

COST AUDITOR'S REPORT TO THE DIRECTORS

We **Avais Hyder Liaquat Nauman Chartered Accountants**, having been appointed to conduct an audit of cost accounts of Messrs **D.G. Khan Cement Company Limited**, have examined the books of account and the statements prescribed under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984 and other relevant record for the year ended on 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 the audit of cost accounts have been received from branches not visited by us;
 - 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 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:-
 - i. Ordinary Portland Cement
 - ii. Sulphate Resistant Cement

The matter contained in the ANNEX forms part of this report.

Avais Hyder Liaquat Nauman

AVAIS HYDER LIAQUAT NAUMAN
CHARTERED ACCOUNTANTS
Engagement Partner: Syed Naveed Abbas

Date: September 30, 2009

Place: Lahore

D G KHAN CEMENT COMPANY LIMITED

COST AUDIT

For the year ended June 30, 2009

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STATEMENT OF CAPACITY UTILIZATION

Production		2009		2008	
Units	Installed Capacity	Utilized Capacity	Installed Capacity	Utilized Capacity	
Clinker	M.Tons	4,020,000	3,946,101	4,020,000	4,142,764

Capacity Utilized percentage	2009	2008
	98 %	103 %

Reason:

Installed capacity is based on 300 working days. Low production is due to less demand of cement in the country during the year.



Chief Executive



Chief Accountant

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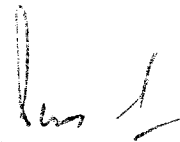
For the year ended June 30, 2009

STATEMENT OF STOCK IN TRADE

	2009		2008	
	Quantity M.Tons	Cost Rupees	Quantity M.Tons	Cost Rupees
Raw Material				
Lime Stone	85,309	15,984,835	88,771	14,557,766
Shale	12,600	1,390,446	8,114	916,019
Gypsum	86,338	45,804,682	78,960	43,167,266
Iron ore & Bauxite	86,034	56,384,663	108,850	75,562,342
Silica sand	21,278	1,885,796	32,149	4,205,959
		<u>121,414,422</u>		<u>138,409,352</u>
Work-in-Process				
Raw Meal	37,806	13,722,759	33,966	10,469,267
Clinker	148,402	373,720,924	55,928	107,822,710
		<u>387,443,683</u>		<u>118,291,997</u>
Finished Goods				
Cement (unpacked)	59,535	162,656,319	37,189	78,369,496
Cement (Packed)	28,000	87,259,718		
		<u>249,916,037</u>		
Others				
Packing Material (No. of bags)	7,634,639	126,427,911	7,851,376	110,786,261



Chief Executive



Chief Accountant

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Brief history of the company

D.G.Kan Cement Company Limited is a public limited company incorporated under the Companies Ordinance 1984 and is listed on all stock exchanges in Pakistan. Its main business activity is to manufacture and sell Ordinary Portland Cement and Sulphate Resistant Cement. The plant commenced production on April 01, 1986.

Currently Company has three production lines, viz. two production lines at Dera Ghazi Khan and one cement plant at Khairpur village Distt. Chakwal. Unit- I and unit- II at Dera Ghazi Khan has production capacities of 2700 & 4000 tons per day respectively. The plant at District Chakwal has production capacity of 6700 tons per day.

KPMG Taseer Hadi and Company, Chartered Accountants is the statutory auditors of the Company. The Company's financial statements have been audited up to June 30, 2008.

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1. CAPACITY

a) Licensed, Installed and utilized capacity

	Production Unit	Installed capacity	Utilized capacity	% of installed capacity
Clinker	M. Ton	4,020,000	3,946,101	98

Comments on Variance

Installed capacity is based on 300 working days. Low production is due to less demand of cement in the country during the year.

b) Other Activities:

The Company is not engaged in any activity other than manufacturing of Ordinary Portland Cement and Sulphate Resistant Cement.

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2. COST ACCOUNTING SYSTEM

Brief comments on cost accounting system:

- Quantitative data at each stage of the process is gathered and compiled into a daily production report. This report also covers month to date and year to date quantitative data.
- The Company is using integrated Fox- Pro based accounting software in which cost accounting functions and financial accounting functions are combined in one system of ledger accounts. This enables the company to get information regarding cost records.
- The system can generate various cost reports some of which are as follows:
 - Direct departmental cost (for each cost center).
 - Distribution of total production cost into raw material, gypsum and manufacturing cost.
 - Distribution of common cost.
 - Summary of common cost distribution.
 - Detail of direct cost of Limestone.
 - Detail of total cost of Limestone.
 - Detail of direct cost of Shale.
 - Detail of total cost of Shale.
 - Stock valuation of raw materials.
 - Direct cost of Production departments.
 - Total cost of Production departments.
 - Stock valuation of Production departments.
 - Classification of Production costs into variable and fixed costs.
 - Detail of total cost before coal distribution.
 - Detail of Direct cost distributed.
 - Detail of total cost after coal distribution.
 - Detail of coal consumption in Plant 1 & 2.
 - Department wise coal summary.

Adequacy of Cost Accounting System to determine the cost of product

The system and procedures adopted by the company are adequate for determination of cost of product.

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3. PRODUCTION

a) Production

Clinker	Production (Metric Tons)	
	2009	2008
Ordinary Portland	3,811,488	4,003,480
Sulphate Resistant	134,613	139,282
	3,946,101	4,142,762

b) Percentage of Production to Installed Capacity

Clinker	% to total installed capacity	
	2009	2008
Ordinary Portland	94.81	99.59
Sulphate Resistant	3.35	3.46
	98.16	103.05

c) Addition to Production Capacity

i. During the year

NIL

ii. Preceding two years

Company set up a new green field cement plant at village Khairpur, District Chakwal with a capacity of 6700 tons per day. The plant started commercial production on June 27, 2007

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4. RAW MATERIALS

a) Cost of Major Raw Materials Consumed

	2009			2008		
	Quantity (M. Tons)	Value Rs.	Rs. / M. Ton	Quantity (M. Tons)	Value Rs.	Rs. / M. Ton
Limestone/clay	5,284,515	992,370,326	187.79	5,477,705	898,301,762	163.99
Shale	547,402	60,407,363	110.35	630,264	71,152,779	112.89

Transportation charges for the year 2009 amounted to Rs. 219.45 million (2008 Rs. 177.26 million)

b) Consumption of Major Raw Material Per Unit Of Production Compared With The Standard Requirements:

Raw Material	Consumption Per M. Ton of Clinker Production			
	2009	2008	2007	Standard Requirement
	Actual Consumption	Actual Consumption	Actual Consumption	
Limestone/clay	1.34	1.32	1.20	1.18
Shale	0.14	0.15	0.27	0.37

c) Variance in Major Raw Materials Consumption

Raw material	Material consumption			% Increase/ (Decrease) compared with last two years		% Increase/ (Decrease) compared with standard	
	2009	2008	2007	2008	2007	Standard	Variance
Limestone/clay	1.34	1.32	1.20	1.45	11.60	1.18	13.49
Shale	0.14	0.15	0.27	(7.52)	(48.62)	0.37	(62.51)

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Explanation of Variances

The variance in material consumption per M. Ton is due to difference in chemical composition of major raw materials used and change in production mix.

d) Method of Accounting

Receipts/purchase of raw materials

- The company has six types of materials which are directly used in production namely:
 1. Limestone
 2. Shale
 3. Gypsum
 4. Iron Ore
 5. Bauxite
 6. Silica Sand
- The company excavates Limestone and Shale from its quarries which have been leased from the Government of Punjab and local residents. The other materials Gypsum, Iron Ore, Bauxite and Silica Sand are purchased from outside and are routed from stores accounting system.
- Cost of purchase of raw materials includes royalties, duties, taxes, transport, handling and other costs directly attributable to the acquisition of materials.
- Stocks of limestone and shale are accounted for when they are received at raw material yards and cost of service centers associated with raw materials incurred up to that stage is divided in proportion of consumption pattern among them.

Issuance of materials to production

Monetary value of raw material issues and balances are booked on average cost basis.

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5. SALARIES AND WAGES

a) Total Salaries and wages Paid

(Rupees in thousand)

	2009	2008	Increase / (Decrease)	
	Rs.	Rs.	Rs.	%
i. Direct labour cost on production	174,176	130,356	43,820	34
ii. Indirect labour cost on production	467,232	348,343	118,889	34
iii. Employees' cost on administration	73,858	56,893	16,965	30
iv. Employees' cost on selling and distribution	49,946	35,371	14,575	41
v. Bonus to workers and employees*	60,237	19,658	40,579	206
Total employees cost (i to iv)	765,212	570,963	194,249	

* It is included in items (i) to (iv) above

b) Salaries and Perquisites of Directors and Chief Executive

i. Chief Executive

(Rupees in thousand)

Salaries & other benefits	2009	2008	Increase / (Decrease)	
	Rs.	Rs.	Rs.	%
Managerial remuneration	5,668	4,723	945	20
Housing	270	3,149	(2,879)	(91.42)
Utilities				
Medical Expenses	385	469	(84)	(17.91)
Others	4,238	1,940	2,298	118.45
Total	10,561	10,281	280	

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ii. Directors

(Rupees in thousand)

Salaries & other benefits	2009	2008	Increase / (Decrease)	
	Rs.	Rs.	Rs.	%
Managerial remuneration	8,964	7,470	1,494	20
Gratuity/Contribution to P. Fund	896	1,370	(474)	(34.60)
Housing	594	810	(216)	(26.67)
Utilities	-	-	-	-
Leave passage	697	354	343	96.89
Medical Expenses	30	72	(42)	(58.33)
Others	1,266	1,432	(166)	(11.59)
Total	12,447	11,508	939	

c) Total Man-Days of Direct Labour

Plant	Maximum days Available	Normal working days	Actual working days
Plant- I	365	300	322
Plant- II	365	300	276
Plant- III	365	300	283

d) Average Number of Workers Employed

2009	2008	2007
952	936	817

e) Direct Labour Cost Per M. Ton

	2009 Rs.	2008 Rs.	2007 Rs.
Direct labour cost per M. Ton	44.92	30.83	36.31

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f) Explanation for Variance In Item (e)

The increase in labour cost per ton is due to low production during the year and annual increments in the salary and wages and inflationary impact of employees benefits.

g) Comments On Incentives Schemes

During the year company provided incentives as follows;

- ***Production workers:***

Management has not yet announced the rate of bonus for officers. however, provision of 11 months basic pay and 1 month basic plus cost of living allowance has been made in books of accounts.

- ***Officers:***

Management has not yet announced the rate of bonus for officers. however, provision of 3 months basic pay has been made in books of accounts. The company's incentive scheme is based on performance criteria

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6. STORES AND SPARES

a) Expenditure per M. Ton of Output

	2009 Rs.	2008 Rs.
Cost per M. Ton of output	226.90	180.23

b) System of Stores Accounting:

The company is maintaining a separate computerized Stores Accounting System in which both the quantitative and monetary data is recorded. A separate code has been allocated to each item in the system. The system is maintained at the factory and updated at the Head Office. Each production department is given a separate code and the stores and spares consumed are charged department-wise on the basis of actual consumption.

Store receipts are recorded on the basis of receiving reports, gate inward passes, purchase orders, demand notes etc. Issues are made on the basis of issue requisitions received from the relevant department.

Receipts of stores and spares

These are valued at cost comprising of purchase price, import duties, other taxes, transportation, handling and other costs directly attributable to the acquisition of stores and spares.

Issues and balance of stores and spares

Stores and spares are valued on moving average cost. Items in transit are valued at cost comprising invoice values plus other charges paid thereon.

c) Slow Moving Items

Slow moving items amounted to Rs. 360,690,036 (2008: Rs. 375,053,941) that is 12.29 % of closing inventory.

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7. DEPRECIATION

a) **Method of Depreciation**

Assets	Method of depreciation
All operating assets (except plant & machinery)	Reducing balance method
Plant & machinery	Straight line method

b) **Basis of Allocation Of Depreciation**

The depreciation of common assets is allocated to production departments on the basis of proportion of services rendered to the respective departments.

c) **Basis of Charging Depreciation To Cost of Product**

Depreciation of assets in use of production and service departments is charged to cost of production.

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8. OVERHEADS

a) Total amounts of the Overheads

(Rupees in thousand)

Sr. #	Overhead	2009	2008	2007
i.	Factory	11,106,959	9,022,747	3,719,804
ii.	Administration	141,852	111,658	104,169
iii.	Selling & distribution	1,871,517	561,465	65,122
iv.	Financial	2,606,358	1,749,837	468,173
		15,726,686	11,445,707	4,357,268

i) Break-up of items - Factory overheads

(Rupees in thousand)

Particulars	2009	2008	2007	Increase/(Decrease)	
	Rs.	Rs.	Rs.	Compared to 2008	Compared to 2007
Indirect labor	467,232	348,434	207,211	118,798	260,011
Electricity and gas	1,427,631	1,644,759	605,335	(217,128)	822,296
Furnace Oil/Coal	6,603,908	4,595,975	1,902,567	2,007,933	4,701,341
Stores and spares consumed	879,772	761,950	383,159	117,822	496,613
Repair and maintenance	131,911	98,482	22,913	33,429	108,998
Insurance	45,573	43,082	21,840	2,491	23,733
Depreciation	1,354,851	1,346,428	469,367	8,423	885,484
Amortization	80	3,331	13,108	(3,251)	(13,082)
Royalty	86,514	83,731	45,349	2,783	41,165
Excise duty	30,023	25,962	15,373	4,061	14,650
Vehicle running expenses	18,208	15,484	7,159	2,724	11,049
Telephone and Postage	4,188	5,383	1,784	(1,195)	2,404
Printing and Stationery	8,149	3,471	945	4,678	7,204
Legal and professional charges	2,856	1,476	499	1,380	2,357
Travelling & Conveyance	6,297	8,300	2,476	(2,003)	3,821
Estate Development	10,285	9,639	6,227	646	4,058
Rent, rates & taxes	7,731	6,982	4,113	749	3,618
Freight charges	5,600	5,746	3,396	(146)	2,204
Other Expenses	16,150	14,132	6,973	2,018	9,177
Total	11,106,959	9,022,747	3,719,804	2,084,212	7,387,155

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ii) Break-up of items - Administration overheads

(Rupees in thousand)

Particulars	2009	2008	2007	Increase / (Decrease)	
	Rs.	Rs.	Rs.	Compared to2008	Compared to2007
Salaries, wages & others benefits	73,858	56,893	48,958	16,965	24,900
Electricity	3,482	2,985	2,678	497	804
Repair and maintenance	6,753	1,614	1,324	5,139	5,429
Insurance	1,707	1,675	1,277	32	430
Depreciation	12,688	11,955	10,598	733	2,090
Vehicle running	4,259	3,539	5,353	720	(1,094)
Postage, telephone & telegram	3,353	3,439	2,738	(86)	615
Printing & stationery	3,423	2,206	1,897	1,217	1,526
Legal & professional charge	6,694	1,740	1,871	4,954	4,823
Traveling & conveyance	5,289	6,765	6,104	(1,476)	(815)
Rent, rates & taxes	185	170	2,699	15	2,514
Auditor's remuneration	1,320	1,723	1,498	(403)	173
Entertainment	1,441	1,132	2,780	309	(1,339)
School expenses	9,790	9,004	8,491	786	1,299
Fees and subscription	3,818	1,982	2,966	1,836	852
Miscellaneous	3,792	4,836	2,937	(1,044)	855
Total	141,852	111,658	104,169	30,194	37,683

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iii) Break-up of items - Selling and distribution overheads

(Rupees in thousand)

Particulars	2009	2008	2007	Increase/(Decrease)	
	Rs.	Rs.	Rs.	Compared to 2008	Compared to 2007
Salaries, wages & others benefits	49,946	35,371	29,727	14,575	20,219
Electricity	1,064	875	670	189	394
Repair and maintenance	366	299	884	67	(518)
Insurance	294	299	235	(5)	59
Depreciation/Amortization	1,335	1,323	1,132	12	203
Vehicle running	2,414	1,933	1,603	481	811
Postage, telephone & telegram	932	1,234	1,361	(302)	(429)
Printing & stationery	1,614	1,553	1,094	61	520
Rent, rates & taxes	3,030	3,438	2,312	(408)	718
Legal & professional charge	263	-	-	263	263
Traveling & conveyance	3,328	3,720	1,406	(392)	1,922
Entertainment	393	296	189	97	204
Advertisement & sales promotion	1,657	3,395	2,643	1,738	(986)
Freight charges	1,802,362	505,133	19,687	1,297,229	1,782,675
Other expenses	2,519	2,596	2,179	(77)	340
Total	1,871,517	561,465	65,122	1,310,052	1,806,395

iv). Financial Charges

(Rupees in thousand)

Particulars	2009 Rupees	2008 Rupees	2007 Rupees
Financial charges	2,606,358	1,749,837	468,173

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For the year ended June 30, 2009

b) Reasons for significant variances

i. Factory overheads

- Salaries increased due to yearly increments and increase in allowances and other benefits.
- The decrease in Electricity expenses is due to more dependency on in house generated electricity.
- Fuel cost increased due to the significant increase in coal & furnace oil prices in international market.
- The increase in stores & spares is attributed to inflationary factor and devaluation of Pak Rs. because most of the items used are imported.
- The increase in repair & maintenance cost is due to:
 - a) Devaluation of Pak Rupee because the payment of operation and maintenance of power generation unit is made in foreign currency
 - b) Full utilization of Khairpur Power plant throughout the year.
- The excise duty increase relates to the increased use of Limestone and Gypsum.
- The increase in legal and professional charges is due to
 - a) Alternate energy development fee paid.
 - b) Valuation of units at DG Khan and Khairpur.

ii. Administration expenses

- Salaries increased due to yearly increments and increase in allowances and other benefits.

iii. Selling & Distribution expenses

- Salaries increased due to yearly increments and increase in allowances and other benefits.
- The increase in Freight expenses is due to exports of cement and clinker. The cement export during the year was 1,023,834 tons against 662,475 tons last year. The clinker export during the year was 177,064 tons against 95,202 Tons last year

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iv. Financial expenses

- The increase in finance cost was due to increase in long term loans and short term running finance and increase in mark-up rates thereon.

c) Basis of allocation of overheads

- The cost of service department, including civil, electrical, mechanical, water supply and quality control has been allocated on the basis of ratios worked out on actual services rendered to production departments.
- The cost of general factory administration department is allocated on the basis of number of employees of production departments.

d) Cost of Packing

Particulars	(Rupees in thousand)	
	2009 Rupees	2008 Rupees
Cost of packing material	1,268,999	1,121,385
Other departmental cost	212,482	183,031
Total	1,481,481	1,304,416

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9. ROYALTY / TECHNICAL AID PAYMENTS

Royalty Paid:

Royalty charges for the year 2009 amounted to Rs. 86,514,350 (2008 Rs. 83,731,032)

Average royalty chargeable to per unit of the product (Cement).

	2009 Rs./M.Ton	2008 Rs./M.Ton	2007 Rs./M.Ton
Royalty per unit	22.31	19.81	18.99

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10. ABNORMAL NON-RECURRING FEATURES

a. Features Affecting Production

There were no features like strikes, lockouts, major breakdowns in the plant, substantial power cuts and serious accidents affecting production during the year.

b. Special Expenses

There were no special expenses incurred on the production during the year.

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11. COST OF PRODUCTION

Cost Per Unit of Different Varieties

Products	2009 Rupees/M. Ton	2008 Rupees/M. Ton	Variance Rupees/M. Ton
Ordinary Portland Cement	3,207.44	2,484.23	723.21
Sulphate Resistant Cement	3,164.48	2,570.45	594.03
Total	3,205.95	2487.17	718.78

Comments on Variance

Increase in per unit cost is due to;

- Increase in fuel cost in international markets. On average coal price during the period has increased by 39 % compared with last year.
- Increase in gas/ electricity tariffs.
- Increase in packing material cost.

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12. SALES

a) Local Sales of Different Varieties:

Product	Quantity M.Ton	Value Rupees '000	Avg. Sales Realization Rupees/M.Ton
OPC	2,736,434	12,003,920	4,386.70
SRC	91,669	410,705	4,480.30
Clinker	-	-	-

b) Export Sales:

Product	Quantity M.Ton	Value Rupees '000	Avg. Sales Realization Rupees/M.Ton
OPC	981,721	4,976,629	5,069.29
SRC	42,113	202,035	4,797.45
Clinker	177,064	444,923	2,512.78

Profit or loss on export

Cement		Rs. '000
Export sales		5,178,664
Cost of sales		3,102,299
Gross Profit on export		2,076,365
Clinker		Rs. '000
Export sales		444,923
Cost of sales		445,900
Gross Profit on export		(977)

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13. PROFITABILITY

Gross Profit/(Loss) (Per M.Ton) Earned

Product	2008-2009 Rupees	2007-2008 Rupees
Local		
OPC	1176.67	208.00
SRC	1315.82	473.88
Clinker	-	117.04
Export		
OPC	1,859.25	1,137.06
SRC	1,632.97	-
Clinker	(5.52)	1,249.21

Comments

- Profitability is due to better prices in local and international market.

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For the year ended June 30, 2009

14. COST AUDITOR'S OBSERVATIONS AND CONCLUSIONS

- a. **Matters which appear to us to be clearly wrong in principal or apparently unjustifiable**

NIL

- b. **Cases where the company funds have been used in a negligent or inefficient manner**

N/A

- c. **Factors which could have been controlled but have not been done resulting in increase in the cost of production**

N/A

- d. **(i) The adequacy or otherwise of budgetary control system, if any, in vogue in the company**

The budgetary control system exists and operates adequately.

- (ii) The scope and performance of Internal Audit, if Any**

A full fledged internal audit department is functioning in the company. The audit findings are regularly reported to the top management and corrective measures are immediately adopted wherever necessary.

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For the year ended June 30, 2009

e. Suggestion for improvements in performance

i. Rectification of general imbalance in production facilities

NIL

ii. Fuller utilization of installed capacity

Comments on areas offering scope for

a) Cost reduction

N/A

b) Increased productivity

NIL

c) Key limiting factors causing production bottlenecks

NIL

d) Improved inventory policies: or

NIL

e) Energy conservancy

NIL

iii. State of technology, whether modern or obsolete.

The project is based on modern dry process with energy efficient technology and environment control system.

iv. Plant, whether new or second hand when installed.

The Plants when installed were new.