

# REPORT & ACCOUNTS

(UN-AUDITED)

FOR THE HALF YEAR ENDED  
DECEMBER 31, 2009



**Emco Industries Limited**

# **REPORT & ACCOUNTS**

**(UN-AUDITED)**

**FOR THE HALF YEAR ENDED  
DECEMBER 31, 2009**



**Emco Industries Limited**

## *DIRECTOR'S REPORT*

Dear Shareholders

On behalf of the Board of Directors, I am pleased to present un-audited financial statement of the Company for the half year ended December 31, 2009.

Adverse economic conditions, very high rate of inflation as well as high interest rate, continuous disruption of power and gas supplies resulting in higher fuel cost has led to a considerable increase in the cost of doing business. Despite the substantial increase in sales and revenue in the period under review, your company has suffered a net loss after tax amounting to Rs. 17.124 Million as compared to net loss after tax of Rs. 59.814 Million for the same period last year.

The key highlights of the six months under review and plant wise performance are as under:

### Insulator Plant

There has been a decrease of Rs. 20.48 Million in the sales as compared to the previous period. However, keeping in view very high inventory in start of this financial year the management had planned a lower monthly production which will be raised again from March 2010. Keeping in view the new export orders which have been generated in the current period together with higher orders from all formations of WAPDA we expect improvement in results in the subsequent quarters.

### Wall Tile

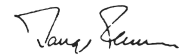
Wall tile plant shows considerable improvement in six months. Profit from operation is Rs. 68.712 million as compared to operating profit of Rs.19.603 million over the same period last year. The net sales have increased from Rs. 226.578 million to Rs.491.781 million over the same period last year. The average monthly production of plant has increased from 123,119 M<sup>2</sup> to 278,592 M<sup>2</sup>. We are expecting further improvement in the operating results of this division in coming quarters.

### Floor Tile

The operating profit of this plant is Rs.5.936 million as compared to operating loss of Rs. 11.421 million from the correspondence period. The average monthly production of this plant has increased from 56,402 M<sup>2</sup> to 75,064 M<sup>2</sup>. We are expecting improvement in the operating results of this division in coming quarter.

The Directors appreciate the hard work and dedication of all staff members of company at various levels. They are also grateful to the stake holders for their support and cooperation.

On behalf of board



(Tariq Rehman)  
Managing Director

Lahore  
February 26, 2010

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

### Introduction

We have reviewed the accompanying condensed interim balance sheet of EMCO Industries Limited as at December 31, 2009, and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement and condensed interim statement of changes in equity for the half year then ended (here-in-after referred to as the "interim financial statements"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account for the quarters ended December 31, 2009 and 2008 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2009.

### Scope of review

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

### Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial information as of and for the half year ended December 31, 2009 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Without qualifying our review report, we draw attention to note 2.3 to the condensed interim financial information which states that the continuation of the company as a going concern is dependent on its ability to attain satisfactory level of profitability in future and in the intervening period, continued support from sponsors. Management's plan in regard to this matter has been discussed in note 2.3 to the condensed interim financial information.

A. F. FERGUSON & Co.  
Chartered Accountants

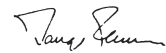
Lahore: February 26, 2010

## *CONDENSED INTERIM BALANCE SHEET*

	Note	December 31, 2009 Rupees	June 30, 2009 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Authorized capital 40,000,000 (June 2009: 40,000,000) ordinary shares of Rs 10 each		400,000,000	400,000,000
Issued, subscribed and paid up capital 35,000,000 (June 2009: 35,000,000) ordinary shares of Rs 10 each		350,000,000	350,000,000
Reserves		129,898,526	129,898,526
Accumulated loss		(370,109,704)	(361,357,337)
		109,788,822	118,541,189
<b>SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>		403,074,271	411,445,884
<b>NON-CURRENT LIABILITIES</b>			
Long term loans from directors - unsecured		74,570,569	74,570,569
Long term finances	4	379,041,582	428,301,887
Liabilities against assets subject to finance lease		14,038,850	16,315,641
Deferred liabilities		26,950,049	23,986,703
Deferred taxation		28,553,578	27,631,143
		523,154,628	570,805,943
<b>CURRENT LIABILITIES</b>			
Current portion of			
- Long term finances	4	130,952,030	71,136,169
- Liabilities against assets subject to finance lease		11,228,881	11,995,263
Short term borrowings from related parties - unsecured		28,049,709	17,324,801
Finances under mark up arrangements - secured		548,291,455	558,086,289
Trade and other payables		311,686,638	317,183,765
Accrued mark-up on loans and other payables		78,104,159	65,296,268
		1,108,312,872	1,041,022,555
<b>CONTINGENCIES AND COMMITMENTS</b>	6		
		2,144,330,594	2,141,815,571

The annexed notes 1 to 13 form an integral part of the condensed interim financial information.

Lahore  
February 26, 2010

  
 (Tariq Rehman)  
 Chief Executive

*(UN-AUDITED) AS AT DECEMBER 31, 2009*

	Note	December 31, 2009 Rupees	June 30, 2009 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	1,118,728,961	1,160,830,877
Assets subject to finance lease		39,693,301	39,869,002
Intangible assets		3,178,035	3,345,300
Capital work in progress		9,761,866	7,265,466
Long term deposits		5,030,393	7,218,688
Long term loans		2,580,210	2,275,750
		<u>1,178,972,766</u>	<u>1,220,805,083</u>
CURRENT ASSETS			
Stores, spares and loose tools		109,233,573	96,558,665
Stock-in-trade		436,995,208	437,345,036
Trade debts		334,903,830	278,969,594
Loans, advances, deposits, prepayments and other receivables		39,231,172	30,231,265
Taxation - net		29,141,097	19,288,567
Cash and bank balances		15,852,948	58,617,361
		<u>965,357,828</u>	<u>921,010,488</u>
		<u>2,144,330,594</u>	<u>2,141,815,571</u>



(Haris Noorani)  
Director

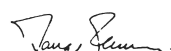
***CONDENSED INTERIM PROFIT AND LOSS ACCOUNT***  
***(UN-AUDITED)***

FOR THE HALF YEAR ENDED DECEMBER 31, 2009

	Notes	October to December		July to December	
		2009 Rupees	2008 Rupees	2009 Rupees	2008 Rupees
Sales		475,030,679	280,155,860	922,142,422	643,504,703
Cost of goods sold	7	(384,557,602)	(265,253,114)	(738,191,883)	(552,884,288)
Gross profit		90,473,077	14,902,746	183,950,539	90,620,415
Administration expenses		(21,056,699)	(15,719,867)	(37,340,485)	(30,819,575)
Distribution and selling costs		(31,949,524)	(22,370,725)	(64,938,740)	(49,989,249)
Other operating expenses		(1,969,902)	(6,201,661)	(3,002,820)	(6,312,283)
		(54,976,125)	(44,292,253)	(105,282,045)	(87,121,107)
Other operating income		35,496,952	(29,389,507)	78,668,494	3,499,308
		740,332	3,031,243	1,652,921	5,971,889
Profit / (Loss) from operations		36,237,284	(26,358,264)	80,321,415	9,471,197
Finance cost		(45,913,015)	(56,167,689)	(91,719,546)	(94,828,362)
Loss before taxation		(9,675,731)	(82,525,953)	(11,398,131)	(85,357,165)
Taxation		(3,490,287)	25,543,097	(5,725,846)	25,543,097
Loss after taxation		(13,166,018)	(56,982,856)	(17,123,977)	(59,814,068)
Loss per share					
- Basic and diluted		(0.38)	(1.63)	(0.49)	(1.71)

The annexed notes 1 to 13 form an integral part of the condensed interim financial information.

Lahore  
February 26, 2010



(Tariq Rehman)  
Chief Executive



(Haris Noorani)  
Director


***CONDENSED INTERIM STATEMENT OF  
COMPREHENSIVE INCOME (UN-AUDITED)***

FOR THE HALF YEAR ENDED DECEMBER 31, 2009

	October to December		July to December	
	2009	2008	2009	2008
	Rupees	Rupees	Rupees	Rupees
Loss after taxation	(13,166,018)	(56,982,856)	(17,123,977)	(59,814,068)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period	<u>(13,166,018)</u>	<u>(56,982,856)</u>	<u>(17,123,977)</u>	<u>(59,814,068)</u>

The annexed notes 1 to 13 form an integral part of the condensed interim financial information.

Lahore  
February 26, 2010

  
(Tariq Rehman)  
Chief Executive

  
(Haris Noorani)  
Director




**CONDENSED INTERIM CASH FLOW STATEMENT**  
**(UN-AUDITED)**

FOR THE HALF YEAR ENDED DECEMBER 31, 2009

	Notes	December 31, 2009 Rupees	December 31, 2008 Rupees
<b>Cash flow from operating activities</b>			
Cash generated from / (used in) operations	9	48,289,553	(84,462,869)
Finance cost paid		(78,781,090)	(56,872,091)
Taxes paid		(11,155,941)	(8,352,489)
Gratuity paid		(2,131,084)	(729,091)
<b>Net cash used in operating activities</b>		<b>(43,778,562)</b>	<b>(150,416,540)</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(2,581,703)	(84,711,164)
Net increase in long-term loans and other receivables		(1,081,920)	(581,110)
Net increase in long-term deposits		(1,148,600)	(4,026,473)
Proceeds from disposal of property, plant and equipment		-	1,154,748
<b>Net cash used in investing activities</b>		<b>(4,812,223)</b>	<b>(88,163,999)</b>
<b>Cash flow from financing activities</b>			
Proceeds from right issue		-	60,371,270
Long term finances - net		10,555,556	124,235,701
Short term loans - net		10,724,908	(35,502,597)
Lease rentals paid		(5,659,258)	(4,743,957)
<b>Net cash generated from financing activities</b>		<b>15,621,206</b>	<b>144,360,417</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(32,969,579)</b>	<b>(94,220,122)</b>
Cash and cash equivalents at the beginning of the period		(499,468,928)	(506,228,511)
<b>Cash and cash equivalents at the end of the period</b>	<b>10</b>	<b>(532,438,507)</b>	<b>(600,448,633)</b>

The annexed notes 1 to 13 form an integral part of the condensed interim financial information.

Lahore  
February 26, 2010

  
(Tariq Rehman)  
Chief Executive

  
(Haris Noorani)  
Director

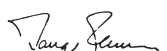
**CONDENSED INTERIM STATEMENT OF  
CHANGES IN EQUITY (UN-AUDITED)**

FOR THE HALF YEAR ENDED DECEMBER 31, 2009

	Share Capital Rupees	Share Premium Rupees	General Reserve Rupees	Accumulated Loss Rupees	Total Rupees
Balance as on June 30, 2008	153,333,330	39,898,526	90,000,000	(299,089,835)	(15,857,979)
Right issue @ 1.28 shares for each share held	196,666,670	-	-	-	196,666,670
Loss for the period	-	-	-	(59,814,068)	(59,814,068)
Transfer from surplus on revaluation of property, plant and equipment net of deferred taxation: - Incremental depreciation	-	-	-	14,338,542	14,338,542
Balance as on December 31, 2008	350,000,000	39,898,526	90,000,000	(344,565,361)	135,333,165
Loss for the period	-	-	-	(21,404,601)	(21,404,601)
Transfer from surplus on revaluation of property, plant and equipment net of deferred taxation: - Incremental depreciation	-	-	-	3,632,376	3,632,376
- Disposal of revalued assets	-	-	-	980,249	980,249
Balance as on June 30, 2009	350,000,000	39,898,526	90,000,000	(361,357,337)	118,541,189
Loss for the period	-	-	-	(17,123,977)	(17,123,977)
Transfer from surplus on revaluation of property, plant and equipment net of deferred taxation: - Incremental depreciation	-	-	-	8,371,611	8,371,611
Balance as on December 31, 2009	350,000,000	39,898,526	90,000,000	(370,109,703)	109,788,823

The annexed notes 1 to 13 form an integral part of the condensed interim financial information.

Lahore  
February 26, 2010



(Tariq Rehman)  
Chief Executive



(Haris Noorani)  
Director

***SELECTED NOTES TO CONDENSED INTERIM  
FINANCIAL INFORMATION (UN-AUDITED)***

FOR THE HALF YEAR ENDED DECEMBER 31, 2009

1. The condensed interim financial information is being submitted to the shareholders in accordance with the requirements of the Companies Ordinance, 1984.
2. The accounting policies adopted in preparation of the condensed interim financial information for the half year ended December 31, 2009 are same as those applied in the preparation of preceding annual published financial statements of the company for the year ended June 30, 2009, except for the matters mentioned below.
  - 2.1 The following amendments to existing standards are mandatory for the first time for the financial year beginning July 1, 2009.
    - IAS 1 (Revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, non-owner changes in equity) in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in performance statement. Companies can choose whether to present one performance statement (the statement of comprehensive income) or two statements (profit and loss account and statement of comprehensive income).

The company has preferred to present two statements; a profit and loss account and a statement of comprehensive income. The condensed interim financial information has been prepared under revised disclosure requirements.
    - IFRS 8, 'Operating segments'. It sets out requirements for disclosure of external segment reporting based on the internal reporting to the Group Executive Board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assess 'the performance of the reportable segments. The application of IFRS 8 does not have any material effect for the Company.

In addition to above IAS 23 (revised) 'Borrowing Costs' are mandatory for the first time for the financial year beginning July 1, 2009 however, its adoption does not have any significant impact on the financial information of the company.
  - 2.2 These financial statements have been prepared under the historical cost convention.
  - 2.3 The company has incurred a loss after taxation of Rs 17.1 million during the six months ended December 31, 2009 while the accumulated loss stands at Rs 370.1 million as at December 31, 2009. Current liabilities exceed current assets by Rs 142.9 million and the existing borrowing facilities are fully utilized. The company, in order to carry on its business without material curtailment of operations and to meet its current obligations requires improvement in operating margins and increase in sale volumes through increased production quantities which is dependent on availability of uninterrupted gas supply. Continuation of the company as a going concern is dependent on its ability to attain satisfactory level of profitability in future and in the intervening period, continued support from sponsors.

The management of the company is confident that it will be able to meet its obligations and carry on business without any curtailment based on the grounds that the company will be able to achieve satisfactory level of profitability in the future based on the plans drawn up by the management for this purpose, which include continued support from sponsors and increased profitability through higher sale volumes and improved operating margins.

This financial information consequently do not include any adjustments relating to the realization of its assets and liquidation of any liabilities that might be necessary should the company be unable to continue as a going concern.
3. This financial information has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting".

	December 31, 2009 Rupees	June 30, 2009 Rupees
4. Long term loans and liabilities		
Secured loans		
- Local currency loans	350,441,680	339,886,124
Unsecured loans from		
- Associated companies	15,951,139	15,951,139
Other payables		
- Payable to provident fund	143,600,793	143,600,793
	509,993,612	499,438,056
Less: Current portion shown under current liabilities		
- Secured loans (includes overdue principal amounting to Rs. 13,885 thousands)	112,780,189	60,968,811
- Unsecured loans (includes overdue principal amounting to Rs. 2,300 thousands)	8,277,272	5,115,692
- Other payables (includes overdue principal amounting to Rs. 6,000 thousands)	9,894,569	5,051,666
	130,952,030	71,136,169
	379,041,582	428,301,887
5. Property, plant and equipment		
Opening written down value	1,160,830,877	905,453,375
Add: Additions during the period	2,581,703	342,385,426
Transfers in during the period	-	11,128,000
	1,163,412,580	1,258,966,801
Less: Disposals during the period (at written down value)	-	14,174,047
Depreciation charged during the period	44,683,619	83,961,877
	44,683,619	98,135,924
	1,118,728,961	1,160,830,877
5.1 Additions during the period		
Building on freehold land	1,093,147	71,193,453
Plant and machinery	1,250,096	268,745,910
Tools and equipment	6,790	-
Office equipment	155,215	2,135,468
Furniture and fixtures	16,800	266,035
Vehicles	59,655	44,560
	2,581,703	342,385,426
6. Contingencies and commitments		
6.1 Contingencies		
There has been no material change in contingencies since last annual audited financial statements.		
6.2 Commitments in respect of		
(i) Letters of credit other than capital expenditure Rs 60.629 million (June 2009: Rs 52.380 million).		
(ii) Bank guarantees amounting to Rs 136.507 million (June 2009: Rs 141.018 million).		

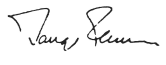
7. Cost of goods sold

	October to December		July to December	
	2009 Rupees	2008 Rupees	2009 Rupees	2008 Rupees
Raw materials and components consumed	184,694,293	100,340,759	340,734,775	247,788,880
Stores and spares consumed	31,074,699	36,007,521	53,910,400	65,622,856
Salaries, wages and benefits	63,004,374	60,443,638	120,294,280	119,435,062
Power	23,580,770	12,339,191	47,442,950	32,799,541
Gas	57,585,423	27,223,637	107,622,041	63,347,805
Depreciation	22,435,862	7,583,341	43,643,291	26,743,737
Depreciation of leased assets	839,476	571,001	1,384,113	1,142,016
Insurance	660,322	612,419	1,252,070	1,228,487
Communication and stationery	524,411	525,086	947,686	911,888
Rent, rates and taxes	3,403,673	3,060,805	7,458,802	4,680,459
Travelling and conveyance	960,488	1,079,577	2,172,694	2,881,236
Others	2,389,723	4,882,067	7,464,273	8,706,405
	391,153,514	254,669,042	734,327,375	575,288,372
Add: Opening work in process	34,451,841	31,928,049	26,962,783	33,596,152
	425,605,355	286,597,091	761,290,158	608,884,524
Less: Closing work in process	39,861,431	33,726,962	39,861,431	33,726,962
Cost of goods produced	385,743,924	252,870,129	721,428,727	575,157,562
Add: Opening stock of finished goods	234,105,830	180,118,247	251,908,976	140,983,138
	619,849,754	432,988,376	973,337,703	716,140,700
Less: Closing stock of finished goods	235,010,601	171,417,709	235,010,601	171,417,709
Cost of goods sold - own manufactured	384,839,153	261,570,667	738,327,102	544,722,991
Cost of goods sold - purchased for resale	(281,551)	3,682,447	(135,219)	8,161,297
	384,557,602	265,253,114	738,191,883	552,884,288



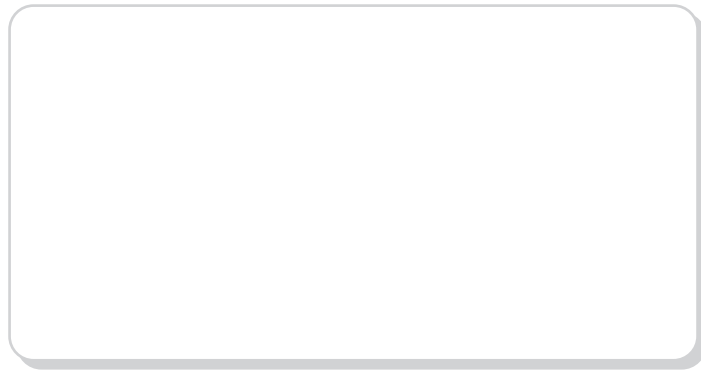
	December 31, 2009 Rupees	December 31, 2008 Rupees
9. Cash used in operations		
Loss before taxation	(11,398,131)	(85,357,165)
Add:		
Depreciation	44,683,619	28,051,377
Depreciation of leased assets	2,017,700	2,383,696
Amortization of intangibles	167,265	185,000
Provision for gratuity	4,963,864	2,799,686
Provision for doubtful receivables	3,476,679	2,211,315
Provision for obsolete stocks	883,189	2,034,054
Loss on sale of fixed assets	-	5,608,039
Financial charges	91,719,546	94,828,362
	147,911,862	138,101,529
Profit before working capital changes	136,513,731	52,744,364
Effect on cash flow due to working capital changes:		
- Increase in stores and spares	(12,674,908)	(17,128,867)
- Increase in stock-in-trade	(533,361)	(93,363,995)
- Increase in trade debts	(59,410,915)	(44,990,764)
- Increase in loans, advances, deposits, prepayments and other receivables	(10,208,247)	(10,404,456)
- (Decrease)/ Increase in creditors, accrued and other liabilities	(5,396,747)	28,680,849
	(88,224,178)	(137,207,233)
	48,289,553	(84,462,869)
10. Cash and cash equivalents		
Cash and bank balances	15,852,948	14,478,527
Finances under mark-up arrangements - secured	(548,291,455)	(614,927,160)
	(532,438,507)	(600,448,633)
11. Transactions with related parties		
Sale of goods	310,017	410,425
Goods purchased	1,883,312	38,850
Services rendered	-	150,000
Short term borrowings obtained	15,350,000	1,000,000
Short term borrowings repaid	4,620,092	-
Long term finances obtained	-	130,500,000
Mark-up on long term loans	11,959,520	5,333,412
Rent Paid	3,000,000	-
12. Date of authorization for issue		
These financial statements were authorised for issue on February 26, 2010 by the Board of Directors of the company.		
13. Corresponding figures		
Corresponding figures have been rearranged, wherever necessary, for the purposes of comparison. However, no significant re-arrangements have been made.		

Lahore  
February 26, 2010

  
(Tariq Rehman)  
Chief Executive

  
(Haris Noorani)  
Director

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