

**ACCOUNTS FOR THE QUARTER & HALF YEAR  
ENDED 31st DECEMBER 2004**

**BIAFO INDUSTRIES LIMITED**  
**DIRECTORS' REPORT FOR THE QUARTER ENDED DCEMBER, 2004**

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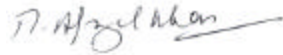
Your Directors are pleased to submit the unaudited accounts for the quarter October,2004 to December, 2004 .

The overall net sales of your company for the quarter were nearly Rs.58.00 million as against the sales of Rs.43.822 million of comparable quarter for the last year. Similarly for the half year, the net sales were over Rs.102.00 million i.e. an increase of 21%over the last half year. The increase in sales is the result of substantial increases to general customers particularly the cement industry & also sales to the Saindak project.

The profit for the quarter is Rs10.463 million & for the half year Rs.18.093 million.

As reported for the last quarter there is a substantial increase in the cost of raw materials worldwide yet there is no commensurate increase in the sale prices of our products. The management continues efforts to control costs but with this disparity margins will be effected. No new projects started during this quarter but there are signs of a new start in the hydel sector & the mining industry in Balochistan

Your Board takes this opportunity to again express its appreciation to all its employees for their hard work and continuing efforts in working under great pressure.



**M. Afzal Khan**  
Chairman

**Islamabad**  
February 24, 2005

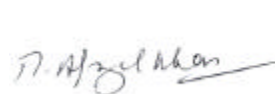
**BIAFO INDUSTRIES LIMITED**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2004**

	Note	31 Dec 2004 Un-audited Rupees '000'	30 June 2004 Audited Rupees '000'
<b>FIXED ASSETS - tangible</b>			
Property, plant and equipment	3	277,790	282,299
<b>LONG TERM DEPOSITS</b>		526	526
		<b>278,316</b>	<b>282,825</b>
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools		6,253	5,854
Stock in trade		27,993	23,450
Trade debts	4	36,356	33,681
Advances		1,954	1,372
Trade deposits and short term prepayments		1,328	843
Income tax		5,003	5,388
Other receivables		12	12
Cash and bank balances		3,866	1,232
		<b>82,765</b>	<b>71,832</b>
<b>CURRENT LIABILITIES</b>			
Current portion of:			
Long term financing	6.2	11,939	9,593
Liabilities against assets subject to finance lease		702	968
Short term borrowing		25,024	21,103
Trade and other payables	5	23,274	22,271
Markup accrued on loans		547	567
Proposed dividend		-	8,000
		<b>61,486</b>	<b>62,502</b>
<b>NET CURRENT ASSETS</b>		<b>21,279</b>	<b>9,330</b>
<b>PROVISION FOR STAFF RETIREMENT BENEFITS</b>		<b>3,127</b>	<b>2,893</b>
<b>DEFERRED TAXATION</b>		<b>29,999</b>	<b>30,476</b>
<b>LONG TERM FINANCING</b>	6	<b>82,758</b>	<b>92,964</b>
<b>LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>		<b>964</b>	<b>1,168</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	7	<b>-</b>	<b>-</b>
		<b>182,747</b>	<b>164,654</b>
<b>REPRESENTED BY:</b>			
Issued, subscribed and paid up capital			
20,000,000 ordinary shares of Rs 10 each fully paid-up in cash		200,000	200,000
Accumulated loss		(77,709)	(96,689)
<b>SHARE CAPITAL AND RESERVES</b>		<b>122,291</b>	<b>103,311</b>
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>	8	<b>60,456</b>	<b>61,343</b>
		<b>182,747</b>	<b>164,654</b>

The annexed notes 1 to 12 form an integral part of these financial statements.

These financial statements were authorized for issue by the Board of Directors of the Company in their meeting held on 24 February 2005.

February 24, 2005  
Islamabad



Director



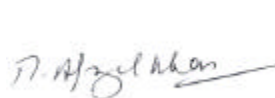
Chief Executive

**BIAFO INDUSTRIES LIMITED**  
**PROFIT AND LOSS ACCOUNT (UN-AUDITED)**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2004**

	Quarter Ended		Six Months Ended	
	31 Dec 2004 Rupees '000'	31 Dec 2003 Rupees '000'	31 Dec 2004 Rupees '000'	31 Dec 2003 Rupees '000'
<b>GROSS SALES</b>	<b>77,200</b>	56,415	<b>135,185</b>	111,128
Less: Sales tax	<b>6,478</b>	4,271	<b>11,304</b>	9,117
Discount and commission	<b>12,735</b>	8,322	<b>21,341</b>	17,162
<b>NET SALES</b>	<b>57,987</b>	43,822	<b>102,540</b>	84,849
Less: Cost of sales	<b>40,462</b>	29,148	<b>70,418</b>	56,806
<b>GROSS PROFIT</b>	<b>17,525</b>	14,674	<b>32,122</b>	28,043
Other operating income	-	327	-	327
	<b>17,525</b>	15,001	<b>32,122</b>	28,370
Distribution cost	<b>1,342</b>	3,282	<b>2,830</b>	4,208
Administrative expenses	<b>2,384</b>	1,935	<b>4,822</b>	3,466
<b>PROFIT FROM OPERATIONS</b>	<b>13,799</b>	9,784	<b>24,470</b>	20,696
Finance cost	<b>2,678</b>	2,705	<b>5,242</b>	5,637
PROFIT FOR THE PERIOD	<b>11,121</b>	7,079	<b>19,228</b>	15,059
<b>WORKERS' PROFIT PARTICIPATION FUND</b>	<b>556</b>	753	<b>961</b>	753
<b>PROFIT BEFORE TAXATION</b>	<b>10,565</b>	6,326	<b>18,267</b>	14,306
Taxation				
Current	<b>(365)</b>	(302)	<b>(651)</b>	(560)
Deferred	<b>263</b>	164	<b>477</b>	328
	<b>(102)</b>	(138)	<b>(174)</b>	(232)
<b>PROFIT AFTER TAXATION</b>	<b>10,463</b>	6,188	<b>18,093</b>	14,074
<b>EARNINGS PER SHARE - BASIC</b>	<b>0.52</b>	0.31	<b>0.90</b>	0.70

The annexed notes 1 to 12 form an integral part of these financial statements.

February 24, 2005  
 Islamabad



Director



Chief Executive

**BIAFO INDUSTRIES LIMITED**  
**CASH FLOW STATEMENT (UN-AUDITED)**  
**FOR THE SIX MONTH ENDED 31 DECEMBER 2004**

	Six months ended	
	31 Dec 2004	31 Dec 2003
	Rupees '000'	Rupees '000'
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	18,267	14,306
Adjustments for:		
Depreciation	5,076	3,805
Finance cost	5,242	5,637
Provision for Workers Profit Participation Fund	961	753
Bad Debts written off	132	335
Provision for doubtful trade debts	25	1,475
Provision for staff retirement benefits	431	143
Gain on sale of fixed assets	-	(325)
Operating profit before working capital changes	<u>11,867</u>	<u>11,823</u>
Working capital changes		
(Increase)/decrease in store, spares and loose tools	(399)	62
(Increase)/decrease in stock in trade	(4,543)	4,258
Increase in trade debts	(2,832)	(15,202)
Increase in advances	(582)	(644)
Increase in trade deposits and short term prepayments	(485)	(1,336)
Decrease in other receivables	-	31
Decrease in trade and other payables	(7)	(6,363)
Cash generated from operations	<u>21,286</u>	<u>6,935</u>
Finance cost paid	(5,214)	(2,563)
Retirement benefits paid	(197)	(14)
Taxes paid	(266)	(1,860)
<b>Net cash generated from operating activities</b>	<u>15,609</u>	<u>2,498</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(567)	(77)
Proceeds from sale of fixed assets	-	425
Capital work in progress	-	(661)
<b>Net cash used in investing activities</b>	<u>(567)</u>	<u>(313)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of finance lease liabilities	(469)	(551)
Payment of long term financing	(7,860)	(7,923)
Payment of dividend	(8,000)	-
<b>Net cash used in financing activities</b>	<u>(16,329)</u>	<u>(8,474)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(1,287)</u>	<u>(6,289)</u>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<u>(19,871)</u>	<u>(21,202)</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<u><u>(21,158)</u></u>	<u><u>(27,491)</u></u>

The annexed notes 1 to 12 form an integral part of these financial statements.

February 24, 2005  
 Islamabad

*P. Afzal Khan*

Director

*[Signature]*

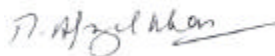
Chief Executive

**BIAFO INDUSTRIES LIMITED**  
**STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)**  
**FOR THE SIX MONTH ENDED 31 DECEMBER 2004**

	<b>Issued, subscribed and paid up capital</b>	<b>Accumulated loss</b>	<b>Total</b>
	<b>Rupees '000'</b>	<b>Rupees '000'</b>	<b>Rupees '000'</b>
Balance as at 01 July 2003	200,000	(113,766)	86,234
Profit for the period	-	14,074	14,074
Incremental depreciation on surplus on revaluation of fixed assets during the six months' period - net of deferred tax	-	610	610
Balance as at 31 December 2003	<u>200,000</u>	<u>(99,082)</u>	<u>100,918</u>
Balance as at 01 July 2004	200,000	(96,689)	103,311
Profit for the period	-	18,093	18,093
Incremental depreciation on surplus on revaluation of fixed assets during the six months' period - net of deferred tax	-	887	887
Balance as at 31 December 2004	<u>200,000</u>	<u>(77,709)</u>	<u>122,291</u>

The annexed notes 1 to 12 form an integral part of these financial statements.

February 24, 2005  
Islamabad



**Director**



**Chief Executive**

**BIAFO INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2004**

**1. Status and operations**

BIAFO Industries Limited ("the Company") was incorporated in Pakistan on 07 September 1998 as a public limited company under the Companies Ordinance, 1984 and its shares are quoted on the Karachi and Islamabad Stock Exchanges. The Company started its commercial production on 01 July 1994 and is principally engaged in the manufacturing of commercial explosives and blasting accessories including detonator and other materials. The Company has set up its industrial undertaking in Hattar Industrial Estate N.W.F.P. with its registered office in Islamabad, Pakistan.

**2. Basis of preparation**

- 2.1** These financial statements have been prepared in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting" as applicable in Pakistan.
- 2.2** These financial statements are un-audited and are being submitted to the shareholders as required under Section 245 of the Companies Ordinance, 1984.
- 2.3** The accounting policies adopted for the preparation of these financial statements are the same as those applied in the preparation of annual financial statements of the Company for the preceding year ended 30 June 2004, except for the change as referred in note 2.4.
- 2.4** Dividend is recognized as a liability in the period in which it is declared. Up to the previous period, dividends proposed after the balance sheet date but before the financial statements were authorized for issue were recorded as a liability. The change has been necessitated by revision in the Fourth Schedule to the Companies Ordinance, 1984. Proforma information required under International Accounting Standard 8: "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" is presented in note 11 to the financial statements.

**3. PROPERTY, PLANT AND EQUIPMENT**

	<b>Six months ended</b>	
	<b>31 Dec 2004</b>	<b>31 Dec 2003</b>
	<b>Rupees '000'</b>	<b>Rupees '000'</b>
Opening book value	<b>282,299</b>	292,351
Add: Additions during the period	<u><b>567</b></u>	<u>77</u>
	<b>282,866</b>	292,428
Less: Disposals during the period at book value	<u>-</u>	<u>95</u>
Depreciation	<u><b>5,076</b></u>	<u>3,805</u>
	<b>5,076</b>	3,900
Closing book value	<u><u><b>277,790</b></u></u>	<u><u>288,528</u></u>

Land, building and plant and machinery of the Company were revalued on 12 July 2003 by an independent valuer Resource & Assets Management International under the market value basis. The current revalued amounts approximate the carrying value of land, building and plant and machinery. The management is considering to carry out a detailed technical valuation exercise during the current financial year.

**4. TRADE DEBTS - Unsecured**

	<b>31 Dec 2004</b>	<b>30 June 2004</b>
	<b>Rupees '000'</b>	<b>Rupees '000'</b>
Considered good	<u><b>36,356</b></u>	<u>33,681</u>
Considered doubtful	<u><b>1,617</b></u>	<u>1,592</u>
	<b>37,973</b>	35,273
Less: Provision for doubtful debts	<u><b>(1,617)</b></u>	<u>(1,592)</u>
	<u><u><b>36,356</b></u></u>	<u><u>33,681</u></u>

**5. TRADE AND OTHER PAYABLES**

These include amounts due to an associated undertaking of Rs. 1,033 (30 June 2004: Rs. 1,034).

**BIAFO INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2004**

	31 Dec 2004 Rupees '000'	30 June 2004 Rupees '000'
<b>6. LONG TERM FINANCING</b>		
<b>Loans from financial institutions - secured</b>		
- Habib Bank Limited (6.1)	39,458	46,181
- ABN Amro Bank	33,913	34,203
	<u>73,371</u>	<u>80,384</u>
<b>Loans from related party</b>		
- Loans from directors & shareholders - unsecured	9,387	9,387
- Consultancy charges:		
Balance payable	3,193	6,386
Exchange difference	154	-
Transferred to current maturity	(3,347)	(3,193)
	<u>-</u>	<u>3,193</u>
	<u>82,758</u>	<u>92,964</u>
<b>6.1 Habib Bank Limited</b>		
Opening Balance		
Demand Finance - I	40,082	48,412
Demand Finance - II	12,500	16,072
	<u>52,582</u>	<u>64,484</u>
Less:		
Repaid during the year	(6,395)	(11,902)
Transferred to current maturity	(6,729)	(6,401)
	<u>(13,124)</u>	<u>(18,303)</u>
	<u>39,458</u>	<u>46,181</u>
<b>6.2 Current portion of long term financing</b>		
These are made-up of		
Long term loans from financial institution - secured	6,729	6,400
Consultancy charges	5,210	3,193
	<u>11,939</u>	<u>9,593</u>
<b>7. CONTINGENCIES AND COMMITMENTS</b>		
<b>7.1</b>	Industrial Estate Hattar of Sarhad Development Authority (NWFP) has raised an additional demand of Rs. 6,203,400 against the Company relating to additional payment to be made to original owners of the land for which lease was signed and full payment was made in 1991. The Company has not acknowledged the claim and has filed an appeal against the demand before the Civil Judge, Haripur. The court has stayed the demand and the matter is pending adjudication. Management of the Company is confident of a favourable outcome of this case.	
<b>7.2</b>	Outstanding Letters of credit opened by a bank on behalf of the Company for import of raw materials amounting to Rs. 13.912 million (30 June 2004: Rs. 12.204 million) at the period end.	
<b>7.3</b>	Refer note 10 for contingencies related to tax matters.	

**BIAFO INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2004**

	31 Dec 2004 Rupees '000'	30 June 2004 Rupees '000'
<b>8. SURPLUS ON REVALUATION OF FIXED ASSETS</b>		
Opening Balance	91,819	94,547
Transferred to accumulated losses in respect of incremental depreciation charged during the period/year - net of deferred tax	(887)	(1,773)
Related deferred tax liability	(477)	(955)
	<u>(1,364)</u>	<u>(2,728)</u>
	90,455	91,819
Less: Provision for deferred taxation on depreciable surplus	<u>(29,999)</u>	<u>(30,476)</u>
	<u>60,456</u>	<u>61,343</u>

**9. TRANSACTIONS WITH RELATED PARTIES**

Related parties comprise directors, key management personnel, key shareholders, entities over which the directors are able to exercise influence and employees' fund. Balances with related parties are shown else where in the financial statements. The Company has a policy whereby all transactions with related parties are entered into at arm's length prices generally determined under the "Comparable Uncontrolled Price Method". Transactions with related parties other than remuneration and benefits to directors and key management personnel under the terms of their employment are as follows:

	Six months ended	
	31 Dec 2004 Rupees '000'	31 Dec 2003 Rupees '000'
Sale of explosives to Majid Enterprises- sole proprietorship concern of a director of the Company	1,148	965
Mark up on loans from directors and shareholders	473	504
Payment to employees' provident fund	242	179
Charges for consultancy services of Orient Trading Limited	311	0

**10. PROVISION FOR TAXATION**

**10.1** In view of taxable loss incurred for the six months period ended 31 December 2004, the Company is only liable to pay tax required under section 113 of the Income Tax Ordinance, 2001 at the rate of one-half of one percent of local sales and one percent of export sales.

Tax authorities have finalized assessments of the Company up to and including the assessment year 2001-2002 (income year ended 30 June 2001).

While finalizing assessment for the assessment year 2001-2002, the taxation officer created tax demand of Rs. 0.4 million by the following historic pattern of assessment, as he determined taxable income from other sources without accounting for impact of unabsorbed depreciation brought forward from previous years. Besides, the taxation officer also did not allow credit for advance tax payment made and deductions suffered at source. The Company's appeal against the assessment order is pending disposal before the Commissioner (Appeals). The Company has also filed application with the taxation officer for rectification of mistakes apparent from record. This application is also not disposed off yet.

Tax assessments for assessment years 1997-1998 and 1998-1999 have been finalized and aggregate tax loss has been determined at Rs. 65 million, while tax loss for the assessment year 1999-2000 has been assessed at Rs. 5.5 million. The Company has filed a rectification application for the assessment year on mistakes apparent from record which will increase the tax loss by Rs. 31.5 million. The application has not yet been disposed off by the taxation officer.

The management is confident of favourable outcome of its appeals/applications to tax and appellate authorities and, accordingly, provision has not been made in these accounts for any adverse tax impact of these matters.

**10.2** Tax assessments for the years 1995-1996 and 1996-1997 were finalized at nil income against claims filed for tax losses. The Company has moved applications for rectification of mistakes apparent from the record and to claim unabsorbed depreciation for these years amounting to Rs. 97 million. The Company is also in the process of filing application to the Commissioner to exercise his revision jurisdiction under the relevant legal provisions for allowing unabsorbed depreciation for these years to the Company.

Management is of the view that the Company's contention in this regard holds merit and has, therefore, not provided for the deferred tax liability amounting to Rs. 31,637,314.

**10.3** In view of the uncertainty about the availability of tax losses adjustable against future profits, the Company has not recognized the deferred tax asset and therefore, has created an equivalent amount of revaluation reserve against deferred tax asset amounting to Rs. 2,192,363. These losses have arisen primarily on account of unabsorbed depreciation, which has unlimited life.

**BIAFO INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2004**

**11. Re-stated proforma information**

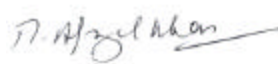
Statement of retained earnings	Actual		Proforma	
	31 Dec 2004	31 Dec 2003	Restated 31 Dec 2004	Restated 31 Dec 2003
	Rupees			
Opening balance as at July, 01 as previously reported	(96,689)	(113,766)	(96,689)	(113,766)
Change in accounting policy - Proposed final dividend	-	-	8,000	-
Opening balance as at July, 01 restated	(96,689)	(113,766)	(88,689)	(113,766)
Profit for the period	18,093	14,074	18,093	14,074
Incremental depreciation on surplus on revaluation of fixed assets during the six months period - net of deferred tax	887	610	887	610
Dividend	-	-	(8,000)	-
Closing balance as at December 31, 2004	<u>(77,709)</u>	<u>(99,082)</u>	<u>(77,709)</u>	<u>(99,082)</u>

**12. GENERAL**

12.1 Figures have been rounded off to the nearest thousand of rupees.

12.2 Due to revision of fourth schedule to the Companies Ordinance, 1984 by the Securities and Exchange Commission of Pakistan vide SRO 589(1)/2004 dated July 5, 2004, previous period's figures have been rearranged and/or reclassified, wherever necessary, for the purpose of comparison.

February 24, 2005  
 Islamabad



Director



Chief Executive