



**PIONEER
CEMENT LTD.**

Cost Auditors' Report

for the year ended June 30, 2009

SIDDIQI & COMPANY
Cost & Management Accountants

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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, 2009, 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,
 1. Ordinary Portland Cement
 2. Sulphate Resistance Cement

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

SIDDIQI & COMPANY
Cost & Management Accountants

Karachi : 30 OCT 2009

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	493,426	70%
1,290,000	651,668	51%
1,995,000	1,145,094	57%

- Line-I clinker capacity is based on 300 working days with capacity of 2,350 tonne per day.
- Line-II clinker capacity is based on 300 working days with capacity of 4,300 tonne per day.
- The company has not utilized its full production capacity due to certain plant modifications and use of local coal during the year.

(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.

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
- Sulphate Resistance

– Line-II

- Ordinary Portland

Production		Increase / Decrease	
Years			
2009	2008	Tonne	%
493,426	622,012	(128,586)	(21%)
-	3,834	(3,834)	(100%)
493,426	625,846	(132,420)	(21%)
651,668	1,014,246	(362,578)	(36%)
1,145,094	1,640,092	(494,998)	(30%)

– Cement

- Ordinary Portland
- Sulphate Resistance

1,033,587	1,486,656	(453,069)	(30%)
-	5,697	(5,697)	(100%)
1,033,587	1,492,353	(458,766)	(31%)

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

(c) There was addition in production capacity in the shape of Line-II in the year 2005-06.

4. RAW MATERIAL

(a) Major Raw Materials Consumed

	2009			2008			2007		
	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	1,498,106	140,507	94	2,122,977	188,396	89	1,572,270	142,326	91
Clay	192,121	11,133	58	291,022	16,401	56	209,902	12,162	58
Laterite	66,207	35,879	542	121,933	62,485	512	64,657	34,628	536
Bauxite	11,472	6,670	581	23,068	10,422	452	32,755	17,240	526
Gypsum	42,657	15,573	365	89,032	35,747	402	73,034	28,777	394
Fly Ash	809	307	380	-	-	-	-	-	-
Direct raw material cost		210,070			313,451			235,133	
Add / (less):									
Material handling & other cost		11,669			24,329			21,579	
Duty draw back on exports		(1,530)			(1,050)			10,182	
Total cost of raw material consumed		220,209			336,730			266,894	

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

Description	Standard Tonne	ACTUAL			% Increase / (Decrease) as compared to Budget Standard		
		2009	2008	2007	2009	2008	2007
		Tonne	Tonne	Tonne			
Limestone – Clinker	1.32	1.31	1.29	1.27	(1.11)	(2.49)	(4.01)
Clay / Shale – Clinker	0.16	0.17	0.18	0.17	5.52	13.21	6.92
Laterite/Iron Ore – Clinker	0.04	0.06	0.07	0.05	52.15	84.21	31.58
Bauxite – Clinker	0.01	0.01	0.01	0.03	0.18	-	200.00
TOTAL – Clinker	1.53	1.54	1.52	1.53	0.91	(0.78)	0.20
Gypsum – Cement	0.05	0.04	0.06	0.06	(17.46)	16.00	20.00

(c) Explanation of Variances

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

(d) Method of Accounting

- The company is maintaining raw material records using perpetual inventory system. The per unit cost for issue of material is determined using average cost basis.
- Limestone and shale / overburden are extracted from leased mines.
- Laterite, Iron ore, Bauxite 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**

	2009	2008	Increase / (Decrease)	
	Rs. in '000	Rs. in '000	Rs. in '000	%
– Direct labour cost on production	137,841	117,291	20,550	18
– Indirect labour cost on production	57,219	59,006	(1,787)	(3)
– Total Direct & Indirect Labour Cost	195,060	176,297	18,763	11
– Employees' cost on administration	69,126	57,529	11,597	20
– Employees' cost on selling and distribution	31,425	31,895	(470)	(1)
Total employees cost	295,611	265,721	29,890	11

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

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

Rs. in '000

	Chief Executive		Executives	
	2009	2008	2009	2008
Total number	1	1	17	15
	(Rupees in '000')			
Basic salary	4,784	4,200	19,764	17,188
Contribution to provident fund and gratuity	1,660	928	6,329	12,120
Allowances & benefits	5,774	3,108	20,276	17,673
	12,218	8,236	46,369	46,981

- 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. Payments to CEO includes arrears on account of previous two years increments paid during the year.

(c) Total man-days of direct labour

Available: 300 days x 362 workers = 108,600 days

Worked: 197 days x 362 workers = 71,314 days

Worked	Available	% Worked
71,314	108,600	66

(d) Average number of production workers employed

2009	2008	% of Increase/(Decrease)
362	342	6

(e) Direct labour cost per tonne

Direct Labour Cost (Rs. in '000)

Production in Tonne - Cement

Cost per Tonne (Rs. / tonne)

2009	2008	% of Increase/(Decrease)
137,841	117,291	18
1,033,587	1,492,353	(31)
133	79	68

- (f) Per tonne direct labour cost increased mainly due to decrease in volume of production as compared to last year.

(g) Comments on Incentives Scheme– *Gratuity**Permanent employees*

The company operates a funded gratuity scheme for all its permanent employees which provides for a graduated scale of benefits dependent on the length of service of the employee, subject to the completion of minimum qualifying period of service. Contributions are made to the fund on the basis of actuarial recommendations. As at the Balance Sheet date on 30-06-2009, the gratuity scheme has been terminated.

Contractual workers

The company also operates unfunded gratuity scheme for its contractual workers. The charge has been made on the basis of actuarial recommendations.

– *Provident Fund*

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

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)

2009	2008	Increase / (Decrease) %
156,177	145,887	7
1,033,587	1,492,353	(31)
151	98	55

- Per tonne stores and spares increased due to inflationary increase in prices of stores & spares and low of volume of production.

(b) System of stores

- These are valued at lower of moving average cost and net realizable value, except for furnace oil and coal, which are valued at average cost. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.
- All items of stores are properly coded and entered by designated staff members of the stores department, on daily basis.

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

- No provision has been made for slow moving items in the accounts during the year under review.

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

- 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

2009		2008	
Rs. in '000	% age	Rs. in '000	% age
373,493	98	427,440	98
3,106	1	4,434	1
3,719	1	3,432	1
380,318	100	435,306	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

	2009	2008	2007
	Rs. in '000	Rs. in '000	Rs. in '000
(i) Factory	449,846	507,475	446,767
(ii) Administration	97,654	89,978	86,876
(iii) Selling & distribution	359,975	466,047	108,405
(iv) Financial charges	451,465	413,203	365,848
	1,358,940	1,476,703	1,007,896

(i) Factory Overheads

	2009	2008	2007	% Increase / (Decrease)	
				Based on 2008	Based on 2007
	Rs. in '000	Rs. in '000	Rs. in '000		
Travelling and conveyance	27,318	23,284	16,122	17	69
Insurance	10,236	10,423	10,072	(2)	2
Repairs & maintenance	37,935	44,131	46,517	(14)	(18)
Communication	2,324	2,695	2,894	(14)	(20)
Depreciation	362,299	416,238	357,681	(13)	1
Other manufacturing expenses	9,734	10,704	13,481	(9)	(28)
	449,846	507,475	446,767	(11)	1

– Factory overheads decreased mainly due to decrease in repairs & maintenance and depreciation cost.

(ii) Administration Overheads

	2009	2008	2007	% Increase / (Decrease)	
				Based on 2008	Based on 2007
	Rs. in '000	Rs. in '000	Rs. in '000		
Salaries, wages and benefits	69,126	57,529	52,268	20	32
Travelling and conveyance	2,095	4,177	5,155	(50)	(59)
Vehicle running expenses	4,150	3,319	3,256	25	27
Communication	2,232	2,262	2,943	(1)	(24)
Printing and stationery	1,528	1,786	1,628	(14)	(6)
Utilities	3,809	2,583	2,660	47	43
Repair & maintenance	1,667	1,544	1,792	8	(7)
Rent, rates and taxes	1,846	1,995	4,142	(7)	(55)
Legal and professional charges	1,835	3,108	1,791	(41)	2
Insurance	799	892	837	(10)	(5)
Auditors' remuneration	3,381	3,033	1,289	11	162
Fee and subscription	548	2,402	3,180	(77)	(83)
Entertainment	707	693	828	2	(15)
Depreciation	3,106	4,434	4,436	(30)	(30)
Others	825	221	671	273	23
	97,654	89,978	86,876	9	12

– The admin overheads increased mainly due to increase in salaries, wages & benefits, vehicle running exp. utilities and others.

(iii) Selling and Distribution Overheads

	2009 Rs. in '000	2008 Rs. in '000	2007 Rs. in '000	% Increase / (Decrease)	
				Based on 2008	Based on 2007
Salaries, wages and benefits	31,425	31,895	29,077	(1)	8
Travelling and conveyance	722	1,011	1,169	(29)	(38)
Vehicle running expenses	3,474	3,128	3,407	11	2
Communication	2,335	3,005	2,452	(22)	(5)
Printing and stationery	1,454	1,490	1,308	(2)	11
Rent, rates and taxes	1,789	2,676	1,768	(33)	1
Utilities	1,457	1,331	1,627	9	(10)
Repairs & maintenance	1,597	1,269	1,854	26	(14)
Legal and professional charges	5,038	3,447	1,342	46	275
Insurance	830	847	688	(2)	21
Fee & subscription	1,661	1,036	1,193	60	39
Advertisements / sales promotion	2,137	1,236	5,406	73	(60)
Frieght & handling Charges	301,599	409,457	53,931	(26)	459
Entertainment	738	787	771	(6)	(4)
Depreciation	3,719	3,432	2,409	8	54
Miscellaneous	-	-	3	-	(100)
	359,975	466,047	108,405	(23)	232

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

(iv) Financial Charges

	2009 Rs. in '000	2008 Rs. in '000	2007 Rs. in '000	% Increase / (Decrease)	
				Based on 2008	Based on 2007
- Mark-up on long term financing/loans/lease / profit on musharaka and murhaba	361,790	354,226	298,405	2	21
- Interest on long / short term finances	74,974	34,314	32,458	118	131
- Fee, charges and commission	14,701	22,897	16,033	(36)	(8)
- Advisory, arrangments and upfront fee	-	1,766	18,952	(100)	(100)
	451,465	413,203	365,848	9	23

- The increase in financial cost was due to increase in Mark up on long term financing / loans / lease / Profit on Musharka and murhaba and interest on long / short term finances.

(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	
	2009	2008
– Packed Cement	1,015,044	1,482,461
– Bulk Cement	11,701	9,120
Total	1,026,745	1,491,581

	2009		2008		Increase / (Decrease)	
	Rs. in '000	Rupees/Ton	Rs. in '000	Rupees/Ton	Rupees/Ton	%
Packing material	322,517	317.74	366,057	246.93	70.81	29
Power	8,256	8.04	9,223	6.18	1.86	30
Stores and spares	3,530	3.44	4,707	3.16	0.28	9
Salaries and other benefits	23,969	23.34	14,140	9.48	13.87	146
Insurance	205	0.20	208	0.14	0.06	43
Repairs and maintenance	866	0.84	843	0.57	0.28	49
Depreciation	7,285	7.09	8,325	5.58	1.51	27
Other overheads	12,827	12.49	15,471	10.37	2.12	20
	379,454	373.19	418,974	282.40	90.79	32

- Per tonne cost of packing material has been calculated on the basis of cement packed into bags.
- Per tonne packing cost increased due to increase in cost of packing materials.

9. ROYALTY / TECHNICAL AID PAYMENTS

	2 0 0 9			2 0 0 8		
	Production in Tonne	Rupees in '000	Rupees / Tonne	Production in Tonne	Rupees in '000	Rupees / Tonne
Limestone / Clay	1,706,702	29,610	17.35	2,414,659	39,964	16.55

- 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 0 9			2 0 0 8			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	1,033,587	3,330,921	3,223	1,486,656	3,733,802	2,512	28
SRC	-	-	-	5,697	14,621	2,566	(100)
	1,033,587	3,330,921	3,223	1,492,353	3,748,423	2,512	28

Clinker consumed for sale

OPC	139,350	359,228	2,578	293,432	594,429	2,026	27
		<u>3,690,150</u>			<u>4,342,852</u>		

Reasons for variances

- Following factors are attributed to the increase in cost of production:
 - i) Increase in cost of fuel.
 - ii) Increase in cost of power.
 - iii) Increase in cost of packing material.
 - iv) Low volume of production.

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

2 0 0 9			2 0 0 8			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	922,510	3,973,092	4,307	1,329,926	3,383,537	2,544	69
- SRC	-	-	-	7,298	18,327	2,511	(100)
	922,510	3,973,092	4,307	1,337,224	3,401,864	2,544	69

Export

- OPC	104,235	456,064	4,375	154,358	555,253	3,597	22
- Clinker	139,350	571,079	4,098	293,432	896,647	3,056	34
	243,585	1,027,143	4,217	447,790	1,451,900	3,242	30

Total	1,166,095	5,000,235	4,288	1,785,014	4,853,764	2,719	58
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- Cement was exported to Aghanistan, India and Dubai.
- Clinker was exported to Dubai.

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

	2 0 0 9			2 0 0 8			Increase / (Decrease) % Rs. P/Ton
	Qty. in Tonne	Rs. in 000	Rs. Per Ton	Qty. in Tonne	Rs. in 000	Rs. Per Ton	
Profit / (Loss)							
Local							
– OPC	922,510	342,165	371	1,329,926	(455,858)	(343)	(208)
– SRC	-	-	-	7,298	(2,403)	(329)	(100)
	922,510	342,165	371	1,337,224	(458,261)	(343)	(208)
Export							
– OPC	104,235	(104,760)	(1,005)	154,358	(38,176)	(247)	306
– Clinker	139,350	(63,099)	(453)	293,432	(77,577)	(264)	71
	243,585	(167,859)	(689)	447,790	(115,753)	(258)	167
Total	1,166,095	174,306	149	1,785,014	(574,014)	(322)	(146)

- In spite of the adverse effect of cost inputs and exchange fluctuation loss the improved selling price has provided relief in achieving profitability.

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 Rs. 3,489,131 million against current assets Rs. 1,020,577 million shows that current liabilities increased by 242% 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.

- Plant capacity has not been fully utilized which is the main cause of low profitability.

(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

- Owing to technical reasons modification had been carried out in the plant to remove the bottle necks.

(d) Improved inventory policies

- Present inventory policies appear to be satisfactory except dead / unuseable stores and spares which are lying in inventory.

(e) Energy conservancy

- The company is using `COAL' irrespective of its proper blend of local and imported quality to which cost saving in cost was lost.

(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

- Cost accounts of the company are in agreement with financial accounts for the year ended June 30, 2009.

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 : 30 OCT 2009