

Crescent Steel & Allied Products Ltd. Annual Report 2004



Crescent Steel &
Allied Products Ltd.



Mission, Vision, Values

To add value to shareholders and the economy by engaging profitably in the supply of products for Water, Oil and Gas transmission as core business and other selected activities.

To gain and maintain cost and quality leadership in the international competitive environment, as world class manufacturers.

To promote best use and development of human talent in a safe environment; as an equal opportunity employer.

To conduct business as a responsible corporate citizen, and take constructive interest in supporting education and environmental causes.



Crescent Steel &
Allied Products Ltd.

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From left to right: Mazhar Karim, Javed Iqbal, S.M. Ehtishamullah, Ahsan M. Saleem,

BOARD OF DIRECTORS

<i>Chairman</i>	Mazhar Karim
<i>Chief Executive</i>	Ahsan M. Saleem
<i>Non-Executive Director</i>	Javed A. Callea
<i>Non-Executive Director</i>	Javed Iqbal
<i>Non-Executive Director</i>	Mohammad Anwar
<i>Non-Executive Director</i>	Nasir Shafi
<i>Finance Director & CFO</i>	S.M. Ehtishamullah
<i>Non-Executive Director</i>	Zahid Bashir

COMPANY SECRETARY	Tariq Aleem
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AUDIT COMMITTEE

<i>Chairman</i>	Javed A. Callea Javed Iqbal Nasir Shafi
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HUMAN RESOURCE COMMITTEE

<i>Chairman</i>	Ahsan M. Saleem Javed Iqbal Nasir Shafi
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Crescent Steel &
Allied Products Ltd.



Mohammad Anwar, Zahid Bashir, Nasir Shaft and Javed A. Callea.

THE MANAGEMENT

Chief Executive and
Managing Director

Ahsan M. Saleem, 51
1983*

Advisor to CEO (Technical)

Mohammad Sharif, 72
1984*

Advisor (Corporate)

Dr. Wasim Azhar, 51
2001*

Finance Director

S.M. Ehtishamullah, 65
1996*

Commercial Director

S.A.N. Kazmi, 62
1986*

General Manager

Cotton Division
Abdul Rouf, 45
2000*

Chief Information Officer
(Outsourced)

Iqbal Saleem, 51
2004*

Head of Internal Audit

Mohammad Amin, 57
1992*

Head of Buying

Nadir Mazhar, 57
1993*

Head of Marketing

Arif Raza, 43
1985*

Head of Manufacturing

Mushtaque Ahmed, 43
1985*

Controller Finance

Zeeshan Ghulam
Muhammad, 31
2001*

* Year joined Company

*We have taken all possible measures to ensure workers safety
and minimize the likelihood of accidents to a considerable extent*

*The company as a matter of policy arranges and ensures orientation
to new employees on security and safety of man & machine*

*As a leading engineering company, we are in a prime position
to capitalize on our employees who are a key part of our success*

*Every employee of our company is critical to its ability to adapt
and embrace change in order to generate outstanding results*





Crescent Steel &
Allied Products Ltd.

SHAREHOLDERS' INFORMATION

STOCK EXCHANGE LISTING

Crescent Steel and Allied Products Limited is a listed company and its shares are traded on all the three stock exchanges of Pakistan.

The Company's share is quoted in leading dailies under the Engineering Sector.

PUBLIC INFORMATION

Financial analysts, stock brokers, interested investors and financial media desiring information about 'Crescent Steel' should contact Farrukh Hussain at the Company's Principal Office, Karachi. Telephone: 021-5674881-5 E.mail: farrukh.hussain@ crescent.com.pk

SHAREHOLDERS INFORMATION

Enquiries concerning lost share certificates, dividend payments, change of address, verification of transfer deeds and share transfers should be directed to the Shareholder Services Department at the Registered Office at Lahore. Telephone: 042-111-912-912 Fax: 042-5875915-16 E.mail: csbm@csibl.com

PRODUCTS

Steel Division
Manufacturer of DSAW steel line pipes in diameters ranging from 8" to 90" and applicator of multi-layer polyolefin coating conforming to international standards.

Cotton Division
Manufacturer of quality cotton yarn of various counts of 10s to 30s.

ANNUAL MEETING

The 20th Annual General Meeting of Crescent Steel and Allied Products Limited will be held on thursday, September 30, at 3:00 p.m. at Qasr-e-Noor, Lahore.

AUDITORS

KPMG Taseer Hadi Khalid & Co.

LEGAL ADVISOR

Hassan & Hassan, Advocates, Lahore

BANKERS

Union Bank Limited

PRINCIPAL OFFICE

9th Floor, Sidco Avenue Centre, 264 R.A. Lines, Karachi-74200. Telephone: 021-5674881-5 Fax: 021-5680476 E.mail: mail@crescent.com.pk URL: www.crescent.com.pk

FACTORY – STEEL DIVISION

A/25, S.I.T.E., Nooriabad, District Dadu, Sindh. Telephone: 02202-660021, 660022, 660163 E.mail: mushtaq.ahmed@nra.crescent.com.pk



Meezan Bank Limited
PICIC Commercial Bank Limited

REGISTERED OFFICE

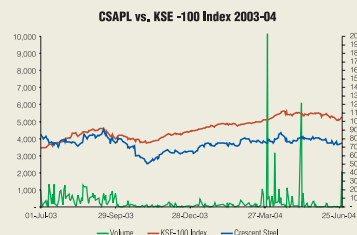
4th Floor, Crescent Standard Tower, 10-B, Block E-2, Main Boulevard, Gulberg-III, Lahore. Telephone: 042-111-912-912 Fax: 042-5875915-16 E.mail: csbm@csibl.com

LIAISON OFFICE LAHORE

9th Floor, Crescent Standard Tower, 10-A, Block E-2, Main Boulevard, Gulberg-III, Lahore. Telephone: 042-5879701-2 Fax: 042-5870357 E.mail: ejazahmed@csibl.com

MILLS – COTTON DIVISION

Crescent Cotton Products (Spinning Unit) 1st Mile, Lahore Road, Jaranwala. Telephone: 0468 - 313799, 312899, 311741 Fax: 0468-315475 E.mail: abdul.rouf@jrn.crescent.com.pk



MANUFACTURING FACILITIES

The manufacturing facilities consist of a Spiral Pipe Production line and a multi-layer Polyolefin and stand-alone Epoxy Coating line, both located side by side at the Sindh Industrial Trading Estate, Nooriabad in Dadu district of Sindh and a Cotton Spinning Unit of 19,680 spindles at Jaranwala, Faisalabad.



Crescent Steel and Allied Products Limited is a Public Limited Company listed on all the Stock Exchanges of Pakistan. It started commercial production in March 1987. The manufacturing facilities consist of a Spiral Pipe Production line and a multi-layer Polyolefin and stand-alone Epoxy

Coating line, both located side by side at the Sindh Industrial Trading Estate, Nooriabad in Dadu district of Sindh and a Cotton Spinning Unit of 19,680 spindles at Jaranwala, Faisalabad. Crescent Steel and Allied Products Limited is an equal opportunity employer with a sense of social responsibility and strongly supports education and environmental causes.

We conduct our business in a responsible manner and with honesty, and integrity

STEEL DIVISION

The Spiral Pipe Plant has a capability of manufacturing high quality steel pipes in the diameter range of 8-5/8”-90” (219 mm – 2286 mm) in wall thickness from 4 mm – 18 mm and material grades up to API 5L X-80. The company has been gradually enhancing and upgrading the pipe production capacity which has



Crescent Steel &
Allied Products Ltd.

increased from 80,000 tons initially to the present notional capacity of 90,000 tons per annum. The company has authorization to use API monogram of the American Petroleum Institute – the highest international standard accredited for quality of steel line pipe. It also has the ISO 9001 : 2000 certification.

The Polyolefin Coating Plant was added adjacent to the pipe mills which is capable of applying single and multi-layer Coatings comprising of Fusion Bonded Epoxy, Co-Polymer Adhesive and High Density Polyethylene / Polypropylene and Polyethylene Tape Coating on steel pipes ranging from 6-5/8” – 48”

(168 mm – 1219 mm).

Crescent Steel maintains high quality norms in all its products and has consistently exceeded the requirements of international standards both in steel line pipe and multi-layer coatings and will continue to remain at the cutting edge in terms of technology, quality control and quality assurance.

COTTON DIVISION

In the year 2000, the Company acquired a running cotton spinning mill located at Jaranwala near Faisalabad, which is the hub of textile industry and carries out this activity under the name and title of “Crescent Cotton Products” (CCP) a Division

of Crescent Steel and Allied Products Limited.

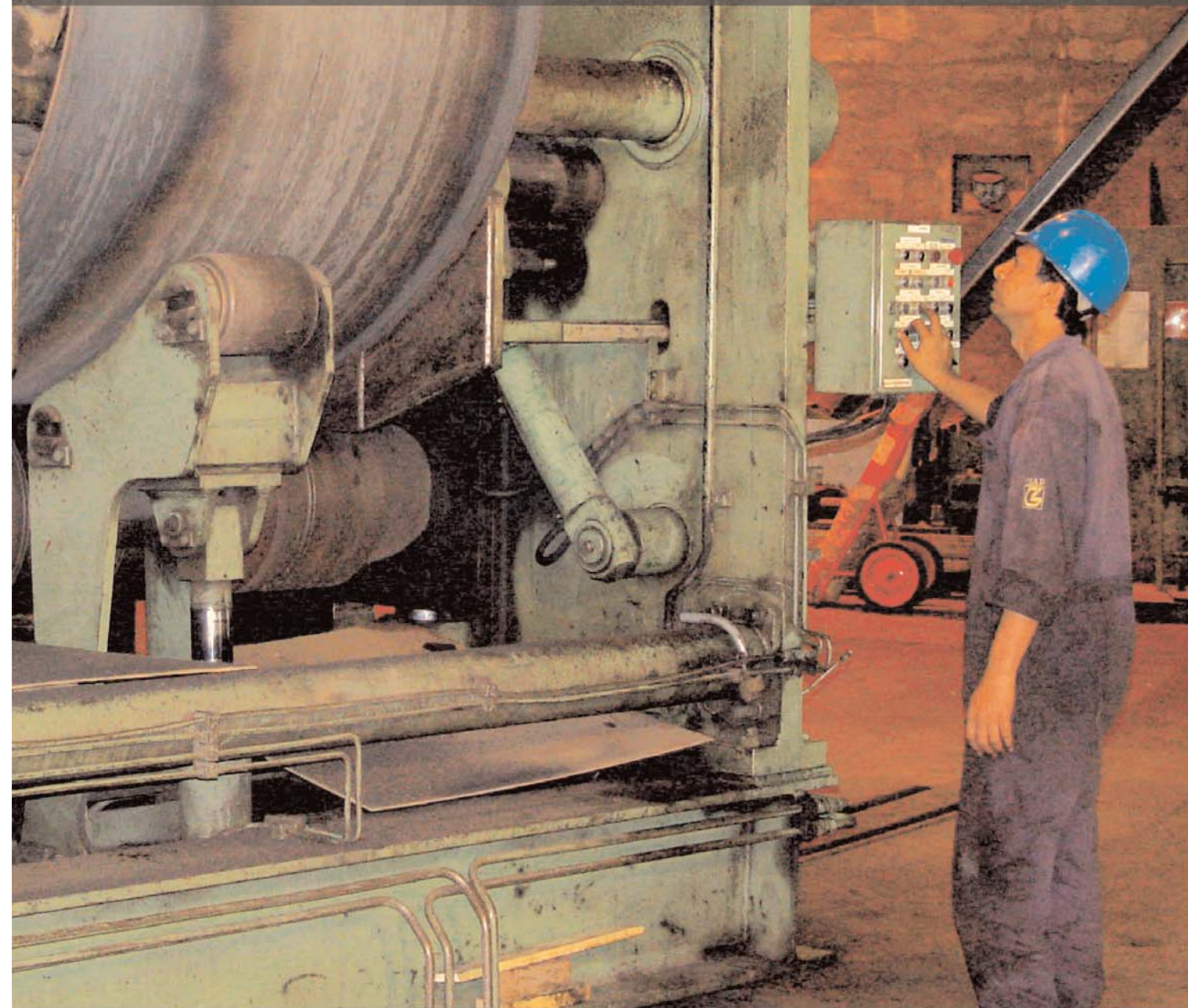
CCP is a division of the Company but its operating results are shown separately.

CCP as a division holds ISO 9001 : 2000 Quality Management Credential. CCP produces good quality cotton yarn of various counts from 10s to 30s having a notional capacity based on 20s of 6.2 million kg per annum and its products are consistently in demand and generally sold at a premium.

Maintenance of health and safety standards at our plants and offices is an important issue for the company

We are committed to actively managing health and safety risk associated with our business and are actively working towards

improving our procedures to reduce, remove or control the risk of fire, accidents or injuries to employees and visitors





Crescent Steel &
Allied Products Ltd.

OUR GOVERNING PRINCIPLES

CSAPL conducts its business in a responsible manner and with honesty, and integrity. We also have the same expectations from all those with whom we have relationships. We insist on doing what is right which sets the tone of our actions and underpins the functioning of our employees. We also insist that all transactions be open, transparent and within the legal framework culminating in responsible financial reporting.

INTEGRITY

CSAPL does not use bribe as an instrument for any business or financial gain. Employees are not authorized to give or receive any gift or payment which may be construed as such.

Employees are also required to avoid engaging in any personal activity or financial interests which would conflict with their responsibility to the Company.

ROLE OF THE BOARD OF DIRECTORS

The Board has a fiduciary responsibility for the proper

direction and control of the activities of the Company. This responsibility includes such areas of stewardship as the identification and control of the Company's business risks, the integrity of management information systems and clear, transparent reporting to shareholders. The Board accepts its primary responsibility for the overall control



architecture of the Company. However, it recognizes that the internal control system has to be cost effective and that no cost effective system will preclude all errors or irregularities. The system is based upon written procedures, policies, guidelines, an organogram that provides an appropriate division of responsibility, a programme of internal audit,

manning of all key functions by qualified personnel and constant training.

CODE OF CONDUCT

The Board has adopted a code of conduct for its members, executives and staff, specifying the business standards and ethical considerations in conducting its business. The code includes:

- Corporate governance

- Relationship with employees, customers and regulators
- Confidentiality of information
- Trading in Company's shares
- Environmental responsibilities

BOARD COMMITTEES

The Board has constituted an Audit Committee and a Human Resource Committee

QUALITY POLICY

We are committed to provide products and services conforming to world-class quality standards – based on application of modern technology, within a safe environment; ensuring customer satisfaction, maintaining cost and quality leadership – setting measurable objectives for continual improvement, assured through an independent quality function.



to review and improve the current human resource architecture.

AUDIT COMMITTEE

The Audit Committee operates under a charter approved by the Board. The governing charter of

the Audit Committee addresses the requirement of the code of corporate governance issued by the SECP and includes the requirements of best practices.


The Committee is accountable to the Board for the recommendation of appointment of external auditors, directing and monitoring the audit function and reviewing the adequacy and quality of the audit process. CEO and the CFO are responsible for the accuracy of financial information for inclusion in the annual report; the Committee provides the Board with additional assurance.

The Committee also ensures that the Company has an effective internal control framework. These controls include safe-

The Audit Committee addresses the requirements of the code of corporate governance issued by the SECP and the requirements



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guarding of assets, maintaining of proper accounting records complying with legislation and ensuring the reliability of financial information.

HR COMMITTEE

The HR Committee has been constituted to address and improve the crucial area of human resource development. The Committee has framed a terms of reference and its aim is to guide the management in formulating an overall strategic plan for HR, in developing new program initiatives and formulation of policies. In short to ensure the attainment of the maximum effectiveness from the overall

HR service delivery system. MANAGEMENT STRUCTURE

The Company has two distinct business units, a Steel Division and a Cotton Division. The accounting for these units is done separately in an arms length manner to arrive at the true profit before tax for each unit. The seven key functional areas as defined in the system manuals with clear responsibility and authority matrix have direct reporting lines to the Chief Executive Officer. Limits of authority at all levels are clearly defined in our control manual. The Internal Audit function is responsible to monitor

compliance with the manual. RESPONSIBILITY TO STAKEHOLDERS

Our primary purpose is to run our business efficiently and profitably to enhance shareholders' value but we do it with responsibility to all stakeholders. Profitability is essential to discharge this responsibility and the corporate resources are primarily deployed in the achievement of this end.

However the Company does not operate in isolation with its environment and accordingly feels responsible to all stakeholders which are:

- Our Shareholders
- Our Customers

We are looking at diversification opportunities in the engineering field to complement our leadership position as a large pipe manufacturing and coating company. Crescent Quality Assurance and Development setup ensures the highest quality standards on one hand and continuous research and development efforts in retaining cost leadership and improved operational efficiency on the other





Crescent Steel & Allied Products Ltd.

OUR GOVERNING PRINCIPLES

- Our People
- Our Business Partners
- Our Society

SERVICE TO SOCIETY

We are increasingly conscious of the role we have to play as responsible corporate citizens in fulfilling a wide variety of community needs. We believe in “giving something back” by helping address issues such as education, healthcare, public safety, environmental health etc. This is also arising from our basic belief that individual entities when they work together can create powerful synergies and help to improve the conditions of the societies in which they are operating.

These principles are not just put forth on paper but we have over the years actively strived to promote issues of education, health and environment. Major portion of our budget for philanthropy and sponsorship is allocated to primary and secondary schooling for less privileged children.

HEALTH AND SAFETY

Maintenance of health and safety standards at our

plants and offices is a serious issue at CSAPL. We are committed to actively managing health and safety risks associated with our business and are actively working towards improving our procedures to reduce, remove or control the risk of fire, accidents or injuries to employees and visitors. We also ensure that our products are shipped in a



safe manner complying with the safety standards and legal requirements.

ROLE OF SHAREHOLDERS

The Board aims to ensure that shareholders are informed of all major developments affecting the company’s state of affairs. Information is communicated to the shareholders in the annual

report and the interim quarterly reports. The Board encourages the shareholders’ participation at the Annual General Meetings to ensure a high level of accountability. The Company’s financial statements are available on the Company’s website and an officer is designated to answer all shareholder enquiries.

SERVICE TO SOCIETY

We are increasingly conscious of the role we have to play as responsible corporate citizens in fulfilling a wide variety of community needs. We believe in “giving something back” by helping address issues such as education, healthcare, public safety, environmental health etc. This is also arising from our basic belief that individual entities when they work together can create powerful synergies and help to improve the conditions of the societies in which they are



YEAR IN BRIEF

- New quality control equipment including offline ultrasonic machine have been installed to increase product range.
- Production of cotton yarn increased from 11.9 to 13.1 million lbs. in current fiscal due to installation of 4,320 spindles

in June last year.

- Three gas generators have been installed at Cotton Mills, Jaranwala to reduce energy cost.
- Various IT initiatives including implementation of Plant Maintenance System and ERP are under process.
- Balance sheet footing crossed Rs. 2 billion mark.
- TFCs and Commercial Paper worth Rs. 300 million and Rs. 200 million respectively were issued.
- First batch of Crescent LUMS Diploma in Business Management has graduated.
- Some new avenues for diversification were identified.
- Credit rating for medium to long-term has been revised upward from Single A to Single A plus.

By the Grace of Allah, the bottom line results for FY04 show a handsome return which has helped us add to the shareholders' value



Crescent Steel & Allied Products Ltd.

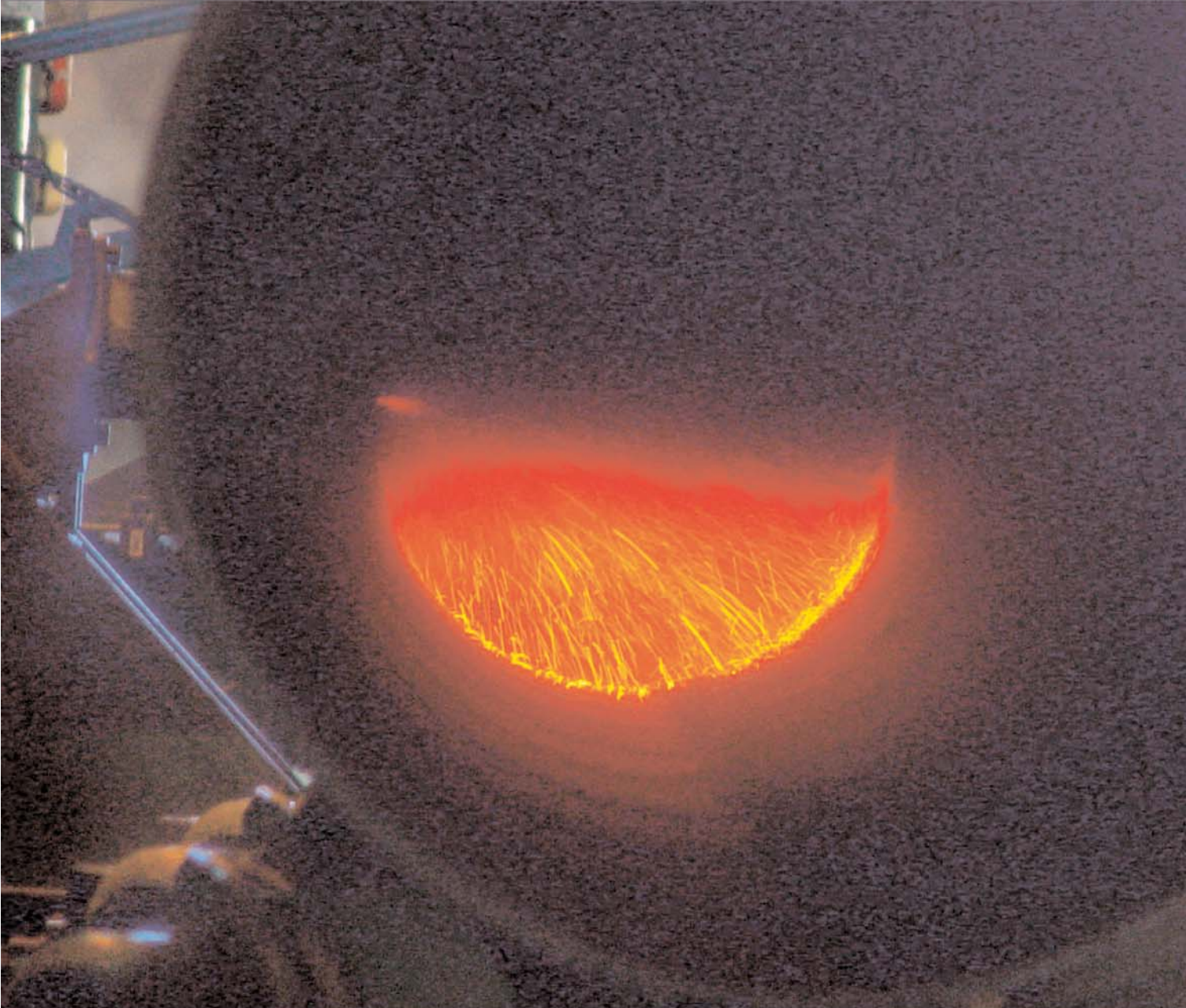
KEY FIGURES

		2004	2003
Sales Revenue	Rs. in million	1,343	1,739
Profit After Tax	Rs. in million	296	284
No. of Shares Outstanding	No. in million	22.1	20.3
Earnings per Share - Basic and Diluted	Rs.	13.4	12.9
Dividend			
- cash	Rs./share	3.5	5.0
- bonus	(%)	10	10
Return on Capital Employed	(%)	14.8	21.8
Current Ratio		4.2	3.7
Debt: Equity Ratio		21:79	3:97
Shareholders' Equity	Rs. in million	1,519	1,162
Total Assets	Rs. in million	2,228	1,461
Capital Expenditure	Rs. in million	163	130
Price To Earning Ratio		5.9	6.4
Net Assets per Share	Rs.	68.8	57.9
Employees		713	684

Strategy of utilizing our liquid resources judiciously in the capital market proved to be one of the main sources of income to provide a diversified pool of returns to our shareholders.

For the current year company posted total revenue of Rs. 1,343 million net result of after tax profit stood at Rs. 295 million with the help of other income of Rs. 279 million from investments

Hence investments play a vital role in overall performance

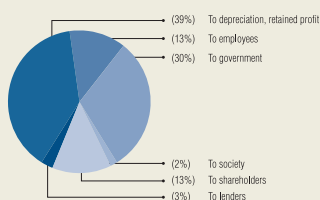




Crescent Steel &
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STATEMENT OF VALUE ADDED As at June 30, 2004

	2004 Rupees in thousand	%	2003 Rupees in thousand	%
WEALTH GENERATED				
Total revenue net of allowances	1,835,923		2,175,957	
Bought-in-material and services	(1,105,955)		(1,335,386)	
	729,968	100%	840,571	100%



WEALTH DISTRIBUTED

To Employees				
Salaries, benefits and other costs	93,520	13%	89,677	11%
To Government				
Income tax and sales tax	223,042	30%	351,762	42%
To Society				
Donation towards education, health and environment	12,874	2%	15,291	2%
To Providers of Capital				
Dividend to shareholders	97,141	13%	120,510	14%
Mark up/interest expenses on borrowed funds	20,391	3%	16,828	2%
Retained for reinvestment and future growth				
Depreciation, amortization and retained profit	283,000	39%	246,503	29%
	729,968	100%	840,571	100%

ROLE OF THE BOARD

The Board accepts its primary responsibility for the overall control architecture of the Company. However, it recognizes that the internal control system has to be cost effective and that no cost effective system will preclude all errors or irregularities.



The Directors of the Company have the pleasure in submitting their report together with audited financial statements of the Company for the year ended June 30, 2004.

FINANCIAL RESULTS

The financial results of the Company are summarized below:

	2004	2003
	(Rupees in thousand)	
Profit for the year	326,718	381,375
Taxation	30,818	97,219
Profit after taxation	<u>295,900</u>	<u>284,156</u>
Unappropriated profit brought forward	<u>4,257</u>	<u>5,611</u>
Profit available for appropriation	<u>300,157</u>	<u>289,767</u>
Appropriations:		
- First interim dividend @ 10% (2003:10%)	(22,093)	(20,085)
- Second interim dividend @ 10% (2003:10%)	(22,093)	(20,085)
- Third interim dividend nil (2003:10%)	-	(20,085)
- Proposed final dividend @ 15% (2003: 20%)	(33,140)	(40,170)
- Transfer to reserve for issue of bonus shares	(19,815)	(20,085)
- General reserve	(175,000)	(165,000)
	<u>(272,141)</u>	<u>(285,510)</u>
Unappropriated profit carried forward	<u>28,016</u>	<u>4,257</u>
Basic and diluted earnings per share	<u>Rs. 13.39</u>	<u>Rs. 12.86</u>



Crescent Steel &
Allied Products Ltd.



STATEMENT ON
CORPORATE AND
FINANCIAL REPORTING
FRAMEWORK

- These financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- The system of internal control and other such procedures, which are in place, are being continuously reviewed by the internal audit function. The process of review will continue and any weakness in controls will be removed.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Details of significant improvements in the Company's operations during the current year are stated in the Chief Executive's Review.
- Key operating and financial data for last six years in summarized form is annexed.
- Information about taxes and levies is given in the notes to the financial statements.
- The number of employees at the end of year was 713 (2003: 684).
- The following is the value of investments based on audited accounts for the year

Apart from increase in the prices of basic raw materials for steel making, domestic demand for steel has risen

sharply in the major steel producing / exporting nations – like China, Russia, India and Brazil (CRIB)

Due to construction of dams, trans-country gas pipeline and enhanced production of automobiles in China the prices

for HR coils which used to be between \$ 300 to \$ 400 per ton have shot up to \$ 650 to \$ 700 per ton





Crescent Steel &
Allied Products Ltd.

DIRECTORS' REPORT

ended December 31, 2002:

√ Provident fund Rs. 45.86 M

√ Gratuity fund Rs. 10.38 M

√ Pension fund Rs. 29.09 M

- During the year six board meetings were held and the attendance by each director is attached separately on page 41.

PATTERN OF SHAREHOLDING

The pattern of shareholding and additional information regarding pattern of shareholding is attached separately.

No trade in the shares of the Company were carried out by CEO, CFO and Company Secretary and their spouses and minor children except those that have been duly reported as per the law.

DIRECTORS

Since the last report, no change in directorship has taken place. The present term of the eight elected directors will expire on January 29, 2006.

FINANCIAL STATEMENTS

The financial statements of the Company have been duly audited and approved without qualification by the auditors

of the Company, Taseer Hadi Khalid & Co. and their report is attached with the financial statements.

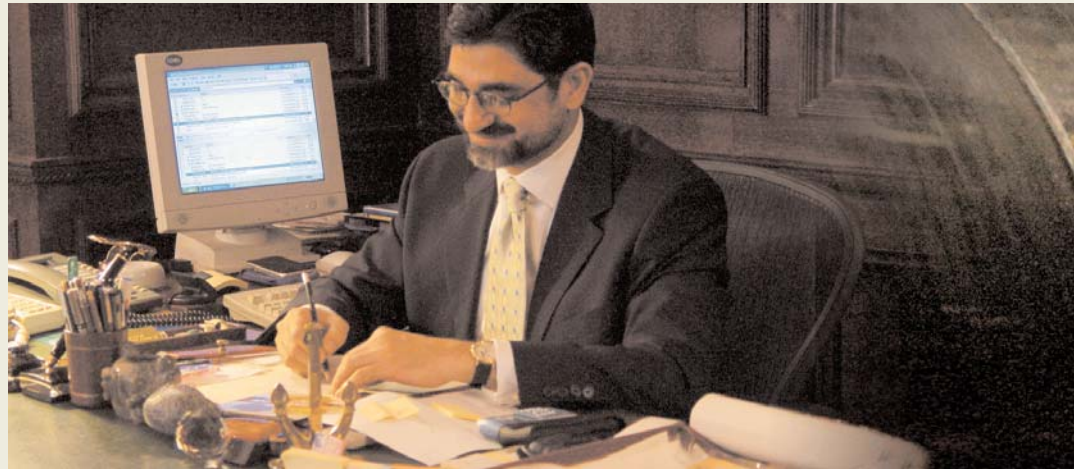
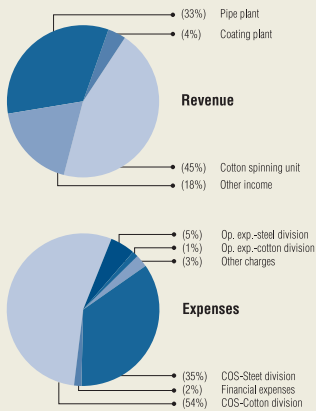
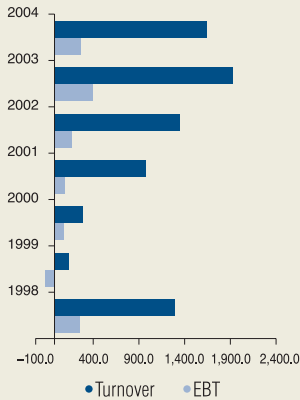
No material changes and commitments affecting the financial position of your Company have occurred between the end of the financial year to which this Balance Sheet relates and the date of the Directors' Report.



By Order of the Board

Ahsan M. Saleem
Chief Executive

August 27, 2004



Dear CSAPL Shareholder,

By the Grace of Allah, the bottom line results for FY04 show a handsome return which has helped us add to the shareholders' value and emerge in a better shape as compared to last year. It gives me pleasure to present a review of the

operations for the year and the accompanying audited accounts of your Company for the year ended June 30, 2004.

As mentioned in my previous reviews, the order book in the last two quarters was fairly healthy, which coupled with a stable economic environment and low mark-up rates helped post total revenues of Rs. 1.34 billion for the year ended June 30, 2004.

The energy sector continued to receive much needed attention and the latest figures for FY04 show that domestic gas production has increased by 14% whilst oil production has fallen by 4% over the past nine months. Driven by the government's desire to substitute imported oil with gas, both the state owned gas utilities are undertaking aggressive capital expenditure plans targeting a total investment

We continue to enhance shareholders' value even in periods when cyclical shifts or economic conditions affect some businesses



Crescent Steel & Allied Products Ltd.

of Rs. 64 bn (US\$ 1.1 bn) over the next five years.

The capital market also provided substantial returns while good corporate results continued to prompt and fuel a portfolio shift.

OPERATION'S REVIEW

The Company posted total revenue of Rs. 1,343 million as against Rs. 1,738 million in the last fiscal, while net profit before tax stood at Rs. 326.7 million (2003: Rs. 381.4 million). The revenue amount was lesser than last year mainly due to some conversion jobs earlier in the year and delays in expected orders.

However the strategy of utilizing our liquid resources judiciously in the capital market proved to be one of the main sources of income

to provide a diversified pool of returns to our shareholders. It has helped us to ensure that we continue to enhance shareholders' value even in periods when cyclical shifts or economic conditions affect some businesses more than others.

Net of tax the profit stood at Rs. 295.9 million compared to Rs. 284.2 million of last year, an increase of 4.1%.

During the year, the Company entered into new avenues for raising funds by issuing commercial paper for Rs. 200 million and five years' privately placed listed TFCs for Rs. 300 million, both at very competitive rates. The commercial paper was issued to substitute our normal short term borrowing and has been

fully repaid on maturity.

As the steel division and the cotton division are in the nature of two separate undertakings, the operations of both have been discussed separately up till the pretax bottom line.

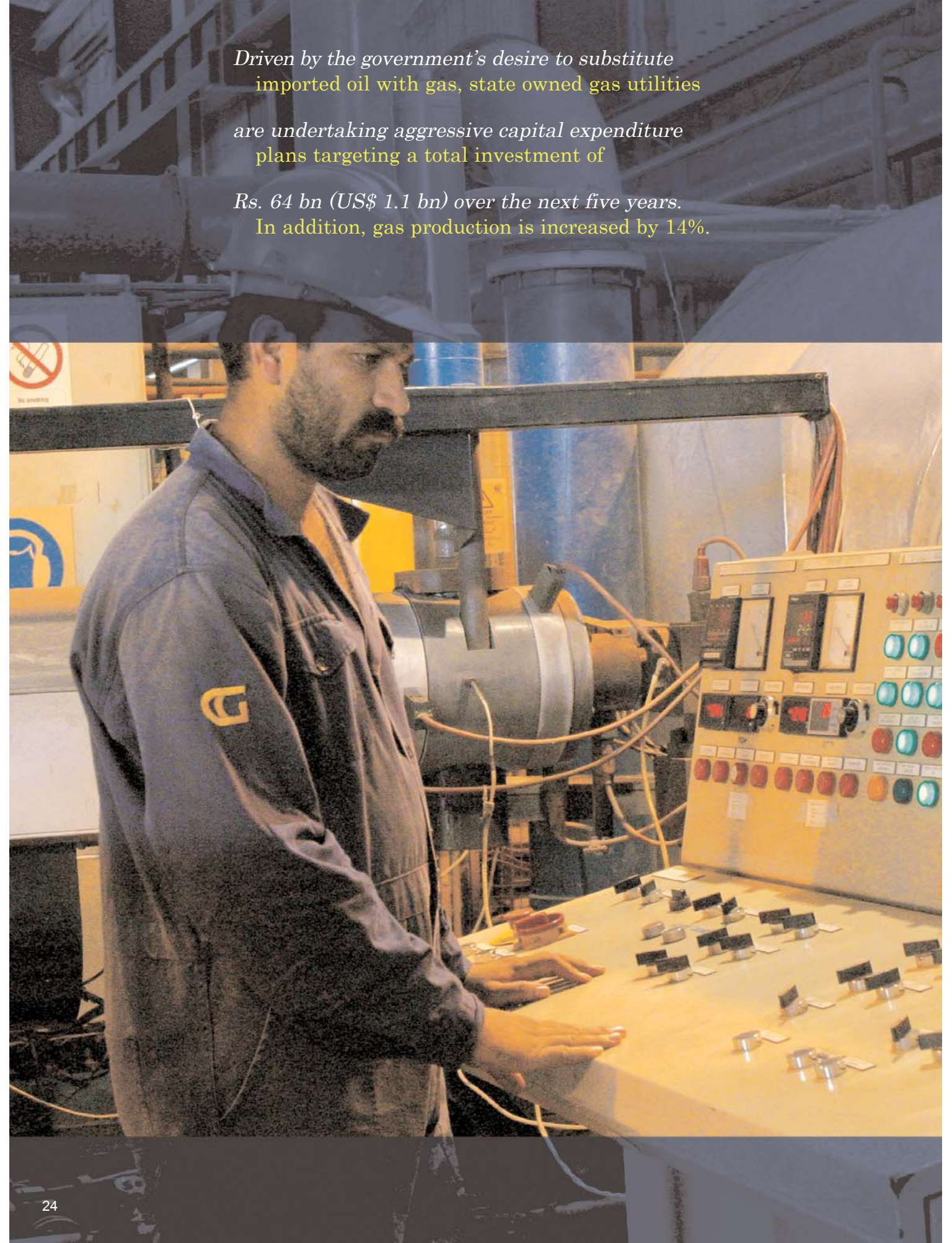
STEEL DIVISION

Production was lower at 27,563 tons as compared to 43,229 tons in the previous year, both on account of lower order intake in the first two quarters and smaller diameter mix. The sales revenue of steel division was also lower at Rs. 612.5 million as against Rs. 1,215.5 million of last year. Decrease in revenue by 49% was due to execution of conversion jobs mainly of WOPP in addition to reduced tonnage sold. If,

Driven by the government's desire to substitute imported oil with gas, state owned gas utilities are undertaking aggressive capital expenditure plans targeting a total investment of

Rs. 64 bn (US\$ 1.1 bn) over the next five years.

In addition, gas production is increased by 14%.





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Allied Products Ltd.

CHIEF EXECUTIVE'S REVIEW

however, the raw material cost were to be added, sales revenue would have stood at Rs. 1.1 billion.

Cost of sales for steel division was Rs. 459.5 million, lower by approximately 50% than last year's cost of Rs. 901.1 million. The decrease corresponds with the reduction in sales volume by 49%.

Gross profit at Rs. 153.2 million was lower by 51% as compared to Rs. 314.5 million last year mainly for reasons mentioned above. However, as margins on conversion jobs were better, gross profit percentage remained the same as of last year which in reality reflects lower margins. A word of caution at this point is pertinent. Due to spiraling steel prices in the international market and growing competition in the steel pipe industry, the margins would somewhat be further reduced in the future which the Company's management would endeavor to mitigate.

Operating expenses have come down from Rs. 75.4 million to Rs. 69.7 million due to vigilant cost control. Operating profit stood at Rs. 83.5 million while other income increased from Rs. 181.1 million last year to Rs. 298.8 million mainly due to dividends received and

realization of gain on sale of equity investments.

INVESTMENTS

Investments play a vital role in the overall operational activity of the Company. The total investments appearing in short-term and long-term classification aggregate to a market value of Rs.1,235 million on June 30, 2004 as compared to Rs. 726.4 million last year. Equity

sale and held for trading investments. During the year in addition to bonus shares, the Company realized capital gains of Rs. 225.8 million and received dividends of Rs. 53.7 million as compared to Rs. 72.6 million and Rs. 37.4 million respectively of last year. Further, unrealized gain on investments at the year end stood at Rs. 327.4 million which has been taken to equity in accordance with the

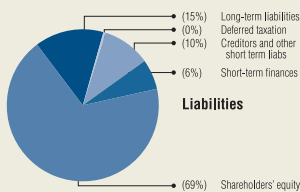
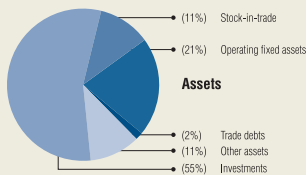
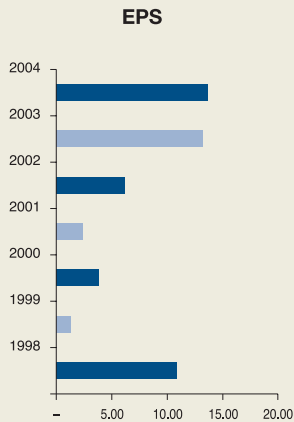


investments constitutes a major portion and stood at 93% of the total investments. The remaining 7% investments are in fixed and variable rate securities.

The year under review witnessed a surge in the capital market and KSE index closed at 5,279 at June 30, 2004. Good corporate earnings led to an increase in dividend income and market improvement provided an opportunity to make capital gains on both available for

provisions of IAS-39.

The Company in order to mitigate the inherent risks in equity investment, maintains a balanced portfolio comprising mainly of quality scrips in diversified sectors. As the market has gone up substantially, we are now trying to focus on those sectors where real investments are being made and potential for growth in future is somewhat evident. Further, indications of increase in mark-up rates



and depreciation of Pak Rupee are looming; we feel that investments would flow to money markets which would affect the capital market to some extent. Keeping in view the current trend we have made some investments in fixed income securities. In order to make a balanced combination of

fixed and variable income / mark-up, some further investment in fixed income securities would be made in future.

COTTON DIVISION

The cotton spinning unit continued to work uninterrupted throughout the year on a three-shift basis and achieved a production of 5.9 million kilograms as compared to 5.4 million kilograms last year.

The textile industry of Pakistan is a peculiar manufacturing sector which has to assume the trading risks associated with commodity trade. The local cotton purchases have to be completed in a four-month window during the cotton season. The goods manufactured are sold throughout the year based on the fixed price of cotton physically purchased by

The price of cotton during the season was extremely high due to a worldwide shortage of crop



Crescent Steel & Allied Products Ltd.



the mills. In any year when the cotton market is volatile, there are huge swings, both up and down based on a flexible sale price for goods manufactured from raw material bought physically during the cotton season.

The current year is a typical example. The price of cotton during the season was extremely high due to a worldwide shortage of crop and the industry had to procure its annual requirement at very high rates due to good quality requirement. As a result, despite increase in sales revenue from Rs. 523.4 million last year to Rs. 730.7 million, the gross margin for the current year moved down from 5.0% to 2.2%.

During the year, the Company shifted from

WAPDA to its own electricity generation through gas generators. The effect of this fuel conversion would lead to reduction in cost, which will become more evident in the next year.

Operating expenses have increased due to expansion and a larger allocation towards social responsibility in the area the unit operates.

Financial charges have come down to Rs. 14.2 million as compared to Rs. 15.7 million last year, due to lower interest rates in the market.

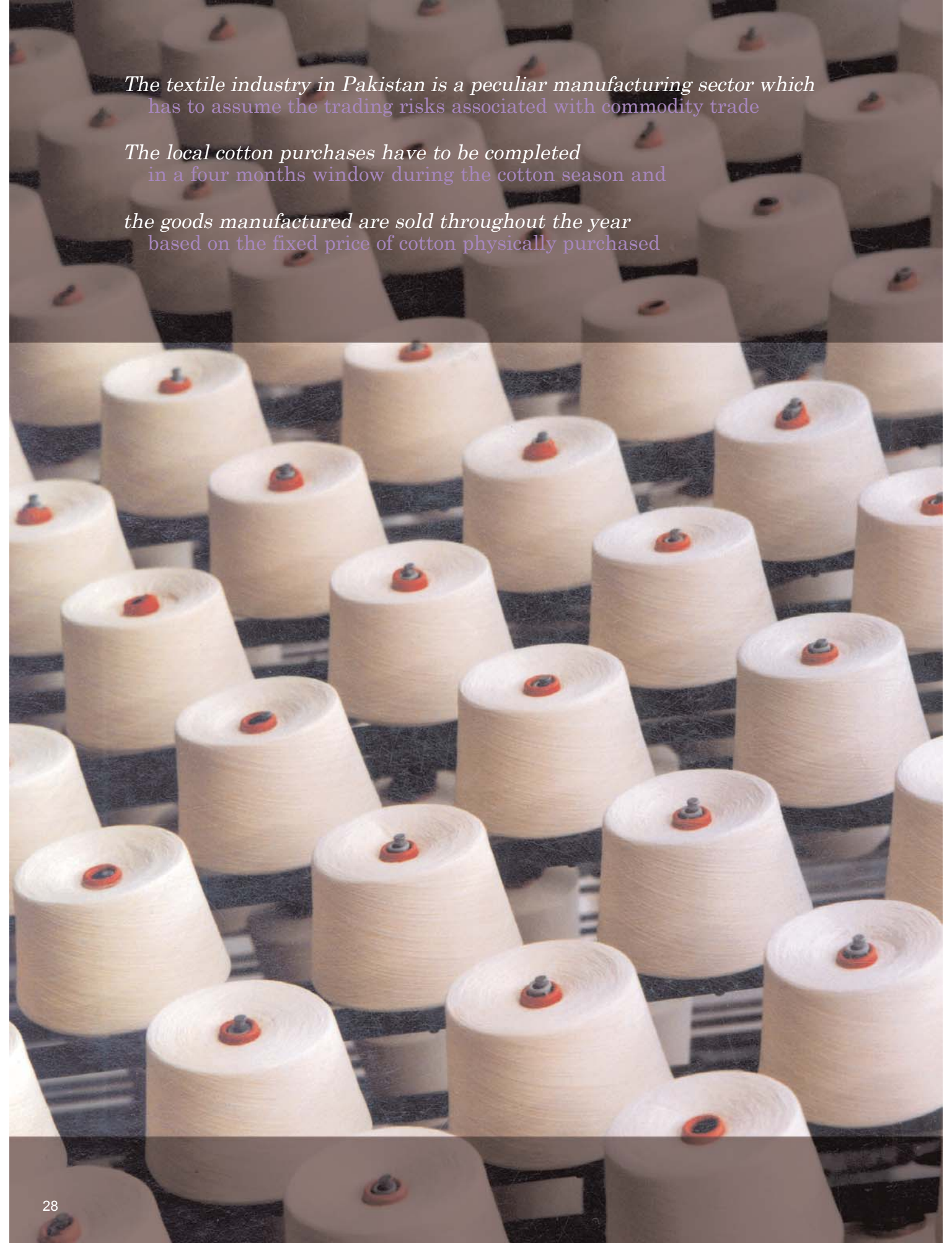
Due, mainly to the adverse movement in prices of cotton, current year suffered a heavier loss which went up to Rs. 25.3 million, mainly due to write down of the inventories, compared to Rs. 6.7 million last year.

BALANCE SHEET

The Company's balance sheet continues to remain robust reflecting good fundamentals supported by strong capital reserves. The medium to long-term entity rating of the Company has been revised upwards from A (Single) to A + (Single A plus).

The balance sheet footing has increased from Rs. 1,460 million to Rs. 2,228 million this year with a debt equity ratio of 21:79 and current ratio of 4.6:1. Both return on capital employed and return on assets decreased from 21.8% and 27.5% last year to 14.8% and 18.8% respectively for the current year due to reduced level of operational activities.

Break up value of shares has gone up from Rs. 57.9 to



The textile industry in Pakistan is a peculiar manufacturing sector which has to assume the trading risks associated with commodity trade

The local cotton purchases have to be completed in a four months window during the cotton season and

the goods manufactured are sold throughout the year based on the fixed price of cotton physically purchased



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CHIEF EXECUTIVE'S REVIEW

Rs. 68.8, while EPS has increased from Rs. 12.9 to Rs. 13.4 in the current year. The Company announced two interim dividends of 10% each and a final cash dividend of 15% bringing the total payout to 35% for the year. In addition, the directors have recommended issue of 10% bonus shares.

INDUSTRY PROBLEMS

In the past few years we have seen a major shift in focus towards improving indigenous capacity of the engineering sector and emphasis of the government has been to increase exploitation of local energy sources and substitute imported oil with indigenous gas. Recent surveys show that gas consumption has increased substantially in the last year or so providing an important relief to government by way of reduction in reliance on the import of fuel, cost of which has gone up to unprecedented levels.

This policy has also created demand for steel line pipe for gas transmission and distribution. Globally however the shortage in the supply of steel has greatly affected the price and availability of our main raw material. World Steel exports have seen unprecedented pressures in the previous year.

Apart from increase in the prices of basic raw materials for steel making, domestic demand for steel has risen sharply in the major steel producing / exporting nations—like China, Russia, India and Brazil (CRIB). Single most influencing nation, on the steel trade, is China which has undertaken major projects which include 48" trans-country 4,500 KM gas pipeline, preparations for Olympic 2008, construction

provide realistic indicative quotes which makes the task of pricing the bids to our customers more difficult with an element of additional risk.

The capability of Pakistan Steel both in quality as well as delivery is questionable. As the local industry has to purchase raw materials from Pakistan Steel Mills, whatever they claim to be within their manufacturing range, the industry is at a



of dams, enhanced production of automobiles. As a result, China's steel production capacity has fallen far short of their requirement by about 50 million tons which is covered mainly by supplies from Japan and South Korea.

Due to this CRIB syndrome, the prices for HR Coils which used to be between \$ 300 to \$ 400 per ton have shot up to \$ 650 to \$700 per ton and the suppliers are reluctant to

disadvantage as it may have to suffer heavy liquidated damages for default on deliveries by Pakistan Steel or lose local and export opportunities even to countries where Pakistani manufacturers have freight advantage.

Pakistani manufacturers are generally at a disadvantage as compared to overseas suppliers due to the latter having integrated pipe manufacturing capability. Further because of structural

INDUSTRY PROBLEMS

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reasons and inherent preference, the exploration companies rely on import of pipes. This situation has been aggravated as the differential between duty on pipe and HR coil has been done away with in the last budget.

Moving to the Cotton Division, it may be emphasized that the textile industry is

exposed to risks of volatility in the commodity trade. We do not have a hedging mechanism or any commercial warehousing and financing facilities essential for trading in commodities. Resultantly, the manufacturers have to assume the risk of market vagaries in their raw materials for a whole year.

There is a dire need of a hedging mechanism for the textile industry of Pakistan so that the manufacturing sector can hedge its risk against volatility of commodity trade. However, to achieve this we would need to have a commercial warehousing and commodity financing arrangements to ensure availability and physical delivery of cotton as and when required.

The availability of Pakistani cotton is another issue for the

There is a dire need of a hedging mechanism for the textile industry of Pakistan so that the manufacturing sector can hedge its risk



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industry. The rapid expansion in capacities and modernization of existing facilities has resulted in a higher overall demand and increasing need for better quality cotton. Tariff protection for the main alternative raw material, polyester staple fiber, has restricted the growth of Polyester in the composition of all textile products. This means that cotton remains the main raw material with a limited supply thus increasing our dependence on imports to fulfill the demand.

SAFETY, HEALTH AND ENVIRONMENT

At CSAPL we place strong emphasis to various dimensions of safety, health and environmental issues. This applies to the safety of

everyone involved in or affected by our operations. We have also taken all possible measures to ensure workers' safety. This has minimized the likelihood of accidents to a considerable extent. During the year no personal injury or accident was reported.

Further, the Company as a matter of policy arranges and ensures orientation to new employees on security, safety of men, machines and fire fighting techniques and a mentor is assigned to continually guide them in this regard.

SOCIAL RESPONSIBILITY

CSAPL has always remained conscious of its responsibility towards the society in which it operates

and has placed emphasis on providing quality education and health facilities to the common masses. The Company, over the last five years has provided funding to build ten primary schools and is currently supporting all these schools under the umbrella of The Citizens Foundation. The Company also provides considerable funding to many other educational institutes throughout the country. All donations are governed by a policy approved by the Board which requires that between 2 to 5 % of the profits be allocated for the welfare of social sector. Accordingly, during the current fiscal the contributions made in this sector were Rs. 12.8 million (FY03: Rs. 15.2 million).

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CHIEF EXECUTIVE'S REVIEW

HUMAN RESOURCE INITIATIVES

Investment in human capital is focused, programmatic and clearly visible on our strategy map. Every employee of the Company has a tailor-made training plan. At the management level, the training program initiated back in 2002 is continuing in full force. The first batch of the LUMS-CRESCENT Diploma in Business Management has completed their graduation and the second batch has reached half way. The executive courses have to a large extent helped in enriching and enhancing the skill sets of our employees, making them better prepared to face the challenges of tomorrow.

In addition, steps are being taken to develop and strengthen the existing human resource function, to make it more strategic and dynamic keeping in mind the challenging environment currently facing us.

IT INITIATIVES

In the area of IT initiatives, installation of an ERP solution and a plant maintenance system are already in progress. With these systems in place we will leverage the use of technology to support our growing business and

operational needs.

CORPORATE GOVERNANCE

The Company places emphasis on areas concerning effective and efficient corporate governance. The continual efforts for strengthening internal controls, updating of policy manuals and effective functioning of the internal audit is all in line with our higher emphasis on these

cotton divisions and by diversifying areas of operation. Modification of pipe production line in steel division is under progress which will enable the Company to produce higher length pipes and augment existing capacity. Further, a study is being undertaken for the production for smaller diameter pipes to enhance our existing product range. We are also looking at diversification opportunities in the



areas. The directors and all employees are bound by a strict code of conduct which requires adherence to our governing principles described earlier in this report.

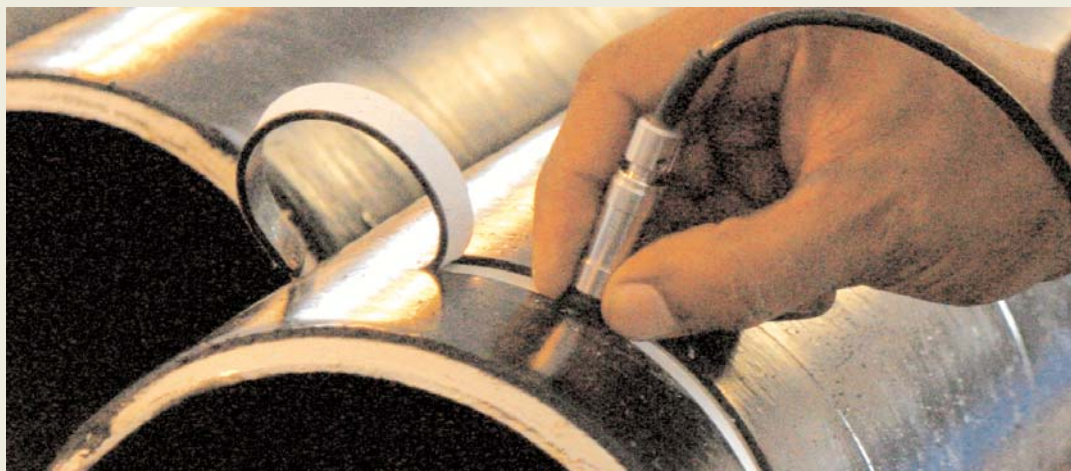
BUSINESS GROWTH, DIVERSIFICATION AND DEVELOPMENT

The Company is endeavoring to achieve sustained business growth by enhancing / modifying existing production capabilities of both steel and

engineering field to complement our leadership position in large diameter pipe manufacturing and pipe coatings. To retain our position as vendor of first choice, Crescent Quality Assurance and Development set up ensures highest quality standards on one hand and continuous research and development efforts in retaining cost leadership and improved operational efficiency on the other.

FUTURE OUTLOOK

Year 2005 is going to be critical for the textile industry in particular. The post quota regime is going to present many challenges and opportunities to our value added sector. The way our colleagues in industry respond to these, would have a direct bearing on our business as suppliers of raw material to the value-added sector.



FUTURE OUTLOOK

Looking forward, we maintain our positive outlook for the Pakistani economy. At present although there are concerns over a hike in interest rates and rising inflation rate we hope that the momentum developed over last year will help to propel the

economy forward.

Both the gas distribution companies i.e. SNGPL and SSGCL are pursuing their capital expenditure plans and we expect a fairly healthy year ahead.


Decision on the selection and construction of one of the transnational pipelines also seems likely in the near future. The Government of Pakistan may soon need to take a decision as to which transnational pipeline it will support.

The steel division has recently taken steps to improve its existing facilities especially in the areas of quality management. Our strategy will continue to be to make the best use of our resources and to proactively scan the environment for new and lucrative sources of return. Some of the modifications,

Gas distribution companies i.e. SNGPL and SSGCL are pursuing their capital expenditure plans and we expect a fairly healthy year ahead



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initiatives started last year were completed during this year. Installation of an acid wash plant is in process, as part of our commitment to remain at the leading edge of technology. We have developed product design and engineering capabilities which would enable us to offer further value addition to the line pipe manufacturing and coating activities.

Various initiatives of SECP and the efforts to broaden, strengthen and deepen the capital markets of the country have also borne fruit. The participation by the general public in the capital markets has increased substantially, adding more depth to an already mature

market. Your Company will continue to aggressively monitor and analyze the market with proactive switching to attain maximum returns.

Cotton prices have plummeted from their highs of last year mainly due to a bumper crop in the major cotton growing countries of the world. Cotton prices are expected to remain at PKR 2200-2400 / maund in FY05 as compared to an average level of PKR 2900 / maund last year. Events therefore are quite favorable for the overall spinning industry. In addition a new power house has been installed, the cost savings of which we hope to realize in the coming year.

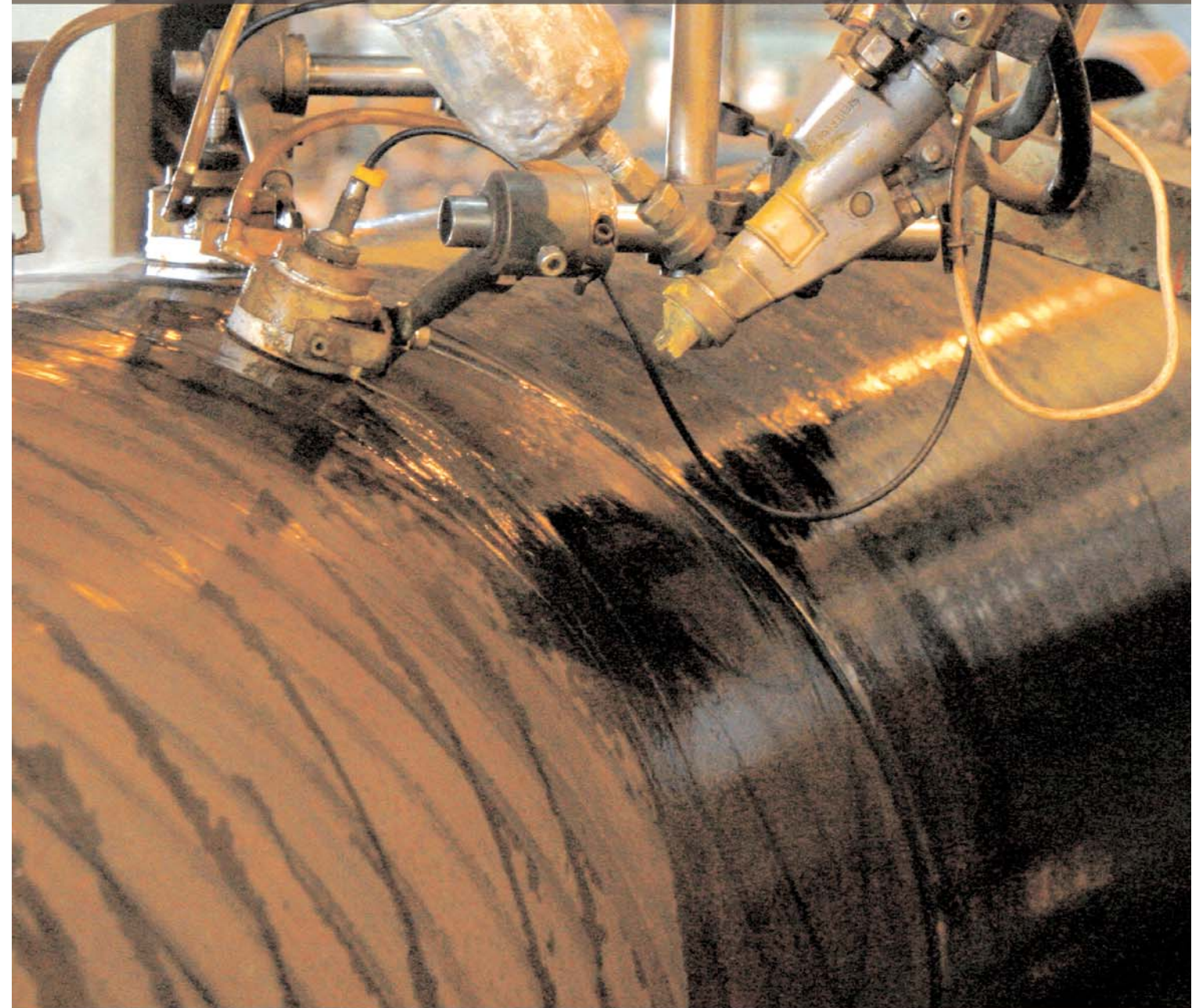
Year 2005 is going to be

critical for the textile industry in particular. The post quota regime is going to present many challenges and opportunities to our value added sector. The way our colleagues in industry respond to these, would have a direct bearing on our business as suppliers of raw material to the value-added sector. In view of the expectation of a bumper crop of cotton worldwide, increased market opportunities in post quota regime and focus on Pakistan as one of the six main countries where textile trade would be concentrated, we expect a very good year for our textile business. The industry seems poised to take advantage of any

*Taking steps to improve its existing facilities
especially in the areas of quality management*

*Installation of an acid wash plant is in process, as part of
our commitment to remain at the leading edge of technology*

*We have developed product design and engineering capabilities
which would enable us to offer further value addition
to the line pipe manufacturing and coating activities*





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CHIEF EXECUTIVE'S REVIEW

opportunities that arise in the coming year and we feel we are prepared to do so.

EMPLOYEES

Today we face big changes in the way we operate and the way we compete in our industry. As a leading engineering company, we are in a prime position to capitalize on this change. Our employees are a key part of our success. Every employee of CSAPL is critical to its ability to adapt and embrace change in order to generate outstanding business results. On behalf of the Directors and myself, I am pleased to record our appreciation of the employees for their continuous hard work and dedication and compliment them on a job well done.

BOARD OF DIRECTORS

The Board of Directors has always been an important source of guidance and support for the management. They have helped in not only directing the Company's strategies but also providing crucial input at the various sub committees and special committees that are formed from time to time. I would like to place on record my appreciation and gratitude for the same.

STAKEHOLDERS

We are thankful to the shareholders for standing by us and for the confidence reposed. We would like to express our thanks to our customers for their support and look forward to the potential of growth in their business with hope. Our thanks also go to the financial institutions and banks that have continued to support the Company at all times.

customers, our staff, our shareholders, the regulators and the community. We are of the strong opinion that good governance is more about behavior and relationships, about embedded values, and about the integrity with which boards and management go about their business than it is about ticking boxes and adding further pages to annual reports.



GENERAL

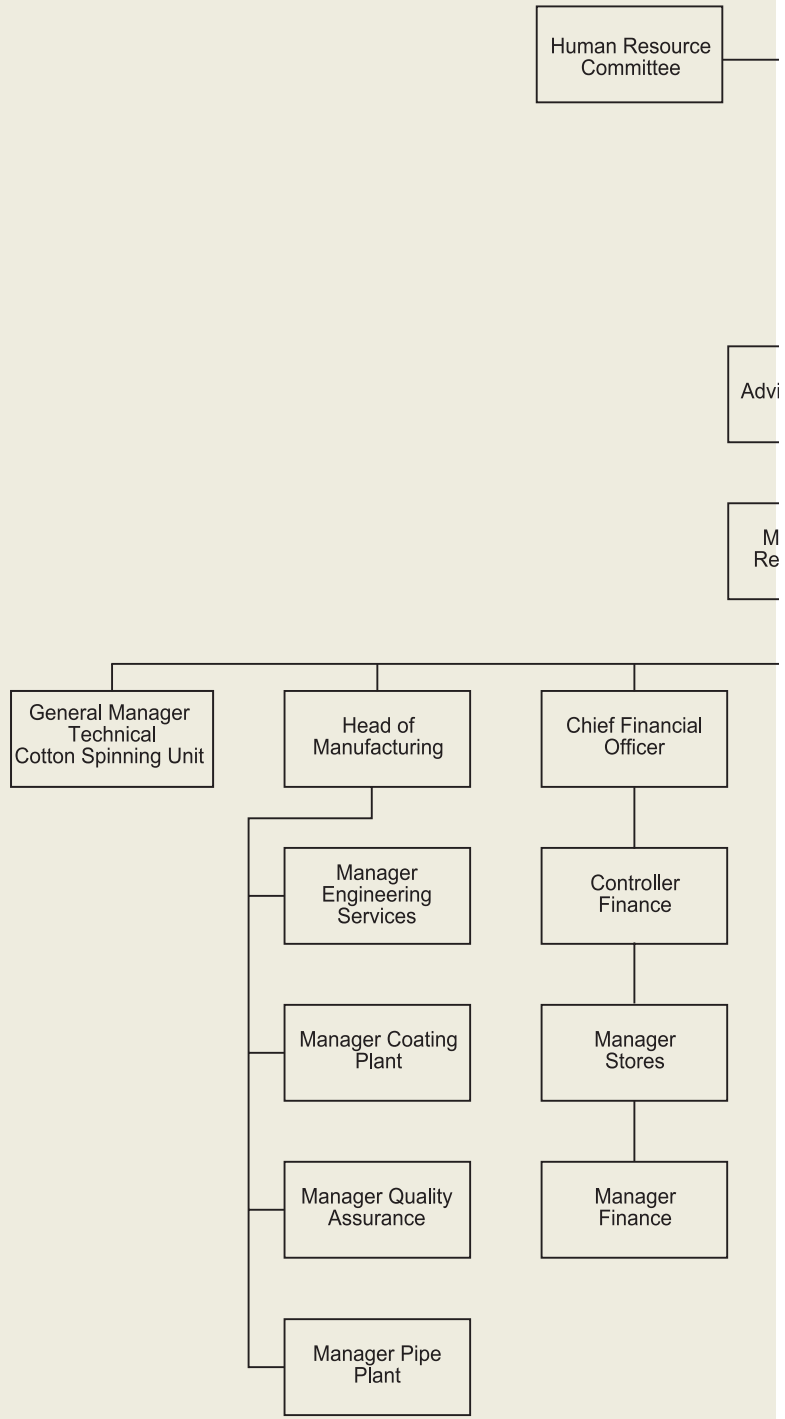
In summary, we know the competitive environment is not going to get any easier, but we can see plenty of opportunities for further growth. Our challenge, quite simply, is to keep improving every aspect of our business every day of the year and through every one of our products.

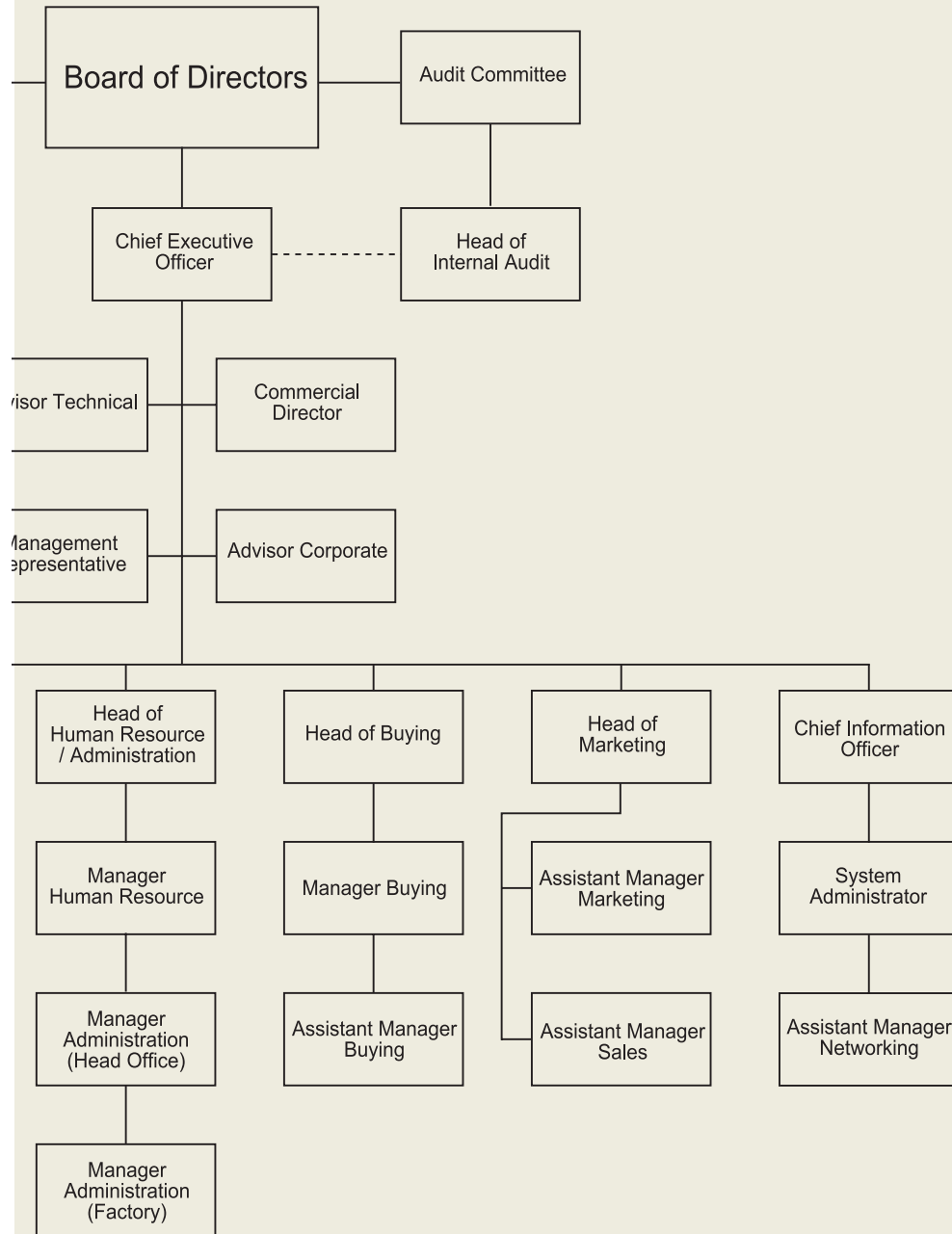
We at CSAPL strive for high ethical standards in all our dealings with our

By Order of the Board

Ahsan M. Saleem
Chief Executive
August 27, 2004

MANAGEMENT STRUCTURE





MANAGEMENT STRUCTURE

FINANCIAL HIGHLIGHTS

	2004	2003	2002	2001	2000	1999	1998
Operating Results (Rupees in million)							
Net sales	1,343.3	1,738.9	1,291.1	820.9	121.2	32.9	1,184.2
Cost of sales	1,173.9	1,398.0	1,055.2	741.1	150.0	105.0	913.9
Gross profit / (loss)	169.4	340.9	235.9	79.9	(28.8)	(72.1)	270.2
Selling and administrative expenses	85.8	91.2	61.5	42.4	36.7	44.7	74.5
Operating profit / (loss)	83.6	249.7	174.4	37.4	(65.5)	(116.8)	195.8
Financial expenses	20.4	16.8	23.7	23.0	2.7	5.2	26.5
Other charges	36.9	26.1	20.3	28.9	35.2	40.9	30.3
Other income, net	300.4	182.5	68.4	87.6	170.0	83.6	98.6
Fair value adj. on available-for-sale investment	–	7.9	–	–	–	–	–
Pre tax profit / (loss)	326.7	381.4	198.7	73.1	66.6	(79.3)	237.6
Income tax	30.8	97.2	60.5	18.3	(23.4)	(103.1)	(1.3)
Net income	295.9	284.2	138.2	54.8	90.0	23.8	238.8
Dividend including bonus	97.0	121.0	60.0	30.0	36.0	10.0	50.0

Per Share Results and Returns

Earning per share (Rupees)	13.4	12.9	6.3	2.5	4.1	1.1	10.8
Break-up value per share (Rupees)	68.8	57.9	39.3	35.7	34.5	31.8	31.1
Dividend per share	3.5	5.0	3.0	1.5	1.8	0.5	2.5
Bonus shares (%)	10	10	–	–	–	–	–
Market value per share	78.9	83.0	33.0	13.7	16.0	15.0	24.0
Stock price range	93-50	90-30	32-14	24-12	26-12	20-12	25-20
Price earning ratio (Rupees)	5.9	6.4	5.3	5.5	3.9	14.0	2.2

Financial Position (Rupees in million)

Current assets	1,541.1	973.3	1,034.7	776.5	475.6	473.9	520.0
Current liability	370.9	260.3	584.4	382.3	136.8	105.8	166.2
Operating fixed assets	467.8	410.5	355.3	366.7	382.1	202.7	230.4
Total assets	2,228.2	1,460.9	1,439.1	1,181.3	894.6	756.8	832.4
Long-term debt (excluding current maturity)	326.5	38.0	59.2	68.5	64.7	0.6	21.7
Deferred liabilities	10.6	–	5.1	12.8	–	11.1	19.1
Short-term debt (including current maturity of long-term debt)	156.2	100.6	80.2	151.7	41.4	20.8	18.3
Reserves	1,298.5	961.2	588.9	516.8	492.2	438.3	424.5
Shareholders' equity	1,519.4	1,162.1	789.7	717.7	693.1	639.2	625.4

Financial Ratios

Gross profit / (loss) to sales (%)	12.6	19.6	18.3	9.7	(23.8)	(219.0)	22.8
Operating profit / (loss) to sales (%)	6.2	14.4	13.5	4.6	(54.0)	(354.9)	16.5
Net income to sales (%)	22.0	16.3	10.7	6.7	74.3	72.1	20.2
Return on average assets (%)	18.8	27.5	17.0	9.3	8.4	(9.3)	27.5
Return on capital employed (%)	14.8	21.8	14.9	5.8	11.3	3.6	35.9
Return on equity (%)	19.5	24.5	17.5	7.6	13.0	3.7	38.2
Current assets to current liabilities	4.2	3.7	1.8	2.0	3.5	4.5	3.1
Net current assets (working capital)	1,170.2	712.9	450.3	394.2	338.8	368.1	353.9
Long term debt to equity (%)	21.5	3.3	7.5	9.6	9.3	0.1	3.5
Total debt to total assets (%)	31.3	20.4	44.7	38.2	22.5	14.1	22.6
Interest coverage (times)	17.0	23.7	9.4	4.2	25.6	(14.3)	10.0
Average collection period (days)	8.4	8.7	39.5	49.7	3.9	129.3	34.6
Inventory turnover (times)	5.3	4.4	3.7	8.1	3.6	2.0	4.5
Fixed assets turnover (times)	2.9	4.2	3.6	2.2	0.3	0.2	5.1
Total assets turnover (times)	0.6	1.2	0.9	0.7	0.1	0.1	1.4

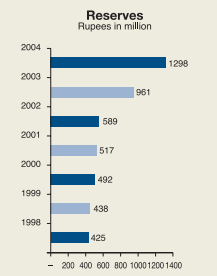
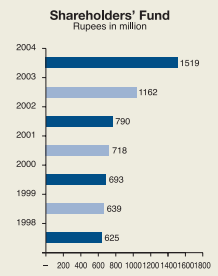
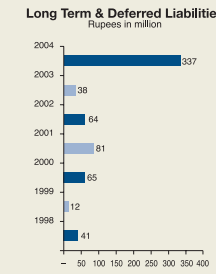
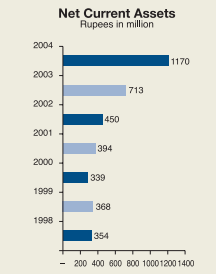
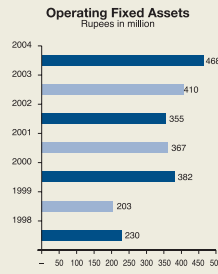
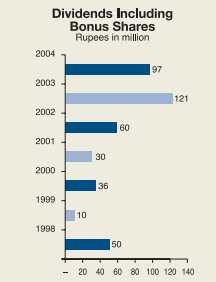
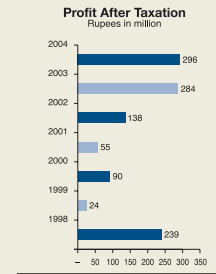
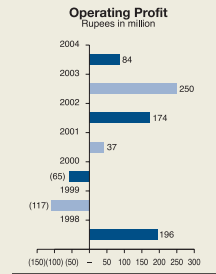
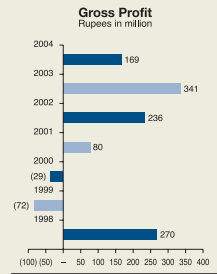
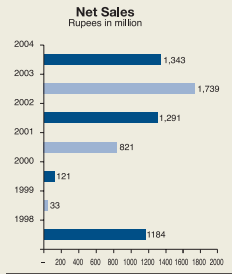
Other Data (Rupees in million)

Depreciation / amortisation	82.4	82.9	63.6	52.7	32.4	33.9	35.9
Capital expenditure (including leased assets)	163.2	130.0	101.6	8.4	211.9	11.8	29.5
Common shares (no. of shares in million)	22.1	22.1	22.1	22.1	22.1	22.1	22.1



Crescent Steel &
Allied Products Ltd.

FINANCIAL HIGHLIGHTS



BOARD AND AUDIT COMMITTEE MEETINGS AND ATTENDANCE BY THE DIRECTORS

During the year six meetings of the board of directors were held. Attendance by each director was as follows:

<u>Name of Director</u>	<u>No. of meetings attended</u>
Mr. Mazhar Karim	2
Mr. Ahsan M. Saleem	6
Mr. Javed A. Callea	6
Mr. Javed Iqbal	5
Mr. Muhammad Anwar	2
Mr. Nasir Shafi	5
Mr. S. M. Ehtishamullah	6
Mr. Zahid Bashir	5

During the year five meetings of the audit committee were held. Attendance by each member (director) was as follows:

<u>Name of Member (Director)</u>	<u>No. of meetings attended</u>
Mr. Javed A. Callea	5
Mr. Javed Iqbal	4
Mr. Nasir Shafi	2



Crescent Steel &
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STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance as contained in the listing regulations of the stock exchanges of Pakistan for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors. At present the Board has one independent non-executive director.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBF. None of them is a member of a stock exchange.
4. No casual vacancy occurred during the year ended June 30, 2004.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision / mission statement, and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. The Company is in the process of getting overall corporate strategy and significant policies formally approved by the Board.
8. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer (CEO) and an Executive Director, have been taken by the Board.
9. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met once in every quarter during the year ended June 30, 2004. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days prior to the meetings. The minutes of the meetings were appropriately recorded and circulated.
10. In-house orientations for the directors were made to apprise them of their duties and responsibilities and to brief them of the amendments in the Companies Ordinance / Corporate Laws.
11. The Board has approved appointment of the CFO / Company Secretary and the Head of Internal Audit, including their remuneration and terms and conditions of employment, as recommended by the CEO.
12. The Directors' report for the year ended June 30, 2004 has been prepared in compliance with the requirements of the Code and it fully describes the salient matters required to be disclosed.
13. The financial statements of the Company were duly endorsed by the CEO and CFO before approval by the Board.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

14. The Directors, CEO and Executives do not hold any interest in the shares of the Company, other than that disclosed in the pattern of shareholding.
15. The Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee. The Audit Charter of the Company requires that at least two members of the Audit Committee must be financially literate.
17. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
18. The Board has set-up an effective internal audit function by appointing a full-time Head of Internal Audit. The day-to-day operations of this function have been outsourced to Sidat Hyder Morshed Associates (Private) Limited, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of

ethics as adopted by the Institute of Chartered Accountants of Pakistan.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

By Order of the Board



Ahsan M. Saleem
Chief Executive

August 27, 2004



Taseer Hadi Khalid & Co.
Chartered Accountants

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Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Crescent Steel and Allied Products Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Listing Regulations of the Lahore Stock Exchange and Section 36 (Chapter XI) of the Listing Regulations of the Islamabad Stock Exchange where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended June 30, 2004.

Taseer Hadi Khalid & Co.

Chartered Accountants
August 27, 2004



Taseer Hadi Khalid & Co., a partnership firm, is a member of KPMG International, a Swiss association.



Taseer Hadi Khalid & Co.
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Auditors' Report to the Members

We have audited the annexed balance sheet of Crescent Steel and Allied Products Limited as at 30 June 2004 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 30 June 2004 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

The financial statements of the company for the year ended 30 June 2003 were audited by another firm of auditors, whose report dated 2 October 2003 expressed an unqualified opinion on those financial statements.

Taseer Hadi Khalid & Co.
Chartered Accountants
August 27, 2004



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Crescent Steel &
Allied Products Ltd.

BALANCE SHEET

As at June 30, 2004

	Note	2004	2003
Rupees in thousand			
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorized capital 30,000,000 ordinary shares of Rs 10 each		<u>300,000</u>	<u>300,000</u>
Issued, subscribed and paid-up capital	3	220,934	200,849
Reserves	4	1,270,464	956,973
Unappropriated profit		<u>28,016</u>	<u>4,257</u>
		<u>1,519,414</u>	<u>1,162,079</u>
Deferred income	5	792	450
Non-current liabilities			
Redeemable capital	6	295,955	–
Liabilities against assets subject to finance leases	7	30,561	38,015
Deferred taxation	8	10,582	–
Current liabilities			
Current maturity of liabilities against assets subject to finance leases	7	13,514	27,087
Short-term finances	9	142,734	73,485
Taxation	26	–	4,236
Creditors, accrued expenses and other liabilities	10	181,514	115,364
Proposed dividend		<u>33,140</u>	<u>40,170</u>
		<u>370,902</u>	<u>260,342</u>
Contingencies and commitments	11	<u>2,228,206</u>	<u>1,460,886</u>

BALANCE SHEET

As at June 30, 2004

	Note	2004	2003
Rupees in thousand			
ASSETS			
Non-current assets			
Tangible fixed assets			
Operating fixed assets	12	420,185	318,056
Assets subject to finance leases	13	45,925	75,036
Capital work-in-progress	14	1,695	17,397
		<u>467,805</u>	<u>410,489</u>
Intangible assets	15	2,875	415
Long-term investments	16	210,651	70,329
Long-term deposits	17	5,737	5,289
Deferred taxation	8	–	1,078
Current assets			
Stores, spares and loose tools	18	39,256	21,303
Stock-in-trade	19	240,451	205,021
Trade debts	20	36,024	26,023
Advances	21	6,756	7,248
Deposits and prepayments	22	3,422	5,598
Current maturity of long-term investments	23	12,061	3,332
Investments	24	1,012,511	652,692
Other receivables	25	112,654	24,555
Taxation - net	26	59,989	–
Cash and bank balances	27	18,014	27,514
		<u>1,541,138</u>	<u>973,286</u>
		<u>2,228,206</u>	<u>1,460,886</u>

The annexed notes 1 to 45 form an integral part of these financial statements.


Chairman


Chief Executive



Crescent Steel &
Allied Products Ltd.

PROFIT & LOSS ACCOUNT

For the year ended June 30, 2004

Note	2004			2003			
	Steel division	Cotton division	Total	Steel division	Cotton division	Total	
	Rupees in thousand						
Sales	28	612,651	730,653	1,343,304	1,215,567	523,381	1,738,948
Cost of sales	29	459,495	714,387	1,173,882	901,060	496,980	1,398,040
Gross profit		153,156	16,266	169,422	314,507	26,401	340,908
Selling expenses	30	6,183	2,832	9,015	6,224	2,701	8,925
Administration expenses	31	63,502	13,326	76,828	69,196	13,073	82,269
		69,685	16,158	85,843	75,420	15,774	91,194
Operating profit		83,471	108	83,579	239,087	10,627	249,714
Other income	32	298,769	1,626	300,395	181,174	1,292	182,466
		382,240	1,734	383,974	420,261	11,919	432,180
Financial charges	33	6,151	14,240	20,391	1,114	15,714	16,828
Other charges	34	24,089	12,776	36,865	23,189	2,905	26,094
Unrealized gain on remeasurement of available-for-sale investment securities		—	—	—	7,883	—	7,883
		30,240	27,016	57,256	32,186	18,619	50,805
Profit / (loss) before taxation		352,000	(25,282)	326,718	388,075	(6,700)	381,375
Taxation	35			30,818			97,219
Profit after taxation				295,900			284,156
Basic and diluted earnings per share	36			Rs. 13.39			Rs. 12.86
Dividend per share				Rs. 3.50			Rs. 5.00

The annexed notes 1 to 45 form an integral part of these financial statements.


Chairman


Chief Executive

STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2004

	Issued, subscribed and paid-up capital	General reserve	Reserve for issue of bonus shares	Unrealized gain on remeasurement of available-for- sale investment securities	Unappropriated profit	Total
	Rupees in thousand					
Balance as at July 1, 2002	200,849	581,000	2,278	–	5,611	789,738
Profit for the year	–	–	–	–	284,156	284,156
Unrealized gains on available-for-sale investment securities relating to change in accounting policy:						
- for the year ended June 30, 2003	–	–	–	180,727	–	180,727
- for the year ended June 30, 2002	–	–	–	7,883	–	7,883
Transfer to general reserve	–	165,000	–	–	(165,000)	–
Dividends						
- First interim (10%)	–	–	–	–	(20,085)	(20,085)
- Second interim (10 %)	–	–	–	–	(20,085)	(20,085)
- Third interim (10%)	–	–	–	–	(20,085)	(20,085)
- Final (20%)	–	–	–	–	(40,170)	(40,170)
					(100,425)	(100,425)
Transfer to reserve for issue of bonus shares			20,085		(20,085)	–
Balance as at June 30, 2003	200,849	746,000	22,363	188,610	4,257	1,162,079
Profit for the year	–	–	–	–	295,900	295,900
Unrealized gains on available-for-sale investment securities	–	–	–	207,462	–	207,462
Realized gains on sale of investments	–	–	–	(68,701)	–	(68,701)
Issuance of bonus shares	20,085	–	(20,085)	–	–	–
Transfer to general reserve	–	175,000	–	–	(175,000)	–
Dividends						
- First interim (10%)	–	–	–	–	(22,093)	(22,093)
- Second interim (10%)	–	–	–	–	(22,093)	(22,093)
- Proposed final (15%)	–	–	–	–	(33,140)	(33,140)
					(77,326)	(77,326)
Transfer to reserve for issue of bonus shares			19,815		(19,815)	–
Balance as at June 30, 2004	220,934	921,000	22,093	327,371	28,016	1,519,414

The annexed notes 1 to 45 form an integral part of these financial statements.


Chairman


Chief Executive



Crescent Steel &
Allied Products Ltd.

CASH FLOW STATEMENT

For the year ended June 30, 2004

	Note	2004	2003
		Rupees in thousand	
Cash flows from operating activities			
Cash generated from operations	37	95,939	349,470
Taxes paid		(83,383)	(93,321)
Financial charges paid		(13,328)	(17,480)
Contributions to pension and gratuity fund		(4,886)	(12,169)
Payment for the Worker Welfare Fund		(5,393)	(3,638)
Insurance commission received		1,347	-
Increase in long-term deposits and prepayments		(448)	2,360
Net cash (used in) / from operating activities		<u>(10,152)</u>	<u>225,222</u>
Cash flows from investing activities			
Capital expenditure		(144,656)	(139,281)
Purchase of intangible assets		(4,288)	(53)
Proceeds from sale of fixed assets		6,476	1,502
Investments - net		(166,594)	(87,747)
Dividends received		53,491	37,751
Interest received		5,361	21,042
Net cash (used in) investing activities		<u>(250,210)</u>	<u>(166,786)</u>
Cash flows from financing activities			
Receipts / (payments) against short-term loans		50,000	(20,000)
Receipts against redeemable capital		300,000	-
Payments of long-term loans		-	(40,020)
Receipts against commercial papers		73,727	-
Payments of liabilities against assets subject to finance leases		(29,968)	(18,080)
Dividends paid		(87,245)	(111,972)
Net cash from / (used in) financing activities		<u>306,514</u>	<u>(190,072)</u>
Net increase / (decrease) in cash and cash equivalents		<u>46,152</u>	<u>(131,636)</u>
Cash and cash equivalents at beginning of year		<u>(45,971)</u>	<u>85,665</u>
Cash and cash equivalents at end of year	38	<u><u>181</u></u>	<u><u>(45,971)</u></u>

The annexed notes 1 to 45 form an integral part of these financial statements.


Chairman


Chief Executive

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

1. LEGAL STATUS AND OPERATIONS

- 1.1 The company was incorporated on August 1, 1983 as a public limited company under the provisions of the Companies Ordinance, 1984 and is quoted on all stock exchanges of Pakistan. It is one of the downstream industries of Pakistan Steel Mills manufacturing large diameter spiral arc welded steel line pipes at Nooriabad (District Dadu). The company has a coating facility capable of applying three-layer high density polyethylene coating on steel line pipes. The coating plant commenced commercial production from November 16, 1992.
- 1.2 The company acquired a running spinning unit of 14,400 spindles (now 19,680 spindles) at Jaranwala (District Faisalabad) on June 30, 2000 from Crescent Jute Products Limited (CJPL). The cotton spinning activity is carried out by the company under the name and title of “Crescent Cotton Products” a division of Crescent Steel and Allied Products Limited (the cotton division). A basic sale and purchase agreement was made on October 31, 2000 effective from June 30, 2000, however, the transfer of legal title is in the process of being completed.
- 1.3 The activities of the company have been grouped into two segments of related products. The steel division comprises manufacturing and coating of steel pipes whereas the cotton division is involved in yarn manufacturing activity. The steel division charges certain percentage of the common administrative expenditure to the cotton division. In addition, the funds utilized by inter division are charged a mark-up of 5 percent (2003: 7.5 percent) subject to financial charges incurred by the steel division.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved Accounting Standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the SECP differ with the requirements of these Standards, the requirements of the Companies Ordinance, 1984 or the said directives take precedence.

2.2 Accounting convention

The financial statements are prepared in Pak Rupees. These financial statements have been prepared under the historical cost convention, except available for sale investment securities (Refer para 2.10) and investments held for trading (Refer para 2.10) which are stated at fair value and recognition of certain staff retirement benefits at present value.



Crescent Steel &
Allied Products Ltd.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

2.3 Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost, less attributable transaction cost. Subsequent to initial recognition, mark-up bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

2.4 Employee benefits

2.4.1 Compensated absences

The company accounts for all accumulated compensated absences when employees render services that increase their entitlement to future compensated absences.

2.4.2 Post retirement benefits

2.4.2.1 Defined contribution plan

Provident fund

The company operates a provident fund scheme for its permanent employees. Equal monthly contributions are made by the company and its employees.

Steel division

Contributions to the Fund are made at the rate of 8.33 percent of basic pay plus cost of living allowance (COLA) for those employees who have served the company for a period less than five years and after completion of five years, contributions are made at the rate of 10 percent.

Cotton division

Provision and collection from employees are made at the rate of 6.5 percent of the basic pay plus COLA of cotton division employees and deposits the same in a separate bank account which shall eventually be transferred to a provident fund. A trust has been established and an application for its recognition by the Commissioner of Income Tax is in process.

2.4.2.2 Defined benefit plans

Pension and gratuity fund

The company operates pension and gratuity fund schemes for its permanent management employees. The pension scheme provides life time pension to retired employees or to their spouses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

Contributions are paid to the pension and gratuity funds on the basis of actuarial recommendations. The cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10 percent of the greater of the present value of the company's obligations and the fair value of plan assets are amortized over the expected average remaining working lives of the eligible employees. Past service cost is recognized immediately to the extent that the benefits are already vested. For non-vested benefits, past service cost is amortized on a straight line basis over the average period until the amended benefits become vested.

Amounts recognized in the balance sheet represent the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost and as reduced by the fair value of plan assets. Any assets resulting from this calculation is limited to the unrecognized actuarial losses and unrecognized past service cost plus the present value of available refunds and reduction in future contributions to the plan.

2.5 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any, or the minimum tax liability determined under Section 113 of the Income Tax Ordinance, 2001, whichever is higher.

Deferred

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using the current rates of taxation.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2.6 Provisions

A provision is recognized in the balance sheet when the company has a legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

2.7 Creditors, accrued expenses and other liabilities

Trade and other payables are stated at their cost.

2.8 Operating fixed assets and depreciation

Owned

Operating assets are stated at cost less accumulated depreciation and impairment loss. Leasehold land is amortized over the period of the lease. Capital work-in-progress is stated at cost.

Where the carrying amount of assets exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation on fixed assets is charged to the profit and loss account applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. Full year's depreciation is charged on additions except major additions or extensions to production facilities which are depreciated on a pro-rata basis for the period of use during the year. No depreciation is charged on assets disposed off during the year. Items of fixed assets costing Rs. 5,000 or less are not capitalized and are charged off in the year of purchase.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains and losses on disposals are determined by comparing sales proceeds with carrying amount and are included in income currently.

Leased

Leases in terms of which the company assumes substantially all the risk and rewards of ownership are classified as finance leases. Asset acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of minimum lease payments at the inception of the lease less accumulated depreciation and impairment losses, if any.

Depreciation is charged on the same basis as used for own assets.

Financial charges are allocated to accounting period in a manner so as to provide a constant rate of charge on outstanding liability.

2.9 Intangible assets

Expenditure incurred to acquire software licenses is capitalized as intangible assets and stated at cost less accumulated amortization and impairment loss, if any. Intangible assets are amortized using the straight line method over a period of three years or license period, whichever is lower. Where the carrying amounts of assets exceed its estimated recoverable amount, it is written down immediately to its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

2.10 Investments

Investments are being categorized as follows:

Held for trading

These investments are acquired principally for the purpose of generating profit from short-term fluctuations in prices or dealers' margins, or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Held to maturity

Where the company has the positive intent and ability to hold debt securities up to maturity, they are stated at amortized cost less impairment losses, if any. These investments are carried at amortized cost using the effective yield method.

Loans and advances originated by enterprise

Loans and advances originated by enterprise are recognized initially at cost, plus attributable transaction cost. Subsequent to initial recognition, loans and advances originated by enterprise are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the investments on an effective interest basis.

Available-for-sale

Other investments including investment in associates and subsidiary held by the company are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognized directly in equity.

Gains or losses on available-for-sale investments are recognized directly in equity until the investment is sold or disposed off, or until the investments are determined to be impaired, at that time cumulative gain or loss previously reported in the equity is included in income.

2.10.1 Investments are initially stated at cost inclusive of transaction cost. Cost of investment portfolio is determined on a moving average basis. The market value refers to the closing quotations of stock exchanges on the last working day of the accounting year which are considered as their fair values.

2.10.2 The company follows trade date accounting for purchase and sales of investments.

2.11 *Derivative financial instruments*

The company enters into derivative financial instruments which include future contracts in stock market. Derivatives are initially recorded at cost and are remeasured to fair value on subsequent reporting dates. The fair value of a derivative is the equivalent of the unrealized gain or loss from marking to market the



Crescent Steel &
Allied Products Ltd.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

derivative using prevailing market rates. Derivatives with positive market values (unrealized gains) are included in other receivables and derivatives with negative market values (unrealized losses) are included in other liabilities in the balance sheet. The resultant gains and losses from derivatives held for trading purposes are included in income currently.

2.12 Stores and spares

Stores and spares are valued on a weighted average cost basis. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

Spare parts of capital nature which can be used only in connection with an item of property, plant and equipment are classified as tangible fixed assets under the 'plant and machinery' category and are depreciated over a time period not exceeding the useful life of the related assets.

2.13 Stocks

Stock-in-trade is valued at the lower of cost and net realisable value. Cost is arrived at on a weighted average basis. Cost of work-in-process and finished goods include cost of materials and appropriate portion of production overheads. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale. Goods-in-transit are valued at actual cost accumulated to the balance sheet date. The cost of finished goods of steel division is measured on the specific identification method.

Scrap stocks are valued at their estimated net realizable value.

2.14 Trade debts and other receivables

These are originated by the company and are stated at cost less provisions for any uncollectible amount. An estimate is made for doubtful receivables when collection of the amount is no longer probable. Debts considered irrecoverable are written off.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

2.16 Revenue recognition

Revenue from sales is recognized on despatch of goods to customers. The company also recognizes sales when it specifically appropriates deliverable goods against such confirmed orders where significant risks and rewards of ownership are transferred to the buyer.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

Interest income is recognized on the basis of constant periodic rate of return.

Dividend income is recognized when the right to receive payment is established i.e. at the book closure date of the company declaring the dividend.

Gains and losses on sale of investments are accounted for in the year in which it arises.

Loss arising from sale and lease back transactions are recognized through profit and loss account immediately. Gain on sale and lease back transactions are treated as deferred income. The deferred income is being amortized over the respective periods of lease terms.

2.17 Foreign currency translation

Foreign currency transactions are translated into Pak Rupees at exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Exchange differences, if any, are taken to profit and loss account. Unexecuted forward contracts are valued at their estimated fair value.

2.18 Offsetting of financial assets and financial liabilities

Financial assets and a financial liabilities are only set off and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amount and the company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.19 Financial instruments

All the financial assets and liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Any gains or losses on derecognition of financial assets and liabilities are taken to profit and loss account currently.

2.20 Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

2.21 Segment (division)

A segment is a distinguishable component of the company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.



Crescent Steel &
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2004	2003		2004	2003
Number of shares			Rupees in thousand	
10,564,900	10,564,900	Ordinary shares of Rs. 10 each fully paid in cash	105,649	105,649
11,528,449	9,519,963	Ordinary shares of Rs. 10 each fully issued as bonus shares	115,285	95,200
<u>22,093,349</u>	<u>20,084,863</u>		<u>220,934</u>	<u>200,849</u>

4. RESERVES

General Reserve

At beginning of the year	746,000	581,000
Transfer from profit and loss account	175,000	165,000
	<u>921,000</u>	<u>746,000</u>

Reserve for issue of bonus shares

At beginning of the year	2,278	2,278
Transfer from profit and loss account	19,815	20,085
	<u>22,093</u>	<u>22,363</u>

Unrealized gain on available-for-sale investments securities

At beginning of the year	188,610	-
Transfer during the year	207,462	188,610
Realized during the year	(68,701)	-
	<u>327,371</u>	<u>188,610</u>
	<u>1,270,464</u>	<u>956,973</u>

5. DEFERRED INCOME

The company entered into sale and lease back arrangements resulting in deferred income of Rs. 0.98 million and Rs. 0.91 million in the years 2002 and 2004 respectively. The amount credited to the profit and loss account during the year was Rs 0.57 million (2003: Rs. 0.27 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

6. REDEEMABLE CAPITAL - secured (non-participatory)

	2004	2003
	Rupees in thousand	
Term Finance Certificates (TFCs)		
Initial amount raised (60,000 certificates issued against cash of Rs. 5,000 each)	300,000	–
Initial transaction cost	(4,494)	–
	<u>295,506</u>	<u>–</u>
Transaction cost amortized	449	–
	<u>295,955</u>	<u>–</u>

6.1 The company has issued term finance certificates for Rs. 300 million. These TFCs are not listed. The company has a call option exercisable at par, in multiples of Rs. 50 million or whole after eighteen months from the date of issue with 60 days' advance notice.

6.2 Principal purpose for the use of subscription money

The TFCs are issued to carry on the business authorized by the company's Memorandum and Articles of Association.

6.3 Redemption of TFCs

The terms of redemption are as under :

Tenor	5 years
Expected profit rate	Base rate plus 250 bps
Floor	None
Cap	9 percent
Principal redemption	Principal will be redeemed after one year grace period starting from the 18th month from the date of issue in 8 equal semi-annual installments.

The base rate is defined as the cut off yield on the last successful SBP auction of the six months T Bills. The base rate for the first coupon payment will be set on the last working day prior to disbursement and subsequently on the last working day at the beginning of each semi-annual period for the profit due at the end of that semi-annual period.

6.4 Security

The TFCs have been secured by pari passu charge by way of hypothecation on all present and future assets of the company to the tune of outstanding TFCs amount with a 25 percent margin.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

6.5 Trustee

In order to secure the interest of the TFC holders, Orix Investment Bank Pakistan Limited has been appointed to act as trustee for the issue. The trust deed, dated December 22, 2003 between the company and Orix Investment Bank Pakistan Limited, specifies the rights and obligations of the trustees. The deed requires that the trustees will ensure the safeguard of interest of TFC holders and adherence to terms and conditions of the security documents.

7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

		2004			2003		
		Steel division	Cotton division	Total	Steel division	Cotton division	Total
		Rupees in thousand					
Long-term	7.1 & 7.2	20,728	9,833	30,561	20,669	17,346	38,015
Current maturity	7.1 & 7.2	6,001	7,513	13,514	4,228	22,859	27,087
		<u>26,729</u>	<u>17,346</u>	<u>44,075</u>	<u>24,897</u>	<u>40,205</u>	<u>65,102</u>

7.1 Steel division

The company has acquired plant and machinery and vehicles under finance lease agreements. The amounts of future payments for the lease and the period in which the lease payments will become due are as follows:

	Not later than one year	Later than one year but not later than five years		Total	Not later than one year	Later than one year but not later than five years		Total
Minimum lease payments	7,810	23,116	30,926	6,248	24,138	30,386		
Financial charges	(1,809)	(2,388)	(4,197)	(2,020)	(3,469)	(5,489)		
	<u>6,001</u>	<u>20,728</u>	<u>26,729</u>	<u>4,228</u>	<u>20,669</u>	<u>24,897</u>		
Current maturity	(6,001)	–	(6,001)	(4,228)	–	(4,228)		
	<u>–</u>	<u>20,728</u>	<u>20,728</u>	<u>–</u>	<u>20,669</u>	<u>20,669</u>		

The present values of minimum lease payments have been discounted at an effective mark up rate of 7.5 percent to 9.50 percent per annum (2003: 7.5 percent to 17.5 percent per annum). The company intends to exercise its option to purchase the leased assets at the termination of the lease period at 5 to 10 percent of the leased amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

7.2 Cotton division

The rentals are payable in quarterly installments under the lease agreements. The amounts of future payments for the leases and the period in which the lease payments will become due are as follows:

	2004			2003		
	Not later than one year	Later than one year but not later than five years	Total	Not later than one year	Later than one year but not later than five years	Total
	Rupees in thousand					
Minimum lease payments	8,887	10,387	19,274	25,914	19,274	45,188
Financial charges	(1,374)	(554)	(1,928)	(3,055)	(1,928)	(4,983)
	7,513	9,833	17,346	22,859	17,346	40,205
Current maturity	(7,513)	–	(7,513)	(22,859)	–	(22,859)
	–	9,833	9,833	–	17,346	17,346

The present values of minimum lease payments have been discounted at effective mark up rate of 10.50 percent per annum (2003: 10.50 to 18.40 percent per annum). The company intends to exercise its option to purchase the leased asset at the termination of lease period at 5 percent of the leased amount.

8. DEFERRED TAXATION

	2004	2003
	Rupees in thousand	
Deferred tax credits / (debits) arising in respect of temporary taxable differences due to :		
Accelerated tax depreciation / amortization	34,344	16,274
Finance lease arrangements	370	3,319
Employee benefits	(1,286)	(940)
Provisions against assets	(22,846)	(19,731)
	10,582	(1,078)



NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

9. SHORT-TERM FINANCES

		2004			2003		
		Steel division	Cotton division	Total	Steel division	Cotton division	Total
Rupees in thousand							
Secured							
Running finances							
under mark-up							
arrangements							
Meezan Bank Limited		–	–	–	50,000	–	50,000
Union Bank Limited	9.1	17,581	–	17,581	23,459	26	23,485
PICIC Commercial							
Bank Limited	9.2	–	252	252	–	–	–
Short-term loans							
Union Bank Limited	9.1	50,000	–	50,000	–	–	–
Unsecured							
Pak Oman Investment							
Company Limited	9.3	–	74,901	74,901	–	–	–
		67,581	75,153	142,734	73,459	26	73,485

9.1 Union Bank Limited

The facilities for running finance available amounts to Rs. 425 million (2003: Rs. 125 million). The rate of mark-up is 6 months KIBOR (Ask) plus 3 percent with a floor of 5.5 percent per annum (2003: 7.25 percent per annum). The purchase prices are repayable on March 31, 2005. The above facilities are secured against pledge of shares of public limited companies to the extent of Rs. 41.67 million with 40 percent margin for Rs. 25 million facility, pledge on stocks of raw cotton with 25 percent margin to the extent of Rs. 133.34 million for Rs. 100 million facility and first pari passu charge on the stocks and book debts of the company to the extent of Rs. 400 million for Rs. 300 million facility.

The facility for opening letters of credit and guarantees as at June 30, 2004 amounted to Rs. 710 million (2003: Rs. 710 million) of which amount remaining unutilized at the year end was Rs. 627 million (2003: 672.73 million). The above facilities are secured against first pari passu charge on the stocks and debts of the company to the extent of Rs. 710 million.

9.2 PICIC Commercial Bank Limited

The facility for running finance available amounts to Rs. 40 million (2003: Rs. 40 million). The rate of mark-up

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

is 8.0 percent per annum (2003: 16 percent per annum). The above facility is secured against pledge of cotton stock with 25 percent margin, hypothecation charge of Rs. 40 million on stocks and receivables of the company and lien over import documents. The purchase prices are repayable on August 31, 2004.

The facility for opening letters of credit and guarantees as at June 30, 2004 amounted to Rs. 80 million (2003: Rs. 80 million) of which amount remaining unutilized at the year end was Rs. 56 million (2003: Rs. 59.78 million).

9.3 Pak Oman Investment Company Limited - unsecured

During the year, commercial papers amounting to Rs. 200 million have been issued to Pak Oman Investment Company Limited. These commercial papers were issued in two tranches of Rs. 125 million and Rs. 75 million having maturity dates on 12 May and July 7, 2004 respectively. The rate of mark-up is 3.5 percent. The first trench has been paid on the maturity date.

10. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
Creditors	7,247	83,885	91,132	7,845	4,115	11,960
Sales tax payable	4,389	–	4,389	3,630	–	3,630
Bills payable	–	–	–	3,742	25,028	28,770
Accrued liabilities	10.1 37,642	5,587	43,229	32,509	6,754	39,263
Mark-up accrued on secured loans	–	564	564	–	847	847
Accrued mark-up	10.2 3,823	2,645	6,468	130	166	296
Advances from customers	2,757	1,263	4,020	548	416	964
Retention money	185	195	380	235	94	329
Due to associated undertakings	10.3 1,787	2,285	4,072	1,913	733	2,646
Payable to provident fund	522	3,673	4,195	302	2,685	2,987
Unclaimed dividend	10,626	–	10,626	13,515	–	13,515
Others	5,061	7,378	12,439	8,580	1,577	10,157
	<u>74,039</u>	<u>107,475</u>	<u>181,514</u>	<u>72,949</u>	<u>42,415</u>	<u>115,364</u>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended June 30, 2004

10.1 **Accrued liabilities**

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
Salaries, wages and other benefits	7,784	1,970	9,754	10,231	1,524	11,755
Accrual for 10C bonus	527	–	527	465	–	465
Leave encashment	4,185	657	4,842	3,978	645	4,623
Provisions and other accruals	25,146	2,960	28,106	17,835	4,585	22,420
	<u>37,642</u>	<u>5,587</u>	<u>43,229</u>	<u>32,509</u>	<u>6,754</u>	<u>39,263</u>

10.2 **Accrued mark-up:**

- on Term Finance

Certificates	3,429	2,622	6,051	–	–	–
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- on Running Finance

	271	–	271	–	–	–
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- on Leases

	123	23	146	130	166	296
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	<u>3,823</u>	<u>2,645</u>	<u>6,468</u>	<u>130</u>	<u>166</u>	<u>296</u>
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10.3 This represents the expenses incurred by associated companies on behalf of the company and insurance premiums payable to an associated undertaking.

10.4 Maximum amount due to associated undertakings at the end of any month during the year was Rs. 4.07 million (2003: Rs. 2.65 million).

11. CONTINGENCIES AND COMMITMENTS

11.1 The Ministry of Labour, Manpower and Overseas Pakistani's Division (the Ministry) in response to an application for establishment of separate fund for cotton division under Clause 15 of the Scheme to the Companies Profit (Workers' Participation) Act, 1968 has granted permission for the same. The Ministry has, however, asked the company to deposit an amount of Rs. 47.85 million on account of Workers Profits Participation Fund for the period between 1990 to 1997. This demand is being contested by the company as there were no eligible workers. The management, based on the advice of its legal consultants, is considering to file a constitutional petition in the High Court and is confident of a favourable outcome. Thus, no provision has been made for the aforementioned amount in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

- 11.2 The sales tax authorities issued a show cause notice relating to sales tax of Rs. 2.48 million by disallowing input tax claimed on certain items and spare parts imported during the period from August 1997 to June 1998. The company filed an appeal with the Customs, Excise and Sales Tax Appellate Tribunal who has referred the case to Collector Sales Tax (Appeals) for fresh assessment. Based on the advice of the legal advisor, the management is confident that the matter will be decided in favour of the company. Accordingly, no provision has been made in these financial statements for the aforementioned amount.
- 11.3 The company has filed a suit in the High Court of Sindh for restraining the customs authorities from encashing a bank guarantee of Rs. 0.89 million issued while availing concessionary benefits of SRO 671 (1) / 94 dated July 3, 1994. The liability of the company will eventually depend upon whether or not the goods were consumed in terms of the concession. This case is pending with the High Court and a sum of Rs. 0.89 million is contingently payable by the company in case the High Court decides the case against the company.
- 11.4 The company filed a suit in the High Court of Sindh for recovery of retention money amounting to Rs. 3.27 million from Indus Steel Pipes Limited against supply of pipes. The High Court has decided the case in the company's favour, however, pending a formal judgement the gain has not been recognized in these financial statements.
- 11.5 The company has filed a claim against SNGPL for return of its performance bond relating to a contract that was completed in the past. By way of a counter claim, SNGPL is claiming liquidated damages amounting to US Dollar 904,447 and mark-up. The matter is currently pending before the Arbitrators. Management of the company, based on legal advice, is confident that there is no significant chance of the counter claim of SNGPL being allowed as the relevant guarantees have long since expired.
- 11.6 The company has filed a suit in the Sindh High Court against Federation of Pakistan and others, for levy of import license fee at 6 percent against import of coating plant in 1992. The company contested that as per SRO 1317 (1)/94 dated December 22, 1990, being located in rural area, is only liable to pay 2 percent of import license fee. The case is pending with the Sindh High Court. The company has provided a bank guarantee of Rs. 3.42 million as directed by the Honorable Court. However, no provision has been made in these financial statements, as management is confident that the case would be decided in the company's favour.
- 11.7 Aggregate amount of guarantees given by the banks on behalf of the company in respect of the performance of various contracts aggregated Rs. 195.49 million (2003: Rs. 117.52 million).
- 11.8 Commitments in respect of capital expenditure contracted for as at June 30, 2004 amounted to Rs. 1.09 million (2003: Rs. 0.66 million).
- 11.9 Commitments under letters of credit as at June 30, 2004 amounted to Rs. 282.42 million.



Crescent Steel &
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

12. OPERATING FIXED ASSETS

Description		Cost as at July 1, 2003	Additions / * transfers / (disposals)	Cost as at June 30, 2004	Accumulated depreciation as at July 1, 2003	Depreciation charge for the year / * transfers / (on disposals)	Accumulated depreciation as at June 30, 2004	Net book value as at June 30, 2004
Rupees in thousand								
Steel division other than coating plant	12.1	383,647	55,796 (4,249)	435,194	275,794	30,210 (3,670)	302,334	132,860
Coating plant	12.2	158,871	1,526	160,397	138,699	5,175	143,874	16,523
Cotton division	12.3	255,394	93,893 *37,451 (4,723)	382,015	65,363	39,013 *8,205 (1,368)	111,213	270,802
Total operating fixed assets as at June 30, 2004		797,912	151,215 *37,451 (8,972)	977,606	479,856	74,398 *8,205 (5,038)	557,421	420,185
Total operating fixed assets as at June 30, 2003		691,454	110,009 (3,551)	797,912	410,590	72,451 (3,185)	479,856	318,056

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

12.1 The following is a statement of all operating fixed assets other than those relating to the coating plant and the cotton division:

Description	Cost as at July 1, 2003	Additions / (disposals)	Cost as at June 30, 2004	Accumulated Depreciation charge for the year / (on disposals) as at July 1, 2003	Accumulated depreciation as at June 30, 2004	Net book value as at June 30, 2004	Rate of depreciation as a % of cost
Rupees in thousand							
Freehold land	–	1,740	1,740	–	–	1,740	–
Leasehold land	8,054	–	8,054	1,009	81	1,090	1
Improvements to leasehold land	106	–	106	21	1	22	1
Building on leasehold land	59,221	583	59,804	39,127	2,990	42,117	5
Plant and machinery 12.1.1	226,906	15,561	242,467	174,333	13,479	187,812	5 to 20
Office premises	21,624	27,819	49,443	12,900	4,235	17,135	10
Furniture and fixtures	17,034	952 (28)	17,958	12,224	1,549 (20)	13,753	4,205 10
Office and other equipment	5,739	2,366	8,105	5,281	689	5,970	2,135 20
Computers	12,960	692 (151)	13,501	9,975	3,011 (151)	12,835	666 33.33
Vehicles	27,962	6,083 (4,070)	29,975	17,606	4,056 (3,499)	18,163	11,812 20
Workshop equipment	4,041	–	4,041	3,318	119	3,437	604 5 to 20
2004	383,647	55,796 (4,249)	435,194	275,794	30,210 (3,670)	302,334	132,860
2003	344,503	42,590 (3,446)	383,647	242,222	36,746 (3,174)	275,794	107,853

12.1.1 Net book value of plant and machinery includes book value of Rs. 2.78 million of capitalized spares.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

12.2 Coating plant

Description	Cost as at July 1, 2003	Additions / (disposals)	Cost as at June 30, 2004	Accumulated Depreciation charge for the year / as at July 1, 2003 (on disposals)	Accumulated depreciation as at June 30, 2004	Net book value as at June 30, 2004	Rate of depreciation as a % of cost	
Rupees in thousand								
Building on leasehold land	8,528	–	8,528	4,387	427	4,814	5	
Plant and machinery 12.2.1	149,970	1,526	151,496	134,139	4,698	138,837	5 to 20	
Office and other equipment	325	–	325	127	49	176	20	
Furniture and fixtures	48	–	48	46	1	47	10	
	2004	158,871	1,526	160,397	138,699	5,175	143,874	16,523
	2003	146,347	12,524	158,871	129,337	9,362	138,699	20,172

12.2.1 Net book value of plant and machinery includes book value of Rs. 1.27 million of capitalized spares.

12.3 Cotton division

Description	Cost as at July 1, 2003	Additions / *transfers / (disposals)	Cost as at June 30, 2004	Accumulated Depreciation charge for the year / as at July 1, 2003 *transfers / (on disposals)	Accumulated depreciation as at June 30, 2004	Net book value as at June 30, 2004	Rate of depreciation as a % of cost	
Rupees in thousand								
Freehold land	6,155	–	6,155	–	–	6,155		
Building on freehold land	18,182	7,508	25,690	4,908	2,569	7,477	10	
Plant and machinery	216,068	86,299 * 37,451 (4,723)	335,095	55,059	34,379 *8,205 (1,368)	96,275	10 to 20	
Electric installation	11,814	17	11,831	3,526	1,183	4,709	10	
Office and other equipment	253	39	292	52	40	92	10 to 20	
Computers	1,963	30	1,993	1,309	664	1,973	20	
Furniture and fixtures	152	–	152	45	16	61	10	
Vehicles	807	–	807	464	162	626	181	
	2004	255,394	93,893 *37,451 (4,723)	382,015	65,363	39,013 *8,205 (1,368)	111,213	270,802
	2003	200,604	54,895 (105)	255,394	39,031	26,343 (11)	65,363	190,031

12.3.1 The company had acquired the cotton division effective June 30, 2000. The transfer of legal title of assets in the name of the company is in process.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

12.3.2 The following assets were disposed off during the year:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particular of buyers
	Rupees in thousand					
Steel division						
Vehicles	69	28	41	58	Insurance Claim	The Premier Insurance Company, Karachi
	69	14	55	58	Insurance Claim	The Premier Insurance Company, Karachi
	69	28	41	58	Insurance Claim	The Premier Insurance Company, Karachi
	63	63	–	22	Company Scheme	Aziz ur Rehman
	256	256	–	88	Company Scheme	Tafsir Raza
	354	354	–	122	Company Scheme	Farrukh Hussain
	64	51	13	25	Company Scheme	Mohammad Imam
	69	28	41	55	Company Scheme	Gul Bahar
	58	58	–	20	Company Scheme	Mohammad Rafiq
	63	63	–	22	Company Scheme	Abdul Latif
	63	63	–	22	Company Scheme	Mohammad Ramzan
	63	63	–	22	Company Scheme	Ali Shah
	63	63	–	22	Company Scheme	Amir Bux
	63	63	–	22	Company Scheme	Ali Ahmed
	63	63	–	22	Company Scheme	Intezar Hussain
	63	63	–	22	Company Scheme	Ghulam Hussain
	63	63	–	22	Company Scheme	Mohammad Azam
	63	63	–	22	Company Scheme	Iqbal Hussain
	69	28	41	55	Company Scheme	Mohammad Ayub
	431	410	21	130	Company Scheme	Munir A. Raja
	69	14	55	55	Company Scheme	Abdul Hannan
	69	14	55	55	Company Scheme	Zafarullah Khan
	69	13	56	55	Company Scheme	Rahim Nawaz
	68	13	55	55	Company Scheme	M. Afzal
	68	13	55	55	Company Scheme	M. Aslam
	68	27	41	46	Company Scheme	Khadim Hussain
	812	812	–	700	Negotiation	Toyota Western Motors
	709	709	–	459	Negotiation	Jolius Preira
Computer	78	78	–	2	Negotiation	Computer Ways
	73	73	–	2	Negotiation	Computer Ways
Carpet	28	19	9	2	Negotiation	M. Aslam
	4,249	3,670	579	2,375		
Cotton division						
Plant and machinery	250	25	225	250	Negotiation	Crescent Ujala Limited - an associated undertaking, Jhang
	350	105	245	350	Negotiation	Crescent Ujala Limited - an associated undertaking, Jhang
	4,123	1,238	2,885	3,501	Negotiation	Hajra Textile Mills Limited
	4,723	1,368	3,355	4,101		
2004	8,972	5,038	3,934	6,476		
2003	3,551	3,185	366	1,502		



NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

13. ASSETS SUBJECT TO FINANCE LEASES

Description	Cost as at July 1, 2003	Additions / *transfers / (disposals)	Cost as at June 30, 2004	Accumulated Depreciation depreciation charge for the as at July 1, 2003	the year / *transfers / (on disposals)	Accumulated depreciation as at June 30, 2004	Net book value as at June 30, 2004	Rate of depreciation as a % of cost
Rupees in thousand								
Steel division								
Vehicles	6,316	11,940	11,940	2,526	3,015	3,015	8,925	20 & 33.33
		(6,316)			(2,526)			
Plant and machinery	20,000	–	20,000	2,000	2,000	4,000	16,000	10
	26,316	11,940	31,940	4,526	5,015	7,015	24,925	
		(6,316)			(2,526)			
Cotton division								
Plant and machinery	67,451	–	30,000	14,205	3,000	9,000	21,000	10
		*(37,451)			*(8,205)			
	67,451	–	30,000	14,205	3,000	9,000	21,000	
		*(37,451)			*(8,205)			
2004	93,767	11,940	61,940	18,731	8,015	16,015	45,925	
		*(37,451)			*(8,205)			
		(6,316)			(2,526)			
2003	73,767	20,000	93,767	8,723	10,008	18,731	75,036	

14. CAPITAL WORK-IN-PROGRESS

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
Rupees in thousand						
Plant and machinery	1,332	–	1,332	–	8,061	8,061
Civil work	–	–	–	9,336	–	9,336
Advance payment for development of software	363	–	363	–	–	–
	1,695	–	1,695	9,336	8,061	17,397

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

15. INTANGIBLE ASSETS

Description	Cost as at July 1, 2003	Additions / (disposals)	Cost as at June 30, 2004	Accumulated Amortization charge for the year as at July 1, 2003	Accumulated amortization as at June 30, 2004	Net book value as at June 30, 2004	Rate of amortization as a % of cost
Rupees in thousand							
Software licenses							
Steel division	1,069	3,102	4,171	696	1,391	2,087	33.33
Cotton division	124	1,186	1,310	82	437	519	33.33
2004	1,193	4,288	5,481	778	1,828	2,606	2,875
2003	1,140	53	1,193	380	398	778	415

16. LONG-TERM INVESTMENTS

	2004			2003			
	Steel division	Cotton division	Total	Steel division	Cotton division	Total	
Rupees in thousand							
Available-for-sale	16.1	185,656	–	185,656	58,339	–	58,339
Held to Maturity	16.5	24,995	–	24,995	11,990	–	11,990
		210,651	–	210,651	70,329	–	70,329



Crescent Steel &
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

16.1 Available-for-sale

Unless stated otherwise the holdings are in ordinary share certificates of Rs 10 each.

2004	2003		2004	2003
Number of shares			Rupees in thousand	
<u>Quoted - Associated undertakings</u>				
1,380,600	585,000	Crescent Commercial Bank Limited (formerly Mashreq Bank Limited)	19,742	10,822
1,957,054	1,805,400	Trust Commercial Bank Limited	22,115	12,909
2,769,380	952,380	Sharkarganj Mills Limited	134,315	25,333
Equity held 12.05% (2003: 4.98%)				
Net assets Rs. 693.89 million as on				
Sept. 30, 2003 (2002: Rs. 537.16 million)				
557,879	488,145	Crescent Leasing Corporation Limited	<u>9,484</u>	<u>9,275</u>
			185,656	58,339
<u>Unquoted - Associated undertakings</u>				
2,403,725	2,403,725	Crescent Bahuman Limited	16.2	24,037
1,047,000	1,047,000	Crescent Industrial Chemicals Limited	16.3	10,470
Provision for impairment loss			(34,507)	(34,507)
			-	-
<u>Unquoted - Subsidiary company</u>				
2	2	Crescent Continental Gas Pipelines Limited (US \$ 1 each)	16.4	-
<u>10,115,640</u>	<u>7,281,652</u>			<u>58,339</u>

16.2 The chief executive of Crescent Bahuman Limited is Mr. Nasir Shafi. The company's break up value of shares was 'NIL' as at September 30, 2003 due to negative equity.

16.3 The chief executive of Crescent Industrial Chemicals Limited is Mr. Tariq Shafi. The company's break up value of shares could not be ascertained as the financial statements of the company are not available.

16.4 The investment in a subsidiary is Rs 90 only. The subsidiary company has not commenced operation and accordingly no financial statements have been prepared.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

16.5 Held to maturity

		2004	2003
		Rupees in thousand	
Government of Pakistan US Dollar bonds	16.5.1	–	8,658
Redeemable Capital - Term Finance Certificates (TFCs)	16.5.2	24,995	3,332
		<u>24,995</u>	<u>11,990</u>
16.5.1 Government of Pakistan US Dollar bonds		8,658	9,003
Exchange gain		66	(345)
		<u>8,724</u>	<u>8,658</u>
Current maturity shown under current assets	23	(8,724)	–
		<u>–</u>	<u>8,658</u>

These bonds were issued by the Government of Pakistan for a period of 3 years commencing from November 18, 2001 to November 18, 2004. Interest earned thereon is receivable on a half-yearly basis.

16.5.2 Redeemable capital - Term Finance Certificates (TFCs)

		2004	2003
		Rupees in thousand	
Shakarganj Mills Limited (2,000 TFCs of Rs. 5,000 each)	16.5.2.1	3,332	6,664
Current maturity shown under current assets	23	(3,332)	(3,332)
		–	3,332
United Bank Limited (5,000 TFCs of Rs. 5,000 each)	16.5.2.2	25,000	–
Current maturity shown under current assets	23	(5)	–
		<u>24,995</u>	–
		<u>24,995</u>	<u>3,332</u>

16.5.2.1 These term finance certificates are being redeemed half yearly over a period of four years commenced from April 10, 2001 and ending on April 10, 2005. These certificates carry mark-up rate of 15 percent per annum.

16.5.2.2 This represents payment made in June 2004 for subscription of Term Finance Certificates issued by United Bank Limited. The scrips are yet to be received. The tenor of the TFC is eight years with semi-annual installments comprising of principal and profit. Principal will be redeemed @ 0.25 percent in the first 78 months and the remaining principal in three semi-annual installments of 33.25 percent each. The rate of profit is 8.45 percent per annum.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

17. LONG TERM DEPOSITS

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
Lease deposits	2,194	1,500	3,694	1,632	1,500	3,132
Security deposits	722	1,321	2,043	836	1,321	2,157
	<u>2,916</u>	<u>2,821</u>	<u>5,737</u>	<u>2,468</u>	<u>2,821</u>	<u>5,289</u>

18. STORES, SPARES AND LOOSE TOOLS

		2004			2003		
		Steel division	Cotton division	Total	Steel division	Cotton division	Total
		Rupees in thousand					
Stores		2,870	–	2,870	2,694	–	2,694
Spare parts	18.1	12,521	–	12,521	11,108	–	11,108
Loose tools		436	–	436	381	–	381
Stores and spares	18.2	–	26,895	26,895	–	10,508	10,508
		<u>15,827</u>	<u>26,895</u>	<u>42,722</u>	<u>14,183</u>	<u>10,508</u>	<u>24,691</u>
Provision for slow moving items		(1,754)	(1,712)	(3,466)	(1,676)	(1,712)	(3,388)
		<u>14,073</u>	<u>25,183</u>	<u>39,256</u>	<u>12,507</u>	<u>8,796</u>	<u>21,303</u>

18.1 This includes spare parts include items in-transit as at June 30, 2004 of Rs. 2.55 million (2003: Rs. 0.47 million).

18.2 This includes items in-transit as at June 30, 2004 of Rs. 4.28 million (2003: Rs. 0.07 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

19. STOCK-IN-TRADE

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
Raw materials						
Hot rolled steel coils	27,568	–	27,568	22,183	–	22,183
Coating materials	6,579	–	6,579	11,573	–	11,573
Others - pipe plant	9,068	–	9,068	9,140	–	9,140
Raw cotton 19.1 & 19.2	–	80,541	80,541	–	103,312	103,312
Stock-in-transit	7,455	78,005	85,460	9,194	19,446	28,640
	<u>50,670</u>	<u>158,546</u>	<u>209,216</u>	<u>52,090</u>	<u>122,758</u>	<u>174,848</u>
Provision for slow-moving obsolescence						
Hot rolled steel coils	(3,879)	–	(3,879)	(6,570)	–	(6,570)
Coating materials	(901)	–	(901)	(2,225)	–	(2,225)
Others	(205)	–	(205)	(205)	–	(205)
	<u>(4,985)</u>	<u>–</u>	<u>(4,985)</u>	<u>(9,000)</u>	<u>–</u>	<u>(9,000)</u>
	<u>45,685</u>	<u>158,546</u>	<u>204,231</u>	<u>43,090</u>	<u>122,758</u>	<u>165,848</u>
Work-in-process	1,379	4,433	5,812	758	2,777	3,535
Finished goods	19,245	13,395	32,640	36,627	7,018	43,645
Scrap / cotton waste	441	837	1,278	–	177	177
Provision for slow-moving and obsolescence finished goods	(2,855)	(655)	(3,510)	(8,184)	–	(8,184)
	<u>18,210</u>	<u>18,010</u>	<u>36,220</u>	<u>29,201</u>	<u>9,972</u>	<u>39,173</u>
	<u>63,895</u>	<u>176,556</u>	<u>240,451</u>	<u>72,291</u>	<u>132,730</u>	<u>205,021</u>

19.1 Stock-in-trade of the cotton division amounting to Rs. 26.33 million (2003: Rs. 102.60 million) was pledged as security with a financial institution.

19.2 This represents stock with cost of Rs. 91.92 million which are being carried at their net realizable value.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

20. TRADE DEBTS

		2004			2003		
		Steel division	Cotton division	Total	Steel division	Cotton division	Total
		Rupees in thousand					
Secured							
Considered good		30,421	–	30,421	15,746	2,029	17,775
Unsecured							
Considered good		1,601	4,002	5,603	5,839	2,409	8,248
Considered doubtful		–	–	–	61	–	61
		1,601	4,002	5,603	5,900	2,409	8,309
Provision for doubtful debts	20.2	–	–	–	(61)	–	(61)
		<u>32,022</u>	<u>4,002</u>	<u>36,024</u>	<u>21,585</u>	<u>4,438</u>	<u>26,023</u>

20.1 This includes amount due from an associated undertaking of Rs. nil (2003: Rs. 0.74 million). The maximum amount due from associated undertakings at the end of any month during the year was Rs. 5.41 million (2003: Rs. 2.37 million).

20.2 Provision for doubtful debts amounting to Rs. 0.06 million has been written off during the current period.

21. ADVANCES

		2004			2003		
		Steel division	Cotton division	Total	Steel division	Cotton division	Total
		Rupees in thousand					
Executives	21.1 & 21.2	564	–	564	141	–	141
Other staff		23	–	23	267	14	281
		587	–	587	408	14	422
Other advances		–	2,500	2,500	–	–	–
Suppliers for goods and services		3,695	886	4,581	6,404	959	7,363
Provision for doubtful advances		(537)	(375)	(912)	(537)	–	(537)
		<u>3,158</u>	<u>511</u>	<u>3,669</u>	<u>5,867</u>	<u>959</u>	<u>6,826</u>
		<u>3,745</u>	<u>3,011</u>	<u>6,756</u>	<u>6,275</u>	<u>973</u>	<u>7,248</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

- 21.1 This represents advances made to executives for traveling and other expenses.
- 21.2 The maximum aggregate amount due at the end of any month during the year from executives was Rs. 0.56 million (2003: Rs. 0.58 million).

22. DEPOSITS AND PREPAYMENTS

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
Security deposits	1,107	1,350	2,457	951	3,960	4,911
Prepayments	965	–	965	682	5	687
	<u>2,072</u>	<u>1,350</u>	<u>3,422</u>	<u>1,633</u>	<u>3,965</u>	<u>5,598</u>

23. CURRENT MATURITY OF LONG-TERM INVESTMENTS

Held to Maturity							
Government of Pakistan							
US Dollar bonds	16.5.1	8,724	–	8,724	–	–	–
Redeemable capital							
Shakarganj							
Mills Limited	16.5.2	3,332	–	3,332	3,332	–	3,332
United Bank Limited	16.5.2	5	–	5	–	–	–
		<u>12,061</u>	<u>–</u>	<u>12,061</u>	<u>3,332</u>	<u>–</u>	<u>3,332</u>

24. INVESTMENTS

Available-for-sale	24.1	415,294	–	415,294	422,340	–	422,340
Held for trading	24.2	546,908	–	546,908	186,065	–	186,065
Loans and advances							
originated by the							
enterprise - Islamic							
Republic of Pakistan							
Bonds 10%	24.3	12,939	–	12,939	18,287	–	18,287
Held to maturity	24.6	37,370	–	37,370	26,000	–	26,000
		<u>1,012,511</u>	<u>–</u>	<u>1,012,511</u>	<u>652,692</u>	<u>–</u>	<u>652,692</u>



Crescent Steel &
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

24.1 Available-for-sale

The company holds investments in ordinary shares of Rs. 10/- each, unless stated otherwise, in the following listed investee companies:

2004	2003		2004	2003
Number of shares		Name of investee company	Rupees in thousand	
Quoted - Associated undertakings				
1,980,143	839,044	Crescent Commercial Bank Limited (formerly Mashreq Bank Limited)	28,316	15,522
373,868	373,868	Crescent Textile Mills Limited	11,216	9,926
91,300	91,300	Crescent Jute Products Limited (CJPL)	24.1.1	283
17,734	65,517	Crescent Leasing Corporation Limited	301	1,245
26,490	26,490	Jubilee Spinning and Weaving Mills Limited	185	106
244,197	649,945	Pakistan Industrial Credit and Investmen Corporation Limited	24.4	17,594
759,321	508,135	Shakarganj Mills Limited	36,827	13,516
120,000	250,000	Suraj Cotton Mills Limited	5,520	7,975
1,878,981	1,733,378	Trust Commercial Bank Limited	21,232	12,393
Quoted - Others				
40,000	40,000	Cherat Cement Limited	2,870	1,360
399,225	–	Crescent Standard Investment Bank Limited (CSIBL) (formerly First Standard Investment Bank Limited)	24.1.1	3,101
–	133,075	First Crescent Modaraba (now merged with CSIBL)	–	1,239
100,000	100,000	Fauji Fertilizer Company Limited	11,885	8,705
28,800	28,800	First Equity Modaraba	821	375
190,000	190,000	Hub Power Company Limited	6,137	7,201
230,750	141,500	PICIC Growth Fund (formerly Investment Corporation of Pakistan S.E.M.F)	10,903	6,445
30,000	25,000	Mari Gas Company Limited	2,489	1,676
50,738	55,738	National Refinery Limited	9,379	5,518
225,330	275,330	Nishat Chunian Mills Limited	13,294	11,220
10,500	10,500	Nestle Milkpak Limited	5,030	2,625
30,431	192,359	National Bank of Pakistan	2,022	5,251
294,836	–	Oil & Gas Development Corporation Limited	19,017	–
1,040,500	1,665,500	Pakistan Telecommunication Company Limited	43,857	47,383
55,580	64,680	Packages Limited	24.4	11,005
–	40,000	Pak Suzuki Motor Company Limited	–	3,960
–	25,100	Pak Datacom Limited	–	346
108,000	344,500	PICIC Commercial Bank Limited	3,645	6,684
453,882	299,000	PICIC Investment Fund (Formerly 7th, 10th & 24th ICP Mutual Funds)	8,170	7,176
111,360	200,600	Pakistan Oilfields Company Limited	23,219	45,175
–	75,400	Pakistan State Oil Company Limited	–	17,218
3,248,190	2,952,900	Safeway Mutual Fund	24.5	51,971
13,500	70,000	Shell Pakistan Limited	24.4	4,714
5,300	5,300	Siemens (Pakistan) Engineering Company Limited	2,809	1,855
57,208	1,507,208	Sui Northern Gas Pipelines Limited	3,701	49,889
66,262	66,262	The Pakistan Stock Market Fund	7,421	5,899
199,800	190,500	Tripack Films Limited	24.4	16,573
19,400	16,880	Unilever Pakistan Limited (face value per share Rs. 50)	30,070	22,366
			415,294	422,340

24.1.1 Investments in CJPL and CSIBL are carried at their break up values, which are Rs. 7.77 and Rs. nil per share, respectively, as their rates were not quoted on the stock exchange due to certain defaults. The break up values have been calculated on the basis of the unaudited financial statements for the quarter ended March 31, 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

24.2 Held for trading

The company holds investments in ordinary shares of Rs. 10/- each, unless stated otherwise, in the following listed investee companies:

2004	2003		2004	2003
Number of shares		Name of investee company	Rupees in thousand	
–	25,000	Quoted - Associated undertakings		
		Suraj Cotton Mills Limited	–	798
		Quoted - Others		
440,000	–	Al Meezan Mutual Fund Limited	6,798	–
145,000	–	Attock Cement Pakistan Limited	7,540	–
80,000	–	Attock Refinery Limited	7,320	–
140,000	–	Century Paper and Board Mills Limited	13,160	–
235,000	100,000	D.G.Khan Cement Company Limited	13,513	3,085
1,375,000	–	Dewan Salman Fibre Limited	31,144	–
10,750	9,750	Dawood Hercules Chemicals Limited	1,942	1,514
25,000	–	Engro Chemicals Pakistan Limited	2,437	–
221,800	135,500	Fauji Fertilizer Company Limited	26,361	11,795
25,000	–	First Habib Bank Modaraba	390	–
200,000	610,000	Fauji Fertilizer Bin Qasim Limited	3,780	8,204
268,000	375,000	Fauji Cement Company Limited	4,368	2,737
–	100,000	Faysal Bank Limited	–	2,355
–	59,500	Gatron Industries Limited	–	5,414
4,238,500	650,000	Hub Power Company Limited	24.4 136,903	24,635
–	70,000	Honda Atlas Cars Limited	–	4,725
76,500	–	PICIC Growth Fund (formerly Investment Corporation of Pakistan S.E.M.F)	3,615	–
21,000	–	Javed Omer Vohra & Company Limited	13,062	–
63,500	150,000	JDW Sugar Mills Limited	3,239	3,600
–	80,000	Karachi Electric Supply Corporation Limited	–	528
425,000	–	Kohinoor Energy Limited	14,790	–
–	325,000	Kohinoor Textile Mills Limited	–	5,980
225,000	–	Lucky Cement Limited	8,798	–
700,000	–	Maple Leaf Cement Limited	26,600	–
8,300	–	Mari Gas Company Limited	688	–
50,000	–	New Jubilee Insurance Company Limited	1,300	–
153,100	–	National Refinery Limited	28,300	–
30,000	25,000	National Bank of Pakistan	1,994	682
260,000	–	Oil & Gas Development Corporation Limited	16,770	–
20,000	–	Pak Suzuki Motor Company Limited	2,318	–
–	140,000	PICIC Commercial Bank Limited	–	2,716
822,333	1,378,000	PICIC Investment Fund (Formerly 7th, 10th & 24th ICP Mutual Funds)	14,802	15,675
500,000	–	Pakistan Capital Fund	5,125	–
253,125	–	Pakistan Premier Fund	4,860	–
90,000	–	Pakistan Oil Fields Limited	18,765	–
15,000	7,500	Pakistan State Oil Company Limited	3,851	1,713
50,000	–	Pakistan PTA Limited	867	–
1,299,000	1,325,000	Pakistan Telecommunication Company Limited	54,753	37,696
50,000	300,000	Pakistan International Airlines Corporation	895	3,765
20,800	9,300	Pakistan Refinery Limited	3,120	1,690
–	1,000,000	Sui Northern Gas Pipelines Limited	–	33,100
1,819,500	50,000	Sui Southern Gas Company Limited	59,680	1,052
200,000	200,000	Southern Electrical Power Company Limited	3,060	3,410
–	21,400	Shell Pakistan Limited	–	9,031
–	10,000	TRG Pakistan Limited	–	165
			546,908	186,065



NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

24.3 Loans and advances originated by the enterprise – Islamic Republic of Pakistan bonds

These bonds were issued by the Government of Pakistan on December 13, 1999 in exchange of its outstanding eurobonds and exchangeable notes.

The company had swapped its 6 percent PTCL exchangeable notes (face value US\$ 980,000) with the Islamic Republic of Pakistan (IROP) bonds (face value US\$ 1,035,000) during the year ended June 30, 2000.

The IROP bond carries interest rate of 10 percent per annum payable semi-annually. Principal is repayable in four equal yearly installments commenced from December 2002.

	2004	2003
	Rupees in thousand	
Face value US\$ 250,833 (2003: US\$ 376,250)		
Cost US\$ 158,025 (2003: US\$ 237,038)	18,287	49,414
Disposals of bonds	–	(23,283)
Redemption of bonds	(7,204)	(8,573)
Amortization of discount on acquisition of bonds	1,796	2,131
Exchange profit / (loss)	60	(1,402)
	<u>12,939</u>	<u>18,287</u>

These bonds are not in the name of the company and are held by Crescent Commercial Bank Limited (formerly Mashreq Bank Pakistan), an associated undertaking, on behalf of the company.

24.4 The following investments having an aggregate face value of Rs. 12.60 million (2003: Rs. 10.35 million) are deposited as security with a commercial bank.

Packages Limited	500	500
Pakistan Industrial Credit and Investment Corporation Limited	1,500	2,500
Pakistan State Oil Company Limited	–	750
Sui Northern Gas Pipelines Limited	–	6,000
Shell Pakistan Limited	100	100
Tripack Films Limited	500	500
Hub Power Company Limited	10,000	–
	<u>12,600</u>	<u>10,350</u>

24.5 Holding in Safeway Mutual Fund and 10th ICP Mutual Fund (PICIC Investment Fund) as at June 30, 2004 aggregates to 19.68 percent (2003: 19.68 percent) and nil percent (2003: 11.98 percent) respectively. The net assets of Safeway Mutual Fund as at June 30, 2003 were Rs. 16.50 million.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

24.6 Musharika arrangements

The company made musharika arrangements of Rs. 26 million (2003: Rs. 26 million) with First Crescent Modaraba and Rs. 11.37 million (2003: Rs. Nil) with Financial Link Modaraba on profit and loss sharing basis. These arrangement were made during the years 2003 and 2004. The arrangement made in year 2003 have been extended for a further period of one year.

25. OTHER RECEIVABLES

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
Considered good						
Mark-up accrued on						
- deposits	363	25	388	27	29	56
- others	984	–	984	467	–	467
Margin on letters of credit and guarantee	1,095	–	1,095	1,095	–	1,095
Provision thereagainst	(1,095)	–	(1,095)	(1,095)	–	(1,095)
	–	–	–	–	–	–
Dividend receivables	1,254	–	1,254	1,112	–	1,112
Provision thereagainst	–	–	–	(48)	–	(48)
	1,254	–	1,254	1,064	–	1,064
Receivable on account of sale of shares	15,436	–	15,436	4,692	–	4,692
Receivable from Sui Northern Gas Pipeline Ltd	72,850	–	72,850	–	–	–
Insurance claim receivable	–	–	–	125	–	125
Due from associated undertakings	25.2 1,639	119	1,758	1,062	581	1,643
Sales tax refundable	4,814	11,363	16,177	4,508	8,285	12,793
Provision thereagainst	(2,308)	(741)	(3,049)	(1,981)	(741)	(2,722)
	2,506	10,622	13,128	2,527	7,544	10,071
Receivable against deposit for building	5,461	–	5,461	5,461	–	5,461
Provision thereagainst	(5,461)	–	(5,461)	(5,461)	–	(5,461)
	–	–	–	–	–	–
Receivable from staff retirement funds	39.3 6,140	–	6,140	4,089	2,279	6,368
Others	3	713	716	2	67	69
	101,175	11,479	112,654	14,055	10,500	24,555



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NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

25.1 Maximum aggregate amount due from associated undertakings at the end of any month during the year was Rs. 3.21 million (2003: Rs. 3.56 million).

25.2 Due from associated undertakings

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
Crescent Jute Products Limited	704	–	704	665	309	974
Crescent Textile Mills Limited	14	–	14	–	–	–
Jubilee Spinning Mills Limited	17	–	17	17	–	17
Pak Industrial Leasing Corporation (now merged in Trust Commercial Bank)	–	–	–	–	272	272
Shakarganj Mills Limited	892	–	892	368	–	368
Suraj Cotton Mills Limited	11	–	11	11	–	11
Trust Commercial Bank Limited	1	–	1	1	–	1
Premier Insurance Company of Pakistan Limited	–	119	119	–	–	–
	1,639	119	1,758	1,062	581	1,643

26. TAXATION

The income tax assessments of the Company have been finalized up to and including assessment year 2000-2001 (income year ended June 30, 2000).

	2004	2003
	Rupees in thousand	
Advance tax	295,294	211,911
Provision for taxation	(235,305)	(216,147)
	59,989	(4,236)

Appeal have been filed by the company and the department before Commissioner of Income Tax (Appeals) and Income Tax Appellate Tribunal for various addbacks and disallowances for assessment years 1996-97 to 1999-2000. The appeals are pending for hearings.

The Taxation Officer, while finalizing the assessment for the assessment year 2000-2001, has raised a demand of additional liability of Rs. 2.2 million on account of certain disallowances and addbacks. The company has filed

NOTES TO THE FINANCIAL STATEMENTS

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an appeal with the Commissioner of Income Tax (Appeals) against the aforementioned demand. No provision for the additional demand has been made in the financial statements as in the view of the management, the ultimate decision in the appeal would substantially be in favour of the company.

27. CASH AND BANK BALANCES

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
With banks - in deposit accounts						
- local currency	3,920	5,708	9,628	17,265	5,707	22,972
- foreign currency	4,084	-	4,084	3,456	-	3,456
	8,004	5,708	13,712	20,721	5,707	26,428
- in current accounts	2,064	1,997	4,061	327	656	983
Cash in hand	145	96	241	-	103	103
	10,213	7,801	18,014	21,048	6,466	27,514

28. SALES

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
Bare pipes (own product excluding coating revenue)	481,193	-	481,193	1,229,025	-	1,229,025
Revenue from conversion	140,625	-	140,625	54,095	-	54,095
Coating of pipes	77,110	-	77,110	102,391	-	102,391
Cotton yarn	-	814,988	814,988	-	577,425	577,425
Raw cotton	-	-	-	-	8,628	8,628
Scrap / waste	8,267	21,668	29,935	14,225	11,373	25,598
	707,195	836,656	1,543,851	1,399,736	597,426	1,997,162
- Sales tax	(94,544)	(97,680)	(192,224)	(184,169)	(70,374)	(254,543)
- Commission	-	(4,835)	(4,835)	-	(3,283)	(3,283)
- Sales returns	-	(3,488)	(3,488)	-	(388)	(388)
	612,651	730,653	1,343,304	1,215,567	523,381	1,738,948



Crescent Steel &
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

29. COST OF SALES

		2004			2003		
		Steel division	Cotton division	Total	Steel division	Cotton division	Total
Rupees in thousand							
Bare pipes	29.1	409,131	–	409,131	838,326	–	838,326
Coating of pipes	29.4	50,364	–	50,364	62,734	–	62,734
Cotton	29.7	–	714,387	714,387	–	496,980	496,980
		<u>459,495</u>	<u>714,387</u>	<u>1,173,882</u>	<u>901,060</u>	<u>496,980</u>	<u>1,398,040</u>

29.1 Cost of sales - bare pipes

	2004	2003
	Rupees in thousand	
Raw materials consumed	321,125	764,332
Store and spares consumed	9,073	13,019
Fuel, power and electricity	9,669	10,460
Salaries, wages and other benefits	29.2 21,895	22,698
Insurance	1,322	1,163
Repairs and maintenance	1,739	1,458
Depreciation	20,192	28,928
Other expenses	8,470	4,467
Expenses allocated to CCP	(1,028)	–
	<u>392,457</u>	<u>846,525</u>
Opening stock of work-in-process	758	6,147
Closing stock of work-in-process	(1,379)	(758)
	<u>(621)</u>	<u>5,389</u>
Cost of goods manufactured	<u>391,836</u>	<u>851,914</u>
Opening stock of finished goods	36,201	22,613
Closing stock of finished goods	(18,906)	(36,201)
	<u>17,295</u>	<u>(13,588)</u>
	<u>409,131</u>	<u>838,326</u>

29.2 Detail of salaries, wages and other benefits

Salaries, wages and other benefits		19,846	20,239
Provident fund contributions		791	731
Pension fund	29.3	957	1,300
Gratuity	29.3	301	428
		<u>21,895</u>	<u>22,698</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

29.3 Staff retirement benefits

	Pension 2004	Gratuity 2004	Pension 2003	Gratuity 2003
	Rupees in thousand			
Current service cost	837	336	916	341
Interest cost	806	300	784	231
Expected return on plan assets	(894)	(387)	(582)	(186)
Actuarial loss	34	–	–	–
Past service cost	174	52	182	42
	<u>957</u>	<u>301</u>	<u>1,300</u>	<u>428</u>

29.4 Cost of sales - coating of pipes

	2004	2003
	Rupees in thousand	
Materials consumed	13,043	19,459
Stores and spares consumed	8,675	7,511
Fuel and power	7,293	8,125
Salaries, wages and other benefits	29.5 10,368	10,852
Insurance	946	921
Repairs and maintenance	1,204	993
Depreciation	7,259	12,281
Other expenses	1,929	2,656
Expenses allocated to CCP	(440)	–
Cost of goods manufactured	<u>50,277</u>	<u>62,798</u>
Opening stock of finished goods	426	362
Closing stock of finished goods	(339)	(426)
	<u>87</u>	<u>(64)</u>
	<u>50,364</u>	<u>62,734</u>

29.5 Detail of salaries, wages and other benefits

Salaries, wages and other benefits		9,426	9,658
Provident fund contributions		370	356
Pension fund	29.6	435	624
Gratuity	29.6	137	214
		<u>10,368</u>	<u>10,852</u>



Crescent Steel &
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

29.6 Staff retirement benefits

	Pension 2004	Gratuity 2004	Pension 2003	Gratuity 2003
	Rupees in thousand			
Current service cost	380	153	440	171
Interest cost	366	137	376	115
Expected return on plan assets	(406)	(176)	(279)	(93)
Actuarial loss	16	-	-	-
Past service cost	79	23	87	21
	435	137	624	214

29.7 Cost of sales - cotton

	2004	2003
	Rupees in thousand	
Raw materials consumed	562,599	357,451
Packing materials consumed	6,346	5,463
Raw cotton sold	-	7,476
Stores and spares consumed	8,667	8,106
Fuel and power	60,606	54,433
Salaries, wages and other benefits	29.8 31,365	25,537
Insurance	1,587	1,286
Repairs and maintenance	3,612	1,255
Depreciation	42,013	33,088
Amortization of intangible assets	437	41
Other expenses	3,721	2,493
Expenses allocated from Steel division	1,468	-
	722,421	496,629
Opening stock of work-in-process	2,777	2,465
Closing stock of work-in-process	(4,434)	(2,777)
	(1,657)	(312)
Cost of goods manufactured	720,764	496,317
Opening stock of finished goods	7,018	7,681
Closing stock of finished goods	(13,395)	(7,018)
	(6,377)	663
	714,387	496,980

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

29.8 Detail of salaries, wages and other benefits

		2004	2003
		Rupees in thousand	
Salaries, wages and other benefits		30,424	24,539
Provident fund contributions		580	530
Pension fund	29.9	<u>361</u>	<u>468</u>
		<u><u>31,365</u></u>	<u><u>25,537</u></u>

29.9 Staff retirement benefits

		Pension	
Current service cost		315	330
Interest cost		304	282
Expected return on plan assets		(337)	(209)
Actuarial loss		13	–
Past service cost		<u>66</u>	<u>65</u>
		<u><u>361</u></u>	<u><u>468</u></u>

30. SELLING EXPENSES

		2004			2003		
		Steel division	Cotton division	Total	Steel division	Cotton division	Total
		Rupees in thousand					
Salaries, wages and other benefits	30.1	3,818	–	3,818	3,864	–	3,864
Traveling and conveyance		477	14	491	596	10	606
Depreciation		–	–	–	328	–	328
Insurance		82	–	82	77	–	77
Postage, telephone and telegram		–	249	249	–	196	196
Advertisement		432	–	432	243	–	243
Bid bond expenses		544	–	544	129	–	129
Transportation		–	1,751	1,751	–	1,670	1,670
Legal and professional charges		348	–	348	130	–	130
Others		482	818	1,300	857	825	1,682
		<u><u>6,183</u></u>	<u><u>2,832</u></u>	<u><u>9,015</u></u>	<u><u>6,224</u></u>	<u><u>2,701</u></u>	<u><u>8,925</u></u>



Crescent Steel &
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For the year ended June 30, 2004

30.1 Detail of salaries, wages and other benefits

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
Salaries, wages and other benefits	3,229	–	3,229	3,136	–	3,136
Provident fund contributions	171	–	171	156	–	156
Pension fund	30.2 318	–	318	416	–	416
Gratuity	30.2 100	–	100	156	–	156
	<u>3,818</u>	<u>–</u>	<u>3,818</u>	<u>3,864</u>	<u>–</u>	<u>3,864</u>

30.2 Staff retirement benefits

	Pension	Gratuity	Pension	Gratuity
	2004	2004	2003	2003
	Rupees in thousand			
Current service cost	278	112	293	124
Interest cost	268	100	251	84
Expected return on plan assets	(297)	(129)	(186)	(67)
Actuarial loss	11	–	–	–
Past service cost	58	17	58	15
	<u>318</u>	<u>100</u>	<u>416</u>	<u>156</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

31. ADMINISTRATION EXPENSES

		2004			2003		
		Steel division	Cotton division	Total	Steel division	Cotton division	Total
		Rupees in thousand					
Salaries, wages and other benefits	31.1	26,074	–	26,074	26,726	–	26,726
Rents, rates and taxes		285	–	285	273	–	273
Traveling, conveyance and entertainment		4,572	183	4,755	3,876	27	3,903
Fuel and power		2,789	–	2,789	2,649	–	2,649
Postage, telephone and telegram		2,169	–	2,169	1,713	–	1,713
Insurance		809	–	809	807	–	807
Repairs and maintenance		1,587	–	1,587	1,369	–	1,369
Auditors’ remuneration	31.3	878	–	878	2,884	–	2,884
Legal, professional and corporate service charges		6,172	1,269	7,441	16,176	200	16,376
Advertisement		261	–	261	137	–	137
Donations	31.4	9,542	3,332	12,874	12,311	2,980	15,291
Depreciation		12,949	–	12,949	7,834	–	7,834
Amortization of intangible assets		1,391	–	1,391	357	–	357
Printing, stationery and office supplies		1,372	–	1,372	871	–	871
Newspapers, subscriptions and periodicals		642	–	642	466	–	466
Others		517	35	552	613	–	613
		72,009	4,819	76,828	79,062	3,207	82,269
Charges allocated to the cotton division		(8,507)	8,507	–	(9,866)	9,866	–
		63,502	13,326	76,828	69,196	13,073	82,269



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31.1 Detail of salaries, wages and other benefits

		2004			2003		
		Steel division	Cotton division	Total	Steel division	Cotton division	Total
		Rupees in thousand					
Salaries, wages and other benefits		22,479	–	22,479	22,257	–	22,257
Provident fund contributions		1,091	–	1,091	929	–	929
Pension fund	31.2	1,936	–	1,936	2,392	–	2,392
Gratuity	31.2	568	–	568	1,148	–	1,148
		<u>26,074</u>	<u>–</u>	<u>26,074</u>	<u>26,726</u>	<u>–</u>	<u>26,726</u>

31.2 Staff retirement benefits

		Pension 2004	Gratuity 2004	Pension 2003	Gratuity 2003
		Rupees in thousand			
Current service cost		1,694	633	1,685	915
Interest cost		1,630	566	1,442	619
Expected return on plan assets		(1,810)	(728)	(1,070)	(498)
Actuarial loss		70	–	–	–
Past service cost		352	97	335	112
		<u>1,936</u>	<u>568</u>	<u>2,392</u>	<u>1,148</u>

31.3 Auditors' remuneration

	2004	2003
	Rupees in thousand	
Audit fee	500	500
Fee for audit of funds' financial statements and other reports	310	369
Tax services	–	1,794
Out of pocket expenses	68	221
	<u>878</u>	<u>2,884</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

31.4 Donations

31.4.1 Donations include the following in whom a director is interested:

Name of the director	Interest in donee	Name and address of the donee	Amount donated	
			2004	2003
Mr. Ahsan M. Saleem	Chairman	The Citizens Foundation 9th Floor, NIC Building, Karachi.	9,567	6,889
Mr. Ahsan M. Saleem	Member Managing Committee	Commecs Institute of Business Education, ST-9, Block 13, Gulistan-e-Johar, Scheme-36, Karachi.	–	37
Mr. Ahsan M. Saleem	Member	Lyallpur Golf Club Race Course Club, Faisalabad.	–	150
			<u>9,567</u>	<u>7,076</u>

31.4.2 Donations other than these mentioned above were not made to any donee in whom a director or his spouse had any interest at any time during the year.



Crescent Steel &
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NOTES TO THE FINANCIAL STATEMENTS

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32. OTHER INCOME

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
Liabilities written-back	160	–	160	3,581	–	3,581
Provision written back for stock-in-trade	9,345	–	9,345	3,727	–	3,727
Provision written back for spares	–	–	–	3,060	–	3,060
Return on deposits, advances and investments	5,228	187	5,415	14,544	236	14,780
Profit on redeemable capital certificates	795	–	795	1,281	–	1,281
Mark-up recovered from associated undertakings	–	–	–	2,854	–	2,854
Gain on disposal of fixed assets	1,796	746	2,542	1,125	11	1,136
Deferred income	5 304	265	569	–	265	265
Gain on sale of investments						
- Available-for-sale	161,265	–	161,265	27,070	–	27,070
- Held for trading	64,571	–	64,571	45,527	–	45,527
- I.R.O.P Bonds	–	–	–	6,121	–	6,121
Dividend income	32.1 53,681	–	53,681	37,447	–	37,447
Fair value adjustment	–	–	–	30,032	–	30,032
Exchange gain	183	–	183	–	–	–
Insurance commission	494	157	651	897	118	1,015
Others	947	271	1,218	3,908	662	4,570
	<u>298,769</u>	<u>1,626</u>	<u>300,395</u>	<u>181,174</u>	<u>1,292</u>	<u>182,466</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

32.1 Dividend income

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
From associated undertakings						
Pakistan Industrial Credit and Investment Corporation	305	–	305	2,299	–	2,299
Crescent Leasing Corporation Limited	504	–	504	930	–	930
Shakarganj Mills Limited	5,293	–	5,293	2,190	–	2,190
Crescent Textile Mills Limited	374	–	374	748	–	748
	6,476	–	6,476	6,167	–	6,167
Others	47,205	–	47,205	31,280	–	31,280
	53,681	–	53,681	37,447	–	37,447

33. FINANCIAL CHARGES

Interest on long-term loan	–	–	–	–	1,334	1,334
Interest on provident fund	–	226	226	–	301	301
Mark-up on:						
Running finances	2,092	2	2,094	2,482	3,832	6,314
Short-term loans	1,156	4,180	5,336	–	1,152	1,152
Redeemable capital	3,429	2,622	6,051	–	–	–
Assets subject to finance leases	2,291	2,911	5,202	762	5,787	6,549
Bank charges	431	1,051	1,482	352	826	1,178
	9,399	10,992	20,391	3,596	13,232	16,828
Financial charges allocated to the cotton division	(3,248)	3,248	–	(2,482)	2,482	–
	6,151	14,240	20,391	1,114	15,714	16,828



Crescent Steel &
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

34. OTHER CHARGES

	2004			2003		
	Steel division	Cotton division	Total	Steel division	Cotton division	Total
	Rupees in thousand					
Provision against						
sales tax refundable	327	–	327	–	741	741
Fair value adjustment	10,353	–	10,353	–	–	–
Provision for stock-in-trade	–	12,034	12,034	8,863	–	8,863
Provision for slow						
moving stores and spares	78	–	78	–	1,712	1,712
Loss on sale and leaseback	–	–	–	1,257	–	1,257
Provision for						
workers welfare fund	1,027	–	1,027	5,553	–	5,553
Provision for						
infrastructure fee	11,300	–	11,300	–	–	–
Provision for impairment						
of investments	1,004	–	1,004	–	–	–
Provision for other receivables,						
prepayments and others	–	375	375	5,461	–	5,461
Exchange loss	–	367	367	2,055	452	2,507
	<u>24,089</u>	<u>12,776</u>	<u>36,865</u>	<u>23,189</u>	<u>2,905</u>	<u>26,094</u>

35. TAXATION

	2004	2003
	Rupees in thousand	
Current		
- for the year	18,500	91,283
- for prior years'	658	12,114
	<u>19,158</u>	<u>103,397</u>
Deferred	<u>11,660</u>	<u>(6,178)</u>
	<u>30,818</u>	<u>97,219</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

35.1 Relationship between tax expense and accounting profit

	2004	2003
	Rupees in thousand	
Profit before taxation	<u>326,718</u>	<u>381,375</u>
Tax at the applicable rate of 35%	114,351	133,481
Net tax effect of income not subject to tax and expenses that are not allowable in determining taxable income	(68,087)	(27,055)
Tax effect of dividend income taxed at different rate	(16,104)	(11,234)
Prior years' tax effect	658	12,114
Net effect of deferred tax relating to prior years' recognized currently	<u>—</u>	<u>(10,087)</u>
	<u>30,818</u>	<u>97,219</u>

36. BASIC EARNINGS PER SHARE

Net profit after taxation	<u>295,900</u>	<u>284,156</u>
	Number of shares	
Average number of ordinary shares in issue during the year	<u>22,093,349</u>	<u>22,093,349</u>
Basic and diluted earnings per share	<u>Rs. 13.39</u>	<u>Rs. 12.86</u>



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For the year ended June 30, 2004

37. CASH GENERATED FROM OPERATIONS

	2004	2003
	Rupees in thousand	
Profit before taxation	326,718	381,375
Depreciation	90,618	82,459
Amortization of intangible assets	1,828	398
Adjustment arising from measurement to fair value	10,352	(22,149)
Provision against stock-in-trade and stores and spares	12,112	10,575
Reversal of provision against stock-in-trade	(9,345)	(3,727)
Liabilities written back	(160)	–
Reversal of provision against spare parts	–	(3,060)
Provision for workers welfare fund	1,027	5,553
(Reversal of provision) / provision against short term deposits and prepayments	–	(1,516)
Provision against other receivables	702	6,202
Provision for diminution in the value of investments	1,004	–
Provision for infrastructure fee	11,300	–
Exchange loss	184	2,678
Gain on sale of investments	(225,836)	(78,718)
Pension and gratuity expense	5,114	7,146
Financial charges	20,391	16,828
Deferred income	(569)	–
Gain on disposal of fixed assets	(2,542)	(1,136)
Dividend income	(53,681)	(37,447)
Return on deposits, advances and investments	(6,210)	(18,915)
Amortization of initial transaction cost	(4,066)	–
Insurance commission	(1,869)	–
Net loss on sales and lease back transaction	–	992
Working capital changes	37.1	1,932
	<u>95,939</u>	<u>349,470</u>

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37.1 Working capital changes

	2004	2003
	Rupees in thousand	
(Increase) / decrease in current assets		
Stores, spares and loose tools	(18,031)	20,495
Stock-in-trade	(38,120)	222,749
Trade debts	(9,940)	31,093
Short-term advances	117	(5,045)
Short-term deposits and prepayments	2,176	(2,065)
Other receivables (net)	(76,021)	8,485
	<u>(139,819)</u>	<u>275,712</u>
 Increase / (decrease) in current liabilities		
Creditors, accrued expenses and other liabilities (net)	<u>58,686</u>	<u>(273,780)</u>
	<u>(81,133)</u>	<u>1,932</u>

38. CASH AND CASH EQUIVALENTS

Short-term finances	9	(17,833)	(73,485)
Cash and bank balances	27	<u>18,014</u>	<u>27,514</u>
		<u>181</u>	<u>(45,971)</u>

39. STAFF RETIREMENT BENEFITS

39.1 The actuarial valuation has been conducted in accordance with IAS 19 "Employee benefits" as of June 30, 2004. The projected unit credit method based on the following significant assumptions is used for valuation of schemes mentioned below:

	2004	2003
	Percentage per annum	
S discount rate	8	8
S expected rate of increase in salaries	7	7
S expected rate of return on plan assets	11	11
S average working life of employees	10 years	10 years



NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

39.2 Amount recognized in balance sheet as follows:

	2004			2003		
	Pension	Gratuity	Total	Pension	Gratuity	Total
	Rupees in thousand					
Defined benefits obligations	(51,256)	(14,987)	(66,243)	(42,168)	(13,786)	(55,954)
Fair value of plan assets	46,024	18,024	64,048	34,046	12,911	46,957
Past service cost	5,828	2,285	8,113	6,556	2,475	9,031
Actuarial loss	3,051	(1,174)	1,877	5,655	679	6,334
Benefits payable	(71)	(1,584)	(1,655)	–	–	–
	<u>3,576</u>	<u>2,564</u>	<u>6,140</u>	<u>4,089</u>	<u>2,279</u>	<u>6,368</u>

39.3 Movements in the net assets recognized in the balance sheet are as follows:

Opening prepayments						
as at July 1	4,089	2,279	6,368	272	1,073	1,345
Expense	(4,007)	(1,107)	(5,114)	(5,200)	(1,946)	(7,146)
Company's contributions	3,494	1,392	4,886	9,017	3,152	12,169
	<u>3,576</u>	<u>2,564</u>	<u>6,140</u>	<u>4,089</u>	<u>2,279</u>	<u>6,368</u>

39.4 The following assets have been charged in the profit and loss account:

Current service cost	3,506	1,234	4,740	3,664	1,551	5,215
Interest cost	3,373	1,103	4,476	3,135	1,049	4,184
Expected return on assets	(3,745)	(1,420)	(5,165)	(2,326)	(844)	(3,170)
Actuarial gains and losses charged	144	–	144	–	–	–
Past service cost charged	729	190	919	727	190	917
Total amount chargeable to profit and loss account	<u>4,007</u>	<u>1,107</u>	<u>5,114</u>	<u>5,200</u>	<u>1,946</u>	<u>7,146</u>

39.5 The actual return on plan assets of pension and gratuity funds aggregated Rs. 9.02 million (2003: Rs. 4.69 million) and Rs. 3.58 million (2003: Rs. 2.19 million) respectively.

39.6 As determined by the actuary, the past service cost is being amortized over the period such benefit will be vested i.e. for pension 13 years and for gratuity 17 years from the date of transitional liability determined as on July 1, 1999.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

40. FINANCIAL ASSETS AND LIABILITIES

	Effective rate of interest / mark-up %	Interest/mark-up bearing				Non-interest/mark-up bearing				Total
		Maturity up to one year	Maturity after one year	Maturity after three years	Sub-total	Maturity up to one year	Maturity after one year	Maturity after three years	Sub-total	
Rupees in thousand										
Financial assets										
Investments	9.8 to 28.7	12,061	50,304	25,000	87,365	962,202	185,656	–	1,147,858	1,235,223
Security deposits		–	–	–	–	2,457	2,043	–	4,500	4,500
Trade debts		–	–	–	–	36,024	–	–	36,024	36,024
Short-term advances		–	–	–	–	2,500	–	–	2,500	2,500
Other receivables		–	–	–	–	93,386	–	–	93,386	93,386
Cash and bank balances	2.5 to 4	13,712	–	–	13,712	4,302	–	–	4,302	18,014
	2004	25,773	50,304	25,000	101,077	1,100,871	187,699	–	1,288,570	1,389,647
	2003	74,047	11,990	–	86,037	648,963	59,839	3,789	712,591	798,628
Financial liabilities										
Long-term loans	4.2	–	148,652	147,303	295,955	–	–	–	–	295,955
Liabilities against assets subject to finance leases	7.5 to 10.5	13,514	22,660	7,901	44,075	–	–	–	–	44,075
Short term finances	3.5 to 4.5	142,734	–	–	142,734	–	–	–	–	142,734
Creditors, accrued expenses and other liabilities		–	–	–	–	168,266	–	–	168,266	168,266
Proposed dividends		–	–	–	–	33,140	–	–	33,140	33,140
	2004	156,248	171,312	155,204	482,764	201,406	–	–	201,406	684,170
	2003	103,257	27,153	10,862	141,272	143,868	–	–	143,868	285,140
On-balance sheet gap :										
	2004	(130,475)	(121,008)	(130,204)	(381,687)	899,465	187,699	–	1,087,164	705,477
	2003	(29,210)	(15,163)	(10,862)	(55,235)	505,095	59,839	3,789	568,723	513,488
Off balance sheet items										
- financial commitments										
- Outstanding letters of credit										
		–	–	–	–	282,424	–	–	282,424	282,424

40.1 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. All financial assets of the company, except cash in hand, are exposed to credit risk. The company believes that it is not exposed to major concentration of credit risk. To manage exposure to credit risk, the company applies credit limits to its certain customers.

40.2 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currencies. The company incurs foreign currency risk on sales and purchases that are entered in a currency other than Pak Rupees. The company uses forward foreign exchange contracts to hedge its foreign currency risk, when considered appropriate. As at the year end the company had liabilities in foreign currencies aggregating Rs. 82.73 million (2003: Rs. 386 million) against which no forward exchange contracts were obtained.



Crescent Steel &
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

40.3 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair values.

40.4 Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The company is exposed to market risk with respect to its investments.

The company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in equity and term finance certificates (TFCs) markets. In addition, the company actively monitors the key factors that affect stocks and TFCs market movements.

41. REMUNERATION TO THE CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

	Chief Executive		Director		Executives		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	Rupees in thousand							
Managerial remuneration	3,789	3,224	1,860	1,320	20,063	15,246	25,712	19,790
House rent	1,705	1,451	837	594	8,553	6,757	11,095	8,802
Utilities	379	322	186	132	2,006	1,523	2,571	1,977
Traveling expenses	360	89	104	110	53	17	517	216
Others	708	868	–	–	161	103	869	971
Medical	58	79	49	59	767	601	874	739
Contribution to:								
- Provident fund	379	322	186	132	1,512	1,294	2,077	1,748
- Gratuity fund	267	234	130	96	947	805	1,344	1,135
- Pension fund	625	532	307	218	2,448	2,057	3,380	2,807
Club subscription and expenses	236	248	12	14	4	5	252	267
Entertainment	–	–	36	36	150	150	186	186
Conveyance	–	–	–	–	–	2	–	2
Telephone	–	–	12	12	31	31	43	43
	8,506	7,369	3,719	2,723	36,695	28,591	48,920	38,683
Number of persons	1	1	1	1	76	64	78	66

41.1 The aggregate amount charged in the account in respect of directors' fees paid to six (2003: six) directors was Rs. 140,000 (2003: Rs. 77,500).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

41.2 The chief executive, a director and eight executives are provided with free use of company maintained cars, according to their entitlements.

41.3 The chief executive, a director, executives and their families are also covered under group and hospitalization insurance.

42. TRANSACTIONS WITH RELATED PARTIES

All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes, as admissible, i.e. comparable uncontrolled price method except service charges received / paid on cost plus method. The related parties and associated undertakings comprise local associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings, other than remuneration and benefits to key management personnel under the terms of their employment disclosed elsewhere in these accounts, are as follows:

		2004			2003		
		Steel division	Cotton division	Total	Steel division	Cotton division	Total
Rupees in thousand							
Dividends received	32.1	6,476	–	6,476	6,167	–	6,167
Donations	31.4.1	6,234	3,333	9,567	4,096	2,980	7,076
Insurance commission	32	494	157	651	897	118	1,015
Insurance premium paid		7,325	2,290	9,615	7,079	1,558	8,637
Interest on long-term loans		–	–	–	–	1,334	1,334
Purchases		–	–	–	–	5,887	5,887
Return on deposits		777	–	777	4,135	–	4,135
Sale of fixed assets	12.3.2	–	600	600	–	105	105
Sale of pipes / yarn		5,401	74,705	80,106	1,934	16,266	18,200
Sale of raw cotton		–	–	–	–	7,503	7,503
Purchase of office premises		26,062	–	26,062	–	–	–
Service charges received		391	–	391	–	–	–
Service charges paid		4,270	4,586	8,856	–	1,648	1,648
Contribution to gratuity fund	39.3	1,392	–	1,392	3,152	–	3,152
Contribution to pension fund	39.3	3,133	361	3,494	8,549	468	9,017
Contribution to provident fund		2,423	–	2,423	2,172	–	2,172



Crescent Steel &
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2004

43. PLANT CAPACITY AND PRODUCTION

43.1 Steel division

Pipe plant

The plant's installed / rated capacity for production based on single shift is 30,000 tons (2003: 26,50 tons) annually on the basis of notional pipe size of 30" dia x 1/2" thickness. The actual production achieved during the year was 27,563 tons (2003: 43,229 tons) line pipes of varied sizes and thicknesses, which is equivalent to 44,412 tons (2003: 66,984 tons) if actual production is translated to the notional pipe size of 30" diameter.

Coating plant

The coating plant has a capacity of externally shot blasting and coating of line pipes with 3-layer high / medium density polyethylene coating at a rate of 250 square meters of surface area per hour on pipe sizes ranging from 219 to 1,067 mm outside dia and thickness ranging from 3 to 16 mm.

The annual capacity of the plant works out to 600,000 square meters outside surface of pipes based on notional size of 30" dia on single shift working. Coating of 150,932 meters of different dia pipes (259,629 square meters surface area) was achieved during the year (2003: 261,093 square meters surface area).

43.2 Cotton division

Spinning unit

The plant capacity converted to 20s count based on three shifts per day for 1,080 shifts is 6,452,874 kilograms. Actual production converted into 20s count was 6,170,987 kilograms.

43.3 The capacities of the plant were utilized to the extent of orders received.

44. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue in the board of directors' meeting held on August 27, 2004.

45. COMPARATIVES

Previous year's figures relating to musharika arrangements amounting to Rs. 26 million have been reclassified from cash and bank balances to short term investments (held to maturity) in order to give a more appropriate presentation of financial statements.


Chairman


Chief Executive

FORM "34" PATTERN OF HOLDING OF SHARES

Held by Shareholders as at June 30, 2004

NO. OF SHAREHOLDERS	SHAREHOLDING		TOTAL SHARES HELD
	FROM	TO	
264	1	100	10,999
518	101	500	128,942
134	501	1,000	97,066
222	1,001	5,000	523,651
74	5,001	10,000	539,399
40	10,001	15,000	478,317
25	15,001	20,000	436,461
10	20,001	25,000	232,125
5	25,001	30,000	132,144
5	30,001	35,000	161,203
3	35,001	40,000	109,168
4	40,001	45,000	172,614
5	45,001	50,000	248,984
8	50,001	55,000	421,470
2	55,001	60,000	114,304
4	60,001	65,000	246,998
1	65,001	70,000	65,753
1	80,001	85,000	83,647
3	85,001	90,000	263,497
1	90,001	95,000	93,104
3	95,001	100,000	298,560
4	100,001	105,000	414,804
1	110,001	115,000	111,673
1	115,001	120,000	115,400
1	125,001	130,000	125,293
1	145,001	150,000	146,100
2	165,001	170,000	335,053
1	170,001	175,000	174,800
1	175,001	180,000	177,749
1	195,001	200,000	200,000
2	215,001	220,000	431,610
1	230,001	235,000	234,100
1	255,001	260,000	258,550
1	290,001	295,000	294,000
1	300,001	305,000	300,027
1	345,001	350,000	346,431
1	385,001	390,000	388,000
1	415,001	420,000	419,650
1	420,001	425,000	425,000
1	465,001	470,000	466,677
1	510,001	515,000	514,823
1	630,001	635,000	632,250
1	775,001	780,000	777,900
1	820,001	825,000	825,000
1	1,075,001	1,080,000	1,078,281
1	1,175,001	1,180,000	1,176,000
1	1,350,001	1,355,000	1,350,079
1	2,425,001	2,430,000	2,429,909
1	3,085,001	3,090,000	3,085,784
1,365			22,093,349



Crescent Steel &
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FORM "34" PATTERN OF HOLDING OF SHARES

S. NO.	CATEGORIES OF SHAREHOLDERS	NO. OF SHAREHOLDERS	SHARES HELD	PERCENTAGE
1	Financial Institutions	16	6,916,058	31.30
2	Individuals	1,275	7,100,821	32.14
3	Insurance Companies	6	639,169	2.90
4	Investment Companies	5	180,863	0.82
5	Joint Stock Companies	51	5,841,671	26.44
6	Others	12	1,414,767	6.40
		1,365	22,093,349	100.00

PATTERN OF HOLDING OF SHARES

Held by Shareholders as at June 30, 2003

CATAGORIES OF SHAREHOLDERS	SHARES HELD	PERCENTAGE
a) Directors, Chief Executive Officer, Their Spouse And Minor Children		
Chief Executive \ Director		
Mr. Ahsan M. Saleem	65,753	0.30
Directors		
Mr. Javed Aslam Callea	550	0.00
Mr. Mazhar Karim	550	0.00
Mr. Nasir Shafi	13,222	0.06
Mr. S. M. Ehtishamullah	550	0.00
Mr. Zahid Bashir	44,830	0.20
Directors Spouse and Their Childern		
Mrs. Abida Mazhar	7,813	0.04
Mrs. Shahnaz A. Saleem	22,812	0.10
Executives		
Kh. Muhammad Sharif	16,728	0.08
Syed Ali Nazir Kazmi	6,691	0.03
	179,499	0.81
b) Associated Companies, Undertakings & Related Parties		
Asian Stocks Fund Limited	174,800	0.79
Crescent Commercial Bank Limited	826,131	3.74
Crescent Foundation	104,559	0.47
Crescent Jute Products Limited	88,000	0.40
Crescent Standard Business Management (Private) Limited	446	0.00
Crescent Standard Investment Bank Limited	1,400,685	6.34
Crescent Sugar Mills & Distt. Limited	777,900	3.52
Jubilee Energy (Private) Limited	9,624	0.04
Jubilee Spinning & Weaving Mills Limited	110	0.00
Muhammad Amin Muhammad Bashir Limited	323	0.00
Safeway Mutual Fund Limited	419,706	1.90
Shakarganj Mills Limited	350,027	1.59
The Crescent Textile Mills Limited	2,429,909	11.00
The Premier Insurance Company of Pakistan Limited	38,896	0.18
Trustees SML - Provident Fund Trust	62,600	0.28
	6,683,716	30.25
c) NIT & ICP (Name Wise Detail)		
Investment Corporation of Pakistan	5,792	0.03
National Bank of Pakistan, Trustee Deptt.	3,085,784	13.97
	3,091,576	14.00
d) Banks, DFI's, NBFi's		
Banks, DFI's, NBFi's	1,623,458	7.35
	1,623,458	7.35
e) Insurance Companies		
Insurance Companies	600,273	2.72
	600,273	2.72
f) Modaraba and Mutual Funds		
Modaraba and Mutual Funds	833,891	3.77
	833,891	3.77



Crescent Steel &
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PATTERN OF HOLDING OF SHARES

g)	Other Companies		
	Other Companies	<u>2,359,345</u>	<u>10.68</u>
		<u>2,359,345</u>	<u>10.68</u>
h)	Non Resident		
	Bankers Trust Company	107	0.00
	Baring Brothers (Guernsey) Limited	27	0.00
	Exchange Trading Limited	8,363	0.04
	HSBC International Trustee Limited	19	0.00
	Hong Kong Bank International Trustee Limited	159	0.00
	Islamic Development Bank	1,350,079	6.11
	Midland Bank Trust Corporation (Jersey) Limited	568	0.00
	Royal Trust Corporation Of Canada	13	0.00
	The Northern Trust Company	341	0.00
		<u>1,359,676</u>	<u>6.15</u>
i)	General Public		
	General Public	<u>5,361,915</u>	<u>24.27</u>
		<u>5,361,915</u>	<u>24.27</u>
		<u>22,093,349</u>	<u>100.00</u>
		<u>22,093,349</u>	<u>100.00</u>
	Shareholders More Than 10%		
	National Bank Of Pakistan,Trustee Deptt.	3,085,784	13.97
	The Crescent Textile Mills Limited	2,429,909	11.00
		<u>5,515,693</u>	<u>24.97</u>
		<u>5,515,693</u>	<u>24.97</u>



Crescent Steel &
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NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the 20th Annual General Meeting of the shareholders of CRESCENT STEEL AND ALLIED PRODUCTS LIMITED will be held on Thursday, September 30, 2004 at 3:00 p.m. at Qasr-e-Noor, Lahore to transact the following business:

ORDINARY BUSINESS:

1. To confirm the minutes of the preceding Meeting of the shareholders of the Company.
2. To receive, consider and adopt the audited accounts together with the Directors' and Auditors' reports thereon for the year ended June 30, 2004.
3. To consider and approve dividend for the year ended June 30, 2004 as recommended by the Directors of the Company as follows:
 - a) Two interim cash dividends at the rate of Re. 1.00 each (Rs. 2.00) and a final dividend of Rs. 1.50, making a total cash payout of Rs. 3.50 per Rs. 10.00 share (35%)
 - b) Bonus shares in proportion of one share for every 10 shares held i.e. 10%.
4. To appoint auditors and fix their remuneration.

SPECIAL BUSINESS:

5. To consider and pass the following resolutions as special resolutions under Section 208 of the Companies Ordinance, 1984:

“RESOLVED THAT approval of the Company be and is hereby accorded to invest an amount of Rs. 29,993,960 (Rupees twenty nine million nine hundred ninety three thousand nine hundred sixty only) through subscription of right of 2,999,396 listed cumulative redeemable preference shares of Shakarganj Mills Limited (“SML”), an associated undertaking of the Company.

RESOLVED FURTHER THAT the Chief Executive of the Company be and is hereby authorized to take any or all necessary actions to subscribe / purchase / acquire the listed cumulative redeemable preference shares and to dispose off the shares so purchased / subscribed / acquired as he thinks fit on behalf of the Company.”

“RESOLVED FURTHER THAT the change in name of MashreqBank Pakistan Limited (an associated undertaking in which Crescent Steel had invested an amount of Rs. 25 million) to Crescent Commercial Bank Limited be and is hereby noted.”

6. To consider and approve certain changes in the Memorandum and Articles of Association that are required to bring the same in line with the recent amendments in the Companies Ordinance, 1984 and other regulations and laws and in this connection to consider and, if thought fit, to pass the following resolution as a special resolution, with or without modification:

“RESOLVED THAT the approval of the Company be and is hereby accorded to alter the Memorandum of Association and Articles of Association of the Company, as per the attached black-lined draft reflecting the proposed changes.

RESOLVED FURTHER THAT the Chief Executive and Company Secretary of the Company be and are hereby authorized to do all acts, deeds and things, take any or all necessary actions to complete all legal formalities and file all necessary documents in this regard as they think fit on behalf of the Company.”

7. To seek the consent of shareholders for transmission of quarterly accounts through website in compliance with Section 245 of the Companies Ordinance, 1984 and Securities & Exchange Commission of Pakistan (SECP)



Crescent Steel &
Allied Products Ltd.

NOTICE OF ANNUAL GENERAL MEETING

Circular No. 19 of 2004 and if deemed fit pass the following resolution as special resolution:

“RESOLVED THAT the Company is hereby authorized to place its quarterly accounts on its website instead of sending the same to members by post, as allowed by the Securities & Exchange Commission of Pakistan vide its Circular No. 19 of 2004.”

By Order of the Board

Lahore,
August 27, 2004.

Tariq Aleem
Company Secretary

PARTICIPATION IN THE ANNUAL GENERAL MEETING

1. A member entitled to attend and vote at this meeting may appoint any other member as his / her proxy to attend and vote.
2. The instrument appointing a proxy and the power of attorney or other authority under which it is signed or a notarially attested copy of the power of attorney must be deposited at the Registered Office of the Company at least 48 hours before the time of Meeting.
3. Members, who have deposited their shares into Central Depository Company of Pakistan Limited, are being advised to bring their National Identity Card along with CDC Participant ID and account number at the Meeting venue.

If any proxies are granted by any such shareholders, the same must be accompanied with attested copies of the National Identity Card of the grantor and the signature on the proxy form should be the same as that appearing on the National Identity Card.

BOOK CLOSURE

The Share Transfer Books of the Company will remain closed from September 22 to 30, 2004 (both days inclusive). Transfers received in order at the Registered Office of the Company up to the close of business on September 21, 2004, will be considered in time to be eligible for payment of Final Dividend and issuance of Bonus to the Transferees.

STATEMENT UNDER SECTION 160(1)(b) OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts pertaining to the special business to be transacted at the 20th Annual General Meeting of the Company to be held on September 30, 2004.

A. INVESTMENT IN ASSOCIATED UNDERTAKINGS

The Company has a shareholding of 3,528,702 ordinary shares of Shakarganj Mills Limited (“SML”) an associated undertaking. SML has announced offering of listed cumulative redeemable preference shares as right to the existing ordinary shareholders in the ratio of 85 cumulative redeemable preference shares of Rs. 10 each for every 100 ordinary shares held by the shareholders. The Board of Directors of the Company (the “Board”), at their meeting held on August 27, 2004, have considered that the Company may subscribe its entitlement of 2,999,396 cumulative redeemable preference shares of Rs. 10/- each of SML.

In view of the above, the Board resolved unanimously to approve, and place before the shareholders at their general meeting for approval by special resolution, the proposed investment of Rs. 29,993,960 (Rupees twenty nine million nine hundred ninety three thousand nine hundred sixty only) in the listed cumulative redeemable preference shares of SML.

NOTICE OF ANNUAL GENERAL MEETING

Following are the material facts about the proposed special resolution:

	NAME OF THE INVESTEE COMPANY	SHAKARGANJ MILLS LIMITED (SML)
(i)	Nature, amount and extent of investment.	Rs. 29.994 million
(ii)	Dividend Rate	8.5 percent p.a.
(iii)	Tenure	5 years
(iv)	Price at which shares will be purchased.	Rs. 10/- per share
(v)	Redemption	At the end of 5th year from the date of issue along with any outstanding dividend payable.
(vi)	Source of funds from where shares will be purchased.	Own sources

B. CHANGES IN MEMORANDUM AND ARTICLES OF ASSOCIATION

The Board, at their meeting held on June 26, 2004, considered that due to the recent amendments in the Companies Ordinance, 1984 (the "Ordinance") through the Companies (Amendment) Ordinance, 2002, and the introduction of new company laws, including but not limited to the Central Depositories Act, 1997 and the rules made thereunder, the Code of Corporate Governance, the Electronic Transactions Ordinance, 2002, the Companies (Buy-Back of Shares) Rules, 1999, and the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000, certain clauses in the Memorandum and Articles of Association of the Company need to be altered.

In view of the above, the Board resolved unanimously to approve, and place before the shareholders at their general meeting for approval by special resolution, the proposed amendments to the Memorandum of Association and the Articles of Association of the Company so as to bring the Company's objects and its business in line with the new legal / regulatory requirements.

A black-lined draft reflecting the proposed amendments to the Memorandum and Articles of Association of the Company is annexed hereto.

C. PLACEMENT OF QUARTERLY ACCOUNTS ON WEBSITE

The Securities & Exchange Commission of Pakistan (SECP) vide Circular No. 19 of 2004 has allowed the listed companies to place the quarterly accounts on their websites instead of sending the same to each shareholder by post. We appreciate this decision which would ensure prompt disclosure of information to the shareholders, besides saving of costs associated with printing and despatch of the accounts by post.

The Company is maintaining its website www.crescent.com.pk. Prior permission of the SECP would be sought for transmitting the quarterly accounts through the Company's website after approval of the shareholders. The Company, however, will supply the printed copies of accounts to the shareholders on demand at their registered address, free of charge, within one week of receiving such a request.

The Directors of the Company have no interest in the special businesses and / or special resolutions, save to the extent of their shareholding in the Company or that some of the Directors and their relatives are also directors in SML.

A copy of the Memorandum and Articles of Association of the Company as on date and also indicating the proposed amendments is available for inspection at the Registered Office of the Company from 9.00 a.m. to 5.00 p.m. on any working day.



Crescent Steel &
Allied Products Ltd.

FORM OF PROXY

Folio No. _____ CDC Participant's Identity Card No _____ A/C. No. _____

I / We _____ of _____ a member/ members of
Crescent Steel & Allied Products Limited, and holder of _____ shares do hereby appoint
_____ of _____ or failing
him/her _____ of _____ who is
also a member of the Company, vide Registered Folio No. _____ as my / our
proxy to attend, speak and vote for me / us and on my / our behalf at the 20th Annual General Meeting of the Company to be held
on Thursday, September 30, 2004 at 3:00 p.m. at Qasr-e-Noor, Lahore and at any adjournment thereof.

As witness my / our hand this _____ day of _____ 2004.

Signature on
Five-Rupees
Revenue Stamp

The signature should agree
with the specimen registered
with the Company.

Dated:

Place:

Notes:

1. The Proxy Form should be deposited at our Registered Office, 4th Floor, Crescent Standard Tower, 10-B, Block E-2, Main Boulevard, Gulberg-III, Lahore, as soon as possible but not less than 48 hours before the time of holding the meeting and in default, the Proxy Form will not be treated as valid.
2. No person shall act as proxy unless he / she is a member of the company except a corporation being a member may appoint as its proxy any officer of such corporation whether a member of the company or not.

