

PIONEER CEMENT LIMITED

Registered Office: 1st Floor, Alfalah Building, Shahrah-e-Quaid-e-Azam, Lahore.

STATEMENT U/S 160(1)(b) OF THE COMPANIES ORDINANCE, 1984 WITH RESPECT TO SPECIAL BUSINESS AS CONTAINED IN THE NOTICE OF EXTRAORDINARY GENERAL MEETING TO BE HELD ON 31 MARCH, 2011.

A statement setting out all material facts with respect to the special business is furnished as under:

I. INCREASE IN THE SHARE CAPITAL – ORDINARY RESOLUTION

The authorized share capital is being increased from Rs.3,500,000,000 to Rs.3,800,000,000 by addition of 30,000,000 Preference Shares of Rs.10 each to cater for the proposed right issue of preference shares.

Clause V of the Memorandum of Association after the proposed amendment will read as under:

- V. **SHARE CAPITAL:** The Authorized Capital of the Company is Rs.3,800,000,000/- (Rupees three billion eight hundred million) divided into 300,000,000 (three hundred million) Ordinary Shares of Rs.10/- each and 80,000,000 (eighty million) Preference Shares of Rs.10/- each, with attached thereto respectively such preferential, deferred, qualified or special rights, privileges or conditions as provided in the Articles of Association of the Company, or in accordance with the Companies Ordinance, 1984, and to vary, modify or abrogate any such rights, privileges or conditions, in such manner as may be permitted by the Companies Ordinance, 1984 and to increase and / or reduce the capital and to divide shares in the capital into several kinds and classes and to consolidate or subdivide the shares and to issue shares for higher or lower denominations.

Article 4A of the Articles of Association after the proposed amendment will read as under:

4A. SHARE CAPITAL

The Authorized Capital of the Company is Rs.3,800,000,000/- (Rupees three billion eight hundred million) divided into 300,000,000 (three hundred million) Ordinary Shares of Rs.10/- each and 80,000,000 (eighty million) Preference Shares of Rs.10/- with such preferred, deferred, or other special rights, or such restrictions, whether in regard to dividend, voting, return of share capital, or otherwise as the Company may from time to time by special resolution determine, and any preference shares may, with the sanction of a special resolution, be issued on the terms that it is, or at the option of the Company is liable to be redeemed.

II. ISSUE OF PREFERENCE SHARES - SPECIAL RESOLUTION

JUSTIFICATION OF ISSUANCE OF PREFERENCE SHARES, BENEFITS TO THE COMPANY, USE OF FUNDS, AND FINANCIAL PLAN AND PROJECTIONS

The Board of Directors proposed to issue 80,000,000 Preference Shares under Section 86(1) of the Companies Ordinance, 1984 to the shareholders as a right issue for raising of capital for the purpose described herein below:

1. The brief background of the Company's business affairs is that the Company had availed certain finance facilities from various lenders including National Bank of Pakistan (NBP)

from time to time. Due to recent ongoing recessionary environment in overall industry in general and in cement sector in particular, the Company's business was severally affected and the Company was not able to fulfill its repayment obligations towards NBP on time.

2. The Company is also facing liquidity crisis which is not only hampering day to day operations but also affecting the repayment capacity towards its creditors. Thus, the Company is in need of breathing period to focus on production.
3. Therefore, it is in the above background that the Company, after detailed negotiations with NBP, has worked out a restructuring plan of its obligations towards NBP, which includes, *inter alia*, raising of capital through offering/ issuance of 80,000,000 Preference Shares as a right issue.
4. The Preference Shares shall be issued on the terms and conditions as described in the resolution. On completion of 3 years from the date of allotment the Company may by giving 21 days' notice to the preference shareholders exercise the option subject to provisions of section 85 of the Companies Ordinance, 1984 to wholly or partly redeem the Preference Shares at par value of Rs. 10 each. If the redemption option is not exercised by the Company, the holders of preference shares may exercise the option of conversion according to the procedure laid down in Article 4 C (B) reproduced as under:

The following provisions shall have effect with respect to Preference Shares partly or wholly convertible at the option of the Preference Shareholders:

- (i) the conversion shall be effected by notice in writing given to the Company signed by the holders of the Preference Shares and the conversion shall take effect immediately upon the date of delivery of such notice together with the relevant share certificate(s) to the Company unless such notice states that conversion is to be effective when any conditions specified in such notice have been fulfilled in which case conversion shall take effect when such conditions have been fulfilled;
 - (ii) the Company shall issue to such holders respectively certificates for the Ordinary Shares resulting from the conversion;
 - (iii) the Ordinary Shares resulting from the conversion shall rank from the date of conversion *pari passu* in all respect with the remaining Ordinary Shares in the capital of the Company provided that in respect of the financial year in which the conversion occurs there shall be deducted from any dividend payable on each of such Ordinary Shares resulting from conversion an amount equal to the dividends (if any) paid on the Preference Shares in respect of such financial year from which such Ordinary Shares were converted; and
5. The Company will enter into an underwriting arrangement with NBP and/ or any other person(s) in respect of the right Issue of the Preference Shares.
 6. The capital raised by the issuance of Preference Shares shall be utilized for repayment of Company's debt obligations towards NBP to the extent of Rs.757.018 million and the balance amount of Rs. 42.982 million will be utilized for fulfilling the working capital requirements.
 7. The justification for the issuance of Preference Shares instead of Ordinary Shares are as follows:

- i. The Preference Shares shall not have any voting rights;
 - ii. The voting rights of the ordinary shareholders shall not be prejudicially affected;
 - iii. The Preference Shares shall be redeemable at the option of the Company, and the Board of Directors intends to redeem the same after three years time through cash flows and distributable profits of the Company;
 - iv. The Preference Shares shall be convertible into Ordinary Shares at the option of Preference Shareholders after three years of the issue only in case the Company is not in a position to redeem the same;
 - v. Last but more significant is the fact that right issue of ordinary shares at par value of Rs.10/- was not an option in light of the present depressed market value of the ordinary shares which is less than Rs. 6/-.
8. The benefits of the issuance of the Preference Shares to the Company are as follows:
- i. The major portion of capital raised by the issuance of Preference Shares shall be used to repay the outstanding liabilities of the Company towards NBP which shall improve the balance sheet of the Company;
 - ii. The debt to equity ratio of the Company would be improved by the amount of Rs. 800,000,000/-;
 - iii. It would be an injection of funds in the Company although the money will be utilized for repayment of loan;
 - iv. The confidence of other creditors would be enhanced in the Company;
 - v. The Company will be in a position to redeem the Preference Shares at its discretion;
 - vi. The Company's main creditor shall be paid to the extent of Rs. 757.018 million, thus the Company will not be facing any legal action for recovery of debt;
 - vii. The Company's goodwill and business would be improved;
9. The present total issued Ordinary Shares of the Company are 227,148,793 valuing Rs.2,271,487,930.
10. The present total issued Preference Shares are nil.
11. All the shares of the Company are and shall be listed on Karachi, Lahore and Islamabad Stock Exchanges and will be inducted in the Central Depository System.
12. The market price of an Ordinary Share of the Company is Rs.5.74 (as on 03 March, 2011).
13. The issuance of Preference Shares is subject to the approval of Shareholders and the Securities & Exchange Commission of Pakistan under Rule 5 (1) of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000.
14. The financial plan and projections for 3 years are attached.

INSPECTION OF DOCUMENTS

A copy of the Memorandum and Articles of the Company being altered is available for inspection at the Company's Registered Office at 1st Floor, Alfalah Building, Shahrah-e-Quaid-e-Azam, Lahore during the office hours.

INTEREST OF DIRECTORS

The directors of the Company do not have any interest in the aforementioned resolutions that would require a disclosure.

By Order of the Board
SYED ANWAR ALI
Company Secretary