
Bank Al Habib Limited
Bank Islami Pakistan Limited
Habib Bank Limited
Hong Kong Shanghai Banking Corp.
JS Bank Limited
Meezan Bank Limited
MCB Bank Limited
National Bank of Pakistan
The Bank of Punjab
The Royal Bank of Scotland
United Bank Limited

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DIRECTORS' REPORT

The directors of your company would like to present their report for the half year ended Dec 31, 2010.

INDUSTRY OVERVIEW:

The cement industry during the period under review has been on the mend. Despite weakening demand in domestic and international market, the domestic cement prices gained some strength and consolidated during the period under review. The Industry volumetric sales registered a decline of 11% to settle at 14.7 million tons, compared to 16.6 million tons in same period last year, with a capacity utilization of 63%. The domestic sales decreased by 8% whereas export volume declined by 17%.

Once the winter is over, cement demand and prices are likely to improve on anticipated revival in construction activities in the post flood scenario. However, steep rise in input cost is more than offsetting improvement in prices. Prevailing general inflation in the country has bolstered all input cost including raw material, packing material and transportation cost. The impact is more pronounced in an unabated rise in electricity cost and the recent surge in prices of imported coal, with local coal prices trailing. Recent floods in Australia have pushed international coal prices from US $ 96/ton FOB in Sep 2010 to US $ 135/ ton FOB in January 2011. Taking cue, local coal prices are presently hovering around Rs 10,000 per ton from a low of Rs 8,000 per ton in Sep 2010. To add salt to the wounds, increase in discount rate is further hurting the already deteriorated profitability of the heavily leveraged cement industry.

BUSINESS PERFORMANCE:

Production and Sales Volume:

Clinker production during the half year under review registered an increase of over 11% at 577,951 tons, compared to 518,988 tons produced in the same period last year. Cement production also increased 8% to reach 634,691 tons compared to 585,498 tons produced in the comparative period last year, mainly on the back of higher export volume.

Though cement sector sale registered an overall decline of 11%, the volumetric sales of your company have gone up by 7%, from 585,932 tons last year to 628,808 tons during the period under review. It comprised 492,729 tons domestic sales and 136,079 tons export as compared to 514,325 tons local sales and 71,478 tons exports respectively, during the same period last year. Domestic sales witnessed a decline of 4% which was more than compensated by substantial increase of 90% in export volume.

Financial Results:

Highlights of Financial results for the period under review are as under:

	Jul-Dec'10 Rs. in million	**Jul-Dec'09** Rs. in million
Net Sales Revenue	2,393.756	1,778.536
Cost of Goods Sold	2,154.695	1,780.539
Gross Profit /(loss)	239.061	(2.003)
Operating profit / (loss)	149.843	(102.133)
Net loss before tax	(136.508)	(388.177)
Net loss after tax	(173.907)	(238.617)

Net sales revenue of Rs 2,393.8 million is a significant increase of 35% from Rs. 1,778.5 million in the same period last year. The increase in sales revenue is mainly attributed to increase in retention prices and partly to volumetric increase in sales. The increase in retention prices is a combination of market phenomenon and concerted marketing efforts to increase sale in high retention areas closer to the plant. The advantage of improved retention prices was however diminished by a 21% increase in cost of goods sold over comparative period. This comprises 7% volume growth and 14% increase due to rise in input cost, particularly electricity and coal, two major cost components. Improved retention prices helped achieving a gross profit of 10% as against marginally negative margin in the same period last year.

The Company registered a loss before tax of Rs.136.5 million as compared to a loss before tax of Rs 388.2 million sustained during the comparative period last year. The net loss after tax is Rs. 173.9 million after accounting for a tax charge of Rs.37.4 million in contrast to comparative period after tax loss of Rs. 238.6 million after accounting for a net tax credit of Rs 149.6 million. The Company incurred an exchange loss of Rs.96.0 million on account of devaluation of Pak-rupee as compared to Rs. 83.4 million charged in the same period last year. Financial cost has slightly declined to Rs.190.3 million mainly on account of better fund management despite tight liquidity position due to losses.

The on-going cost control efforts and austerity drive helped in overall reduction in expenses whereby admin expenses have significantly reduced by 40%, manufacturing expenses like stores and spares reduced by 24%, repairs and maintenance by 43% and other manufacturing expenses by 12% when compared with same period last year.

Financial Restructuring:

The company was able to successfully negotiate financial restructuring packages, at improved pricing and repayment terms, with major local lenders including National bank of Pakistan (NBP), Bank of Punjab and Bankers Equity Limited. Certain formalities are in process with respect to the terms of revised agreement with NBP. In addition efforts are in place to restructure foreign currency debt which shall help reduce financial cost and eliminate exchange loss on depreciation of Pak rupees.

FUTURE PROSPECTS:

The local cement demand is likely to pick up in the next two quarters on the back of anticipated reconstruction and rehabilitation activities as well as infra-structure developments projects in floods ravaged areas.

Since the per capita cement consumption in Pakistan is one of lowest in the world, the government should help stimulate the cement demand by utilizing development fund and initiating housing as well as infrastructure projects like dams particularly in the flood affected areas.

The cement industry is heavily taxed, despite losses and significant unutilized capacities. The Government is urged to reduce sales tax and excise duty at par with neighboring countries, to enhance consumption of cement. By doing so, the revenue of the Government will also increase with increase in cement consumption. Last year, for a brief period, the Government allowed subsidy on exports @ 35% on inland freight charges. This subsidy shall resume to make exports viable, which will also help in earning much needed foreign exchange.

The Board is thankful to all the stakeholders including bankers, employees, distributors, business partners as well as regulators and shareholders for their continued support and trust.

J.M. Iqbal

Chief Executive Officer
February 10, 2011
Karachi

AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim balance sheet of Pioneer Cement Limited (the Company) as at 31 December 2010 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement and condensed interim statement of changes in equity and notes to the accounts for the six-months period then ended (here-in-after referred to as "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Without qualifying bur review report, we draw attention to the contents of note 1.3 to the accompanying condensed interim financial statements which indicates that the Company incurred a net loss of Rs.173.907 million during the period ended 31 December 2010 and, as of that date the Company's current liabilities exceeded its current assets by Rs.3,497.655 million and the mitigating factors as more fully explained in aforementioned note regarding the efforts being made by the Company to restructure / reschedule the amounts due to banks and financial institutions. These factors indicate a material dependency of future operations of the Company on successful completion of the aforementioned efforts as referred to in the said note.

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants
February 10, 2011
Karachi

Condensed Interim Balance Sheet
as at December 31, 2010

	Note	December 31, 2010 (Un-Audited)	June 30, 2010 (Audited)
ASSETS		(Rupees in '000)	
NON-CURRENT ASSETS			
Property, plant and equipment	4	**8,768,959**	8,937,904
Long-term loans – secured		**419**	482
Long-term deposits		**36,858**	53,080
		8,806,236	8,991,466
CURRENT ASSETS			
Stores, spare parts and loose tools	5	**496,046**	932,961
Stock-in-trade	6	**141,982**	132,072
Trade debts – unsecured, considered good		**56,120**	36,851
Loans and advances – considered good		**75,588**	53,542
Trade deposits and short-term prepayments		**377**	360
Other receivables		**19,440**	20,845
Current portion of long-term deposits		**31,700**	25,014
Taxation – net		**82,429**	76,511
Cash and bank balances	7	**86,796**	55,872
		990,478	1,334,028
TOTAL ASSETS		**9,796,714**	10,325,494
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized share capital		**3,500,000**	3,500,000
Issued, subscribed and paid-up capital	8	**2,271,489**	2,227,552
Reserves		**(131,322)**	(9,334)
		2,140,167	2,218,218
SURPLUS ON REVALUATION OF FIXED ASSETS – net of tax		**2,090,677**	2,120,629
NON-CURRENT LIABILITIES			
Liabilities against assets subject to finance lease	9	**80,855**	120,797
Long-term deposits		**1,148**	1,168
Long-term creditor – unsecured		**2,348**	2,348
Deferred liabilities	10	**455,721**	487,764
Long-term loans – secured	11	**537,666**	466,231
		1,077,738	1,078,308
CURRENT LIABILITIES			
Trade and other payables		**745,879**	903,936
Accrued interest / mark up		**388,137**	342,892
Short-term Murabaha – secured	12	**40,036**	399,109
Short-term finances	13	**662,017**	670,852
Current portion of long-term liabilities	14	**2,621,230**	2,569,938
Sales tax – net		**30,833**	21,612
		4,488,132	4,908,339
CONTINGENCIES AND COMMITMENTS	15		
TOTAL EQUITY AND LIABILITIES		**9,796,714**	10,325,494

The annexed notes from 1 to 25 form an integral part of these condensed interim financial statements.

Syed Mazher Iqbal
Chief Executive

Saleem Shahzada
Director

Condensed Interim Profit And Loss Account

For the half year ended December 31, 2010 (Un-audited)

	Note	Half year ended December 31, 2010	Half year ended December 31, 2009	Quarter ended December 31, 2010	Quarter ended December 31, 2009
		(Rupees in '000)			
Gross turnover	16	**3,167,451**	2,468,701	**1,773,450**	1,045,205
Excise duty		**364,532**	375,400	**189,053**	170,230
Sales tax		**388,370**	302,145	**208,364**	125,779
Commission		**20,793**	12,620	**10,873**	4,935
		773,695	690,165	**408,290**	300,944
Net turnover		**2,393,756**	1,778,536	**1,365,160**	744,261
Cost of sales	17	**2,154,695**	1,780,539	**1,222,098**	861,698
Gross profit / (loss)		**239,061**	(2,003)	**143,062**	(117,437)
Distribution cost	18	**79,327**	64,180	**50,075**	30,455
Administrative expenses		**24,390**	40,352	**12,535**	22,340
Other operating income		**(14,499)**	(4,402)	**(4,486)**	(1,470)
		89,218	100,130	**58,124**	51,325
Operating profit / (loss)		**149,843**	(102,133)	**84,938**	(168,762)
Finance cost		**190,309**	202,638	**104,592**	96,186
Other operating expenses	19	**96,042**	83,406	**22,627**	(9,289)
		286,351	286,044	**127,219**	86,897
Loss before taxation		**(136,508)**	(388,177)	**(42,281)**	(255,659)
Taxation	20	**(37,399)**	149,560	**(45,341)**	84,257
Loss after taxation		**(173,907)**	(238,617)	**(87,622)**	(171,402)
		(Rupees)			
Loss per share - Basic and diluted		**(0.78)**	(1.20)	**(0.38)**	(0.86)

The annexed notes from 1 to 25 form an integral part of these condensed interim financial statements.

Syed Mazher Iqbal
Chief Executive

Saleem Shahzada
Director

Condensed Interim Statement of Comprehensive Income
For the half year ended December 31, 2010 (Un-audited)

	Half year ended December 31,		Quarter ended December 31,	
	2010	2009	2010	2009
	(Rupees in '000)			
Loss for the period	**(173,907)**	(238,617)	**(87,622)**	(171,402)
Other comprehensive income \ (loss)	-	-	-	-
Total comprehensive loss for the period	**(173,907)**	(238,617)	**(87,622)**	(171,402)

The annexed notes from 1 to 25 form an integral part of these condensed interim financial statements.

Syed Mazher Iqbal
Chief Executive

Saleem Shahzada
Director

Condensed Interim Cash Flow Statement
For the half year ended December 31, 2010 (Un-audited)

	Note	Half Year Ended December 31, 2010	Half Year Ended December 31, 2009
		(Rupees in '000)	
Cash generated from operations	21	**588,277**	138,115
Income tax paid		**(30,339)**	(7,373)
Gratuity and compensated absences paid		**(2,412)**	(749)
Dividend paid		**(3)**	-
		(32,754)	(8,122)
Decrease in long-term loans to employees		**63**	2,067
Decrease in long-term deposits – net		**9,536**	15,880
Decrease in long-term creditor		**-**	(3,191)
Net cash inflow from operating activities		**565,122**	144,749
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		**(27,956)**	(44,997)
Proceeds from sale of fixed assets		**730**	1,643
Net cash outflow from investing activities		**(27,226)**	(43,354)
CASH FLOWS FROM FINANCING ACTIVITIES			
Murabaha finance (repaid) / obtained		**(359,073)**	121,795
Long-term loans		**(11,388)**	(58,192)
Long-term finance		**(4,657)**	-
Liabilities against assets subject to finance lease - net		**(34,926)**	(92,536)
Short - term finance		**(8,836)**	(67,890)
Finance cost paid		**(88,092)**	(107,831)
Net cash outflow from financing activities		**(506,972)**	(204,654)
Net Increase / (decrease) in cash and bank balances		**30,924**	(103,259)
Cash and bank balances at the beginning of the period		**55,872**	159,302
Cash and bank balances at the end of the period		**86,796**	56,043

The annexed notes from 1 to 25 form an integral part of these condensed interim financial statements.

Syed Mazher Iqbal
Chief Executive

Saleem Shahzada
Director

Condensed Interim Statement of Changes in Equity

For the half year ended December 31, 2010 (Un-audited)

	Issued, subscribed and paid-up capital	Capital reserve	Revenue reserve		
		Share Premium	Accumulated Profit / (Loss)	Total Reserves	Total Equity
	------------------------- (Rupees in '000) -------------------------				
Balance as at July 01, 2009	1,995,324	59,435	345,782	405,217	2,400,541
Loss for the period after taxation	-	-	(238,617)	(238,617)	(238,617)
Other comprehensive loss	-	-	-	-	-
Total comprehensive loss for the period	-	-	(238,617)	(238,617)	(238,617)
Surplus on revaluation of fixed assets realized during the period on account of incremental depreciation charge thereon – net of tax	-	-	27,462	27,462	27,462
Balance as at December 31, 2009	1,995,324	59,435	134,627	194,062	2,189,386
Balance as at July 01, 2010	**2,227,552**	**175,549**	**(184,883)**	**(9,334)**	**2,218,218**
Issue of shares against outstanding liability	**43,937**	**21,968**	**-**	**21,968**	**65,905**
Loss for the period after taxation	-	-	**(173,907)**	**(173,907)**	**(173,907)**
Other comprehensive loss	-	-	-	-	-
Total comprehensive loss for the period	-	-	**(173,907)**	**(173,907)**	**(173,907)**
Surplus on revaluation of fixed assets realized during the period on account of incremental depreciation charge thereon – net of tax	-	-	**29,951**	**29,951**	**29,951**
Balance as at December 31, 2010	**2,271,489**	**197,517**	**(328,839)**	**(131,322)**	**2,140,167**

The annexed notes from 1 to 25 form an integral part of these condensed interim financial statements.

Syed Mazher Iqbal
Chief Executive

Saleem Shahzada
Director

Notes to the Condensed Interim Financial Statements
For the half year ended December 31, 2010 (Un-audited)

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1. Pioneer Cement Limited (the Company) was incorporated in Pakistan as a public company limited by shares on February 09, 1986. Its shares are quoted on all stock exchanges in Pakistan. The principal activity of the Company is manufacture and sale of cement. The registered office of the Company is situated at 1st Floor, Alfalah Building, Shahrah-e-Quaid-e-Azam, Lahore. The Company's production facility is situated at Chenki, District Khushab.

1.2. The Company commenced its operation with an installed capacity of 2,000 tons per day clinker. During 2005, the capacity was optimized to 2,350 tons per day. During the year ended June 30, 2006, another production line of 4,300 tons per day clinker capacity was completed which started commercial operations from April 2006.

1.3. We refer to the note 1.4 to the financial statements for the year ended June 30, 2010, where the Company was in a gross loss situation resulting in an after tax loss of Rs.590.925 million (after deferred tax credit of Rs.291.7 million). Moreover, as of June 30, 2010, the current liabilities exceeded the current assets by Rs.3,574 million which was mainly due to current portion of long term liabilities aggregating Rs.2,570 million, due to the pending financial restructuring arrangements with major lenders at that time.

Since then, financial position of the Company has improved significantly whereby during the six months, the Company has earned a gross profit of Rs.239.061 million and the after tax loss for the period has also reduced to Rs.173.907 million (after a deferred tax charge of Rs.12.492 million). The financial restructuring with all local lenders have also completed at better pricing and flexible repayment terms. These restructurings will improve current ratio, once the legal formalities with respect to restructuring arrangements with National Bank of Pakistan are completed. Furthermore, management is also pursuing restructuring of its liabilities with Asian Development Bank, which will further significantly improve the current ratio.

The management believes that the plans mentioned in the note 1.4 to the financial statements for the year ended June 30, 2010 are being achieved in a systematic basis which will not only help improve the profitability by the end of the current year, but will also improve its liquidity position and current ratio. This will enable the Company to have adequate resources to continue its operations on a sustainable basis in the foreseeable future.

2. BASIS OF PREPARATION

2.1. These condensed interim financial statements are un-audited but subject to limited scope review by the auditors. These condensed interim financial statements of the Company for the six months period ended December 31, 2010 has been prepared in accordance with the requirements of the International Accounting Standard (IAS) - 34 "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984. In case where the requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.

2.2. The figures of the condensed interim profit and loss account for the quarters ended December 31, 2009 and 2010 have not been reviewed by the auditors of the Company as they have reviewed the cumulative figures for the half years ended December 31, 2009 and 2010. These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended June 30, 2010.

Notes to the Condensed Interim Financial Statements
For the half year ended December 31, 2010 (Un-audited)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the financial statements for the year ended June 30, 2010, except as follows:

The Company has adopted the following amended IFRS and related interpretations which became effective during the period:

IAS 32 - Financial Instruments: Presentation - Classification of Rights Issues (Amendment)
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

In April 2009, International Accounting Standards Board issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are made in the following standards:

IFRS 5	-Non-Current Assets Held for Sale and Discontinued Operations
IFRS 8	-Operating Segments
IAS 1	-Presentation of Financial Statements
IAS 7	-Statement of Cash Flows
IAS 17	-Leases
IAS 36	-Impairment of Assets
IAS 39	-Financial Instruments: Recognition and measurement

The adoption of the above standards, amendments / improvements and interpretations did not have any effect on the condensed interim financial statements of the Company.

	Note	December 31, 2010 (Un-audited)	June 30, 2010 (Audited)
		(Rupees in '000)	
4. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	4.1	**8,756,991**	8,933,987
Capital work-in-progress	4.2	**11,968**	3,917
		8,768,959	8,937,904
4.1. Operating fixed assets			
Opening book value		**8,933,987**	9,253,929
Additions			
Owned			
Factory buildings		-	7,575
Office building		**159**	334
Plant and machinery		**19,235**	52,188
Furniture and fixture		**32**	1,703
Office equipment		**382**	4,115
Computer and accessories		**32**	1,032
Vehicles		**65**	7,182
		19,905	74,129
Deletions			
Owned			
Furniture and fixture		**(42)**	(455)
Office equipment		**(13)**	(274)
Computer and accessories		**(81)**	(39)
Vehicles		-	(176)
		(136)	(944)
Assets subject to finance lease			
Vehicles		-	(1,284)
Depreciation charged during the period / year		**(196,765)**	(391,843)
		8,756,991	8,933,987

Notes to the Condensed Interim Financial Statements
For the half year ended December 31, 2010 (Un-audited)

	Note	December 31, 2010	June 30, 2010
		(Rupees in '000)	
4.2. Capital work -in-progress		**(Un-audited)**	(Audited)
Opening balance		**3,917**	745
Additions:			
Factory buildings		**731**	7,575
Plant and machinery	4.2.1	**7,320**	3,618
		8,051	11,193
		11,968	11,938
Less: transferred to operating fixed assets		-	8,021
		11,968	3,917

4.2.1. It includes capitalization of borrowing cost amounting to Rs. 0.579 million (June 30, 2010: Nil).

5. STORES, SPARE PARTS AND LOOSE TOOLS

Stores	**87,664**	116,297
Spare parts	**325,833**	359,113
Loose tools	**6,586**	6,844
	420,083	482,254
In transit		
Spares	**11,793**	4,156
Stores – Coal	**64,170**	446,551
	75,963	450,707
	496,046	932,961

6. STOCK-IN-TRADE

Raw material	**9,774**	18,700
Packing material	**27,003**	9,864
Work in process	**67,751**	86,901
Finished goods	**37,454**	16,607
	141,982	132,072

7. CASH AND BANK BALANCES

Includes cheques in hand amounting to Rs.54.419 (June 30, 2010: Rs.24.753) million.

8. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

December 31, 2010	June 30, 2010		December 31, 2010	June 30, 2010
(No. of shares in '000')				
(Un-audited)	(Audited)			
		Ordinary shares of Rs.10/- each		
184,464	184,464	Fully paid in cash	**1,844,642**	1,844,642
27,617	23,223	Issued as fully paid (note 8.2)	**276,165**	232,228
15,068	15,068	Issued as fully paid bonus shares	**150,682**	150,682
227,149	222,755		**2,271,489**	2,227,552

Notes to the Condensed Interim Financial Statements
For the half year ended December 31, 2010 (Un-audited)

8.1. Vision Holding Middle East Limited (VHMEL), a company incorporated in British Virgin Islands, held 49.085 million ordinary shares of Rs.10/- per share in the Company on June 30, 2009. VHMEL has also exercised call option under call and put option agreement with certain shareholders of the Company for acquiring further 57.774 million shares of the Company. The shares under call option have not been transferred to VHMEL till the balance sheet date.

8.2. During the period, the Company has issued 3.006 million and 1.388 million ordinary shares having face value of Rs.10/- per share, to National Bank of Pakistan and Bank of Punjab respectively, at the rate of Rs.15/- per share under rescheduling and restructuring arrangement against outstanding loan liabilities. The premium of Rs.5/- per share has been shown under capital reserve in the statement of changes in equity.

	Note	December 31, 2010	June 30, 2010
		(Rupees in '000)	
		(Un-audited)	(Audited)
9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
Opening balance		**255,508**	419,288
Less: Payments during the period / year		**34,926**	163,780
		220,582	255,508
Less: Current portion of the liability	14	**139,727**	134,711
		80,855	120,797
10. DEFERRED LIABILITIES			
Deferred interest/markup		**119,998**	167,482
Gratuity – vested contractual workers		**36,196**	33,247
Deferred taxation		**299,527**	287,035
		455,721	487,764
11. LONG-TERM LOANS			
Foreign Currency Loans			
From banking companies and other financial institutions			
Asian Development Bank (ADB) – Japanese Yen	11.1	**903,077**	827,850
Asian Finance & Investment Corporation Limited – US Dollar	11.1	**278,988**	278,013
		1,182,065	1,105,863
Local Currency Loans			
From banking companies and other financial institutions			
Bankers Equity Limited – Locally Manufactured Machinery (LMM)	11.2	**99,999**	105,000
National Bank of Pakistan (NBP)	11.3	**222,601**	222,601
National Bank of Pakistan (Former NDFC)	11.3	**227,744**	227,744
Industrial Development Bank of Pakistan (IDBP)	11.1	**39,549**	42,187
National Bank of Pakistan (NBP)	11.3	**312,500**	312,500
The Bank of Punjab (BOP)	11.4	**246,250**	250,000
		1,148,643	1,160,032
Less: Current portion	14	**1,793,042**	1,799,664
		537,666	466,231

11.1. There has been no change in the terms and conditions of these loans as reported in the annual financial statements of the Company for the year ended June 30, 2010.

11.2. During the period, the Company has finalized out of court settlement with official assignee of Bankers Equity Limited. Subsequent to balance sheet date, the Honourable High Court of Sindh has granted approval for the same. Hence, the impact of aforesaid settlement has not been accounted for in these condensed interim financial statements.

11.3. The Company is in the process of finalizing restructuring of its long-term loans with NBP and has issued a further 3.006 million ordinary shares at Rs.15/- per share in addition to the 23.223 million ordinary shares of Rs.10/- per share issued during the year ended June 30, 2010 at Rs.15/- per share. The terms and conditions relating to pricing and collateral remain unchanged.

11.4. During the period, the Company issued 1.388 million ordinary shares of Rs.10/- per share at Rs.15/- to BOP in respect of accrued markup amounting to Rs.20.813 million outstanding as at June 30, 2010. The remaining outstanding principal of Rs.250 million is to be paid by the Company in fifty-seven unequal monthly installments, which commenced from July 31, 2010 and will terminate on March 31, 2015. The terms and conditions of finance agreements, letter of hypothecation, demand promissory note and other documents remain unchanged for the restructured agreement. The rate of markup ranges between 1 month KIBOR plus 0.5 percent to 1.5 percent.

12. SHORT-TERM MURABAHA - secured

Represents short-term Murabaha financing obtained by the Company from Meezan Bank Limited carrying profit rate 1.25 percent above 3 months KIBOR. The facility is repayable upto January, 2011 and is secured against hypothecation charge over assets of the Company with 25 percent margin and demand promissory note.

	Note	December 31, 2010 (Rupees in '000) (Un-audited)	June 30, 2010 (Rupees in '000) (Audited)
13. SHORT-TERM FINANCES			
National Bank of Pakistan – FE-25	13.1	-	201,851
National Bank of Pakistan – Cash finance account	13.1	**489,537**	298,499
United Bank Limited – RF account	13.2	**172,480**	170,502
		662,017	670,852

13.1. The limit of cash finance facility amounting to Rs.300 million was enhanced to Rs.500 million and sub-limit under FE-25 facility was discontinued. The outstanding balance of FE-25 facility and demand finance against letter of credit were merged to a new cash finance facility of Rs. 500 million. This facility carries markup ranging between the rate of 3 months KIBOR plus 0.5 percent to 1.5 percent. The facility is secured against first joint pari passu charge over current and fixed assets of the Company with 25 percent margin and personal guarantees of sponsoring directors. The facility has expired on December 31, 2010 and the management has applied for renewal of the same.

13.2. Represents short-term cash finance facility up to Rs.200 million obtained from United Bank Limited. The facility carries markup at the rate of 1 month KIBOR plus 0.75 percent which shall be determined on daily product basis payable to the bank at the end of each quarter. The facility is secured against a stand-by letter of credit.

Notes to the Condensed Interim Financial Statements
For the half year ended December 31, 2010 (Un-audited)

	Note	December 31, 2010 (Rupees in '000) (Un-audited)	June 30, 2010 (Audited)
14. CURRENT PORTION OF LONG-TERM LIABILITIES			
Long-term financing	14.1	**92,861**	97,518
Long-term loans	14.1	**1,793,042**	1,799,664
Liabilities against assets subject to finance lease	14.1	**139,727**	134,711
Deferred liabilities		**595,600**	538,045
		2,621,230	2,569,938

14.1. Includes overdue installments aggregating to Rs.1,559.832 (June 30, 2010: Rs.1,296.408) million, Rs.92.861 (June 30, 2010: Rs.97.518) million and Rs.42.792 (June 30, 2010: Rs.27.288) million in respect of long-term loans, long-term financing and liabilities against assets subject to finance lease respectively.

15. CONTINGENCIES AND COMMITMENTS

15.1. There has been no significant change in the status of contingencies as reported in the annual financial statements for the year ended June 30, 2010 except as disclosed below.

As disclosed in note 27.1.11 to the financial statements for the year ended June 30, 2010, the Bankers Equity Limited (BEL) had filed suit no. B-62/2010 in the Honourable High Court of Sindh (the Court) on May 03, 2010 against the Company and in response to the aforesaid case, the Company on August 06, 2010 had filed an application for leave to defend the aforesaid suit in the Court.

During the period, both parties have agreed on an amicable solution through out of court settlement and subsequent to the balance sheet date, the same has been approved by the Court.

15.2. Commitments in respect of outstanding letters of credit amount to Rs.235.360 (June 30, 2010: Rs.221.227) million and in respect of bank guarantee issued in favor of Faisalabad Electric Supply Corporation amounting to Rs.26.702 (June 30, 2010: Rs.26.702) million.

15.3. During the period, a shareholder / director of the Company, Mr. Cevdet Dal has filed suit against the Company and certain shareholders in the Court, praying for investigation of price fixation and review of share purchase agreement executed between VHMEL and sponsor shareholders.

The Company has filed response in the Court that it has no role in the share purchase agreement apart from transfer of shares to the buyer upon completion of legal formalities.

The legal advisor of the Company is of the view that the aforesaid suit would have no financial exposure to the Company.

16. GROSS TURNOVER

Includes export sales amounting to Rs. 475.154 (December 31, 2009: Rs. 262.989) million.

Notes to the Condensed Interim Financial Statements
For the half year ended December 31, 2010 (Un-audited)

	Half Year Ended December 31, 2010	Half Year Ended December 31, 2009	Quarter Ended December 31, 2010	Quarter Ended December 31, 2009
	(Rupees in '000)			
	(Un-audited)			
17. COST OF SALES				
Raw material consumed	**148,259**	117,376	**81,879**	56,858
Packing material consumed	**216,368**	177,427	**120,907**	84,024
Fuel and power	**1,403,308**	1,019,682	**784,483**	477,653
Stores and spare parts consumed	**67,136**	88,287	**33,168**	47,698
Salaries, wages and benefits	**98,261**	100,190	**51,054**	55,901
Travelling and conveyance	**12,421**	12,776	**6,090**	6,296
Insurance	**4,222**	5,639	**2,124**	2,799
Repairs and maintenance	**13,129**	22,853	**6,582**	14,364
Communication	**258**	1,190	**141**	627
Depreciation	**188,710**	203,271	**95,916**	99,011
Other manufacturing expenses	**4,320**	4,392	**2,304**	2,007
	2,008,133	1,635,707	**1,102,769**	790,380
Total cost	**2,156,392**	1,753,083	**1,184,648**	847,238
Work in process				
Opening balance	**86,901**	94,847	**87,032**	80,237
Closing balance	**(67,751)**	(66,262)	**(67,751)**	(66,262)
	19,150	28,585	**19,281**	13,975
Cost of goods manufactured	**2,175,542**	1,781,668	**1,203,929**	861,213
Finished goods				
Opening balance	**16,607**	34,743	**55,623**	36,357
Closing balance	**(37,454)**	(35,872)	**(37,454)**	(35,872)
	(20,847)	(1,129)	**18,169**	485
	2,154,695	1,780,539	**1,222,098**	861,698

18. DISTRIBUTION COST

Includes Rs. 51.550 (December 31, 2009: Rs. 44.662) million in respect of export expenses.

19. OTHER OPERATING EXPENSES

Exchange losses – net	**96,042**	80,858	**22,627**	(11,829)
Donations	-	48	-	40
Others	-	2,500	-	2,500
	96,042	83,406	**22,627**	(9,289)

20. TAXATION

Included herein is deferred taxation of Rs.12.492 (December 31, 2009: Rs.159.982) million and current taxation of Rs.24.907 (December 31, 2009: Rs.10.422) million.

Notes to the Condensed Interim Financial Statements
For the half year ended December 31, 2010 (Un-audited)

21. CASH GENERATED FROM OPERATIONS

	Half Year Ended December 31, 2010 (Rupees in '000) (Un-audited)	Half Year Ended December 31, 2009 (Rupees in '000) (Un-audited)
Loss before taxation	**(136,508)**	(388,177)
Adjustments for non cash and other items:		
Depreciation	**196,765**	211,073
Provision for gratuity	**3,187**	4,828
Finance cost	**190,309**	202,638
(Gain)/loss on disposal of property, plant and equipment	**(594)**	2
Exchange losses	**96,042**	79,206
	485,709	497,747
Cash flows before working capital changes	**349,201**	109,570
Movement in working capital		
Decrease/(Increase) in current assets:		
Stores, spare parts and loose tools	**436,915**	27,935
Stock-in-trade	**(9,910)**	29,117
Trade debts	**(19,269)**	784
Loans and advances	**(22,046)**	9,305
Deposits and prepayments	**(17)**	74
Other receivables	**1,405**	(3)
	387,078	67,212
(Decrease)/Increase in current liabilities:		
Trade and other payables	**(157,223)**	(11,241)
Sales tax payable	**9,221**	(27,426)
	(148,002)	(38,667)
	239,076	28,545
	588,277	138,115

22. TRANSACTIONS WITH RELATED PARTIES

The related parties include major shareholders, entities having directors in common with the Company, directors and other key management personnel. Transactions with related parties are as under:

	December 31, 2010	December 31, 2009
Entities having directors in common with the Company		
First Dawood Investment Bank		
Repayment of lease financing	**530**	1,116
Finance cost paid	**1,000**	14,076
BRR International Modaraba		
Repayment of lease financing	-	2,741
Finance cost paid	-	315

Notes to the Condensed Interim Financial Statements
For the half year ended December 31, 2010 (Un-audited)

	Half Year Ended	
	December 31, 2010	**December 31, 2009**
	(Rupees in '000) (Un-audited)	
Guardian Modaraba		
Repayment of lease financing	**1,223**	5,483
Finance cost paid	**177**	672
Staff retirement contribution plan		
Contribution to staff provident fund	**2,662**	2,749
Key management personnel		
Compensation	**17,253**	27,423

23. CORRESPONDING FIGURES

Corresponding figures, wherever necessary, have been rearranged. However, there were no material reclassifications to report.

24. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorized for issue on February 10, 2011 by the Board of Directors of the Company.

25. GENERAL

Figures have been rounded off to the nearest thousand rupees, unless otherwise stated.

Syed Mazher Iqbal
Chief Executive

Saleem Shahzada
Director

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