

## CORPORATE INFORMATION

**Board** **Vice Admiral (Retd) S. Tauquir H. Naqvi**  
HI(M), S. Bt.

Chairman

**Mr. S. Haider Abbas Rizvi, MNA**

Director

**Mr. Kamal Afsar**

Director

**Mr. Tauqir Ahmed**

Director

**Mr. Sheikh Manzar Alam**

Director

**Mr. Mohammad Khusrow Khowaja**

Director

**Mr. Jahangir Siddiqui**

Director

**Audit Committee of the Board**

**Mr. S. Haider Abbas Rizvi**

- Chairman

**Mr. Mohammad Khusrow Khowaja**

- Member

**Mr. Jahangir Siddiqui**

- Member

**Mr. Sheikh Manzar Alam**

- Member

**Secretary**

**Mr. Arif Saeed**

**Head Office**

**PNSC Building**

Moulvi Tamizuddin Khan Road,

Karachi - 74000

**Auditors**

**A. F. Ferguson & Co.**

Chartered Accountants

**Ford Rhodes Sidat Hyder & Co.**

Chartered Accountants

**Bankers**

**National Bank of Pakistan**

**Habib Bank Limited**

**United Bank Limited**

# PAKISTAN NATIONAL SHIPPING CORPORATION

## DIRECTORS' REPORT FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2005

The Directors of Pakistan National Shipping Corporation (PNSC) are pleased to present the accounts of PNSC group for the half year ended December 31, 2005. In accordance with the statutory requirements, the external auditors have carried out a limited review of PNSC accounts.

The Corporation achieved a gross profit of Rs. 193.96 million for the quarter ended December 31, 2005 making a total of Rs. 474.51 million for the half year under review, as against Rs. 342.35 million for the half year ended December 31, 2004. This increase in gross profit was largely on account of income generated from the slot hire by PNSC. The operating profit for the quarter ended December 31, 2005 stood at Rs. 251.04 million as against Rs. 124.38 million of the same period last year. Similarly the operating profit for the half year of Rs. 577.68 million is higher by Rs 329.76 million which was Rs. 247.92 million for the half year ended December 31, 2004.

The contribution from subsidiary companies as share of profits stood at Rs 221.01 million for the quarter under review as compared to Rs 656.79 million of the same period last year. As a result, the Corporation achieved Profit before Taxation of Rs. 454.56 million for the quarter ended December 31, 2005 (Rs. 755.06 million for same period last year) and of Rs. 844.51 million for the half year under review. The above decrease in contribution from the subsidiaries was mainly due to the decrease in the international dry cargo freight rates, increase in bunker prices, insurance cost and depreciation. The increase in depreciation and insurance is due to the fact that the subsidiary companies vessel were revalued last year. The revaluation has had a substantial negative impact on the operating results of the subsidiary companies.

The consolidated gross profit for the Group for the quarter ended December 31, 2005 was Rs. 521.58 million, making a total of Rs. 1,017.98 million for the half year under review, as against Rs. 1,189.24 million for the half year ended December 31, 2004. Similarly, the consolidated Profit before Taxation for the half year ended December 31, 2005 was Rs. 895.16 million as against Rs. 1,081.99 million for the corresponding period last year.

### Future Outlook

The Corporation has added one Bulk Carrier M.V. Kaghan to the fleet it manages and it is expected that one tanker will also be added. Further, the continued increase in the cost of bunkers and the decrease in international dry cargo freight rates alongwith the already high depreciation and insurance costs, additional pressure is likely to be put on the operating results of the Group.

**Vice Admiral (Retd) S. Tauquir H. Naqvi**  
Chairman and Chief Executive

Karachi : March 08, 2006

**A. F. FERGUSON & CO.  
CHARTERED ACCOUNTANTS  
STATE LIFE BUILDING 1-C I. I. CHUNDRIGAR ROAD  
KARACHI**

**FORD RHODES SIDAT HYDER & CO.  
CHARTERED ACCOUNTANTS  
PROGRESSIVE PLAZA  
BEAUMONT ROAD  
KARACHI**

## **REVIEW REPORT TO THE MEMBERS**

We have reviewed the annexed balance sheet of Pakistan National Shipping Corporation (the Corporation) as at December 31, 2005, and the related profit and loss account, statement of changes in equity and statement of cash flows together with the notes forming part thereof (here-in-after referred to as the "financial statements"), for the six months period then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our review. The figures of the profit and loss account for the quarters ended December 31, 2004 and 2005 have not been reviewed as we are required to review only the cumulative figures for the six months period ended December 31, 2005.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of the Corporation's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the annexed financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

**A. F. FERGUSON & CO.  
CHARTERED ACCOUNTANTS  
KARACHI**

**FORD RHODES SIDAT HYDER & CO.  
CHARTERED ACCOUNTANTS  
KARACHI**

Karachi : March 08, 2006

**PAKISTAN NATIONAL SHIPPING CORPORATION**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2005**

	(Unaudited) December 31, 2005	(Audited) June 30, 2005
Note	------(Rupees in '000)-----	
<b>NON-CURRENT ASSETS</b>		
Fixed assets		
- Property, plant and equipment	627,787	627,162
- Intangible assets	9,902	11,552
Investment properties	674,162	674,162
Long-term investments in:		
- Related parties - subsidiaries and associates	8,275,720	7,931,326
- Listed companies and other entities	36,522	32,959
	8,312,242	7,964,285
Long term loans and advance to:		
- Related parties - subsidiaries	901,264	993,166
- Others	2,452	3,300
	903,716	996,466
Deferred tax asset - net	14,744	-
<b>CURRENT ASSETS</b>		
Stores and spares	16,348	17,665
Freight and hire receivable	149,488	103,700
Agents' and owners' balances	58,161	38,815
Loans and advances	398,971	384,519
Deposits and prepayments	7,748	5,990
Interest / mark-up accrued	27,406	27,677
Other receivables	75,899	20,587
Incomplete voyages	1,580	7,448
Insurance claims	1,169	2,168
Short term investments - held to maturity	2,900,000	2,950,000
Cash and bank balances	817,228	1,101,579
	4,453,998	4,660,148
<b>LESS: CURRENT LIABILITIES AND PROVISIONS</b>		
Trade and other payables	3,080,274	3,332,437
Provision against damage claims	115,051	103,927
Current portion of long-term financing	256,671	256,071
Interest accrued	309	180
Taxation - net	107,647	61,363
	3,559,952	3,753,978
<b>NET CURRENT ASSETS</b>	894,046	906,170
	11,436,599	11,179,797
<b>SHARE CAPITAL AND RESERVES</b>		
Authorised capital 200,000,000 (June 30, 2005 : 200,000,000) ordinary shares of Rs 10 each	2,000,000	2,000,000
Issued, subscribed and paid-up capital	1,320,634	1,200,576
Capital reserve	126,843	126,843
Revenue reserves		
General reserve	3,500,000	1,500,000
Unappropriated profit	2,034,894	3,384,782
	5,534,894	4,884,782
Shareholders' equity	6,982,371	6,212,201
<b>SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - NET OF TAX</b>	3,586,842	3,821,963
<b>NON-CURRENT LIABILITIES</b>		
Long-term financing	470,564	725,536
Deferred liabilities	396,822	419,772
Deferred tax liability - net	-	325
	867,386	1,155,633
<b>CONTINGENCIES</b>	4	

The annexed notes 1 to 9 form an integral part of these financial statements.

**Chief Financial Officer**

**Chairman and Chief Executive**

**Chairman and Chief Executive**

**Director**

**PAKISTAN NATIONAL SHIPPING CORPORATION**  
**PROFIT AND LOSS ACCOUNT FOR THE QUARTER**  
**AND SIX MONTHS PERIOD ENDED DECEMBER 31, 2005 (UNAUDITED)**

	Quarter ended December 31, 2005	Quarter ended December 31, 2004	Six months period ended December 31, 2005	Six months period ended December 31, 2004
------(Rupees in '000)-----				
<b>REVENUES</b>				
Chartering revenues	310,726	598,223	734,424	1,245,536
Services fee	66,994	53,517	126,194	97,382
Rental income	25,558	21,050	50,588	42,276
	403,278	672,790	911,206	1,385,194
<b>EXPENDITURE</b>				
Fleet expenses - direct	208,200	482,272	434,503	1,039,115
- indirect	1,122	2,689	2,195	3,725
	209,322	484,961	436,698	1,042,840
<b>GROSS PROFIT</b>	193,956	187,829	474,508	342,354
Administration and general expenses	36,806	49,195	59,291	79,789
Other operating expenses	25,918	52,974	50,973	97,442
	62,724	102,169	110,264	177,231
	131,232	85,660	364,244	165,123
Other operating income	119,804	38,722	213,436	82,797
<b>OPERATING PROFIT</b>	251,036	124,382	577,680	247,920
Finance costs	17,484	26,115	37,563	34,471
	233,552	98,267	540,117	213,449
Share of net profit in subsidiaries and associates	221,011	656,791	344,394	967,123
<b>PROFIT BEFORE TAXATION</b>	454,563	755,058	884,511	1,180,572
Taxation - current period	77,249	19,413	108,181	41,144
- prior years	16,235	(3,808)	16,235	(3,808)
- deferred	(18,820)	17,712	(15,069)	13,502
	74,664	33,317	109,347	50,838
<b>PROFIT AFTER TAXATION</b>	379,899	721,741	775,164	1,129,734
------(Rupees)-----				
<b>EARNINGS PER SHARE - BASIC / DILUTED</b>	<b>2.88</b>	<b>5.47</b>	<b>5.87</b>	<b>8.55</b>

The annexed notes 1 to 9 form an integral part of these financial statements.

**Chief Financial Officer**

**Chairman and Chief Executive**

**Chairman and Chief Executive**

**Director**

**PAKISTAN NATIONAL SHIPPING CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2005 (UNAUDITED)**

	Issued, subscribed and paid-up capital	Capital reserves		Revenue reserves		Total
		Reserve for issue of bonus shares	Others	General reserve	Unappropriated profit	
------(Rupees in '000)-----						
Balance as at July 1, 2004	1,143,406	-	126,843	500,000	1,701,680	3,471,929
Final cash dividend for the year ended June 30, 2004 declared subsequent to the year end (Rs 1 per share)	-	-	-	-	(114,341)	(114,341)
Transfer to reserve for issue of bonus shares appropriated subsequent to the year end	-	57,170	-	-	(57,170)	-
Transfer to general reserve appropriated subsequent to the year end	-	-	-	1,000,000	(1,000,000)	-
Profit after taxation for the six months period ended December 31, 2004	-	-	-	-	1,129,734	1,129,734
Surplus on revaluation of property, plant and equipment realised through incremental depreciation charged on related assets for the period - net of tax	-	-	-	-	3,859	3,859
Issue of bonus shares	57,170	(57,170)	-	-	-	-
Balance as at December 31, 2004	<u>1,200,576</u>	<u>-</u>	<u>126,843</u>	<u>1,500,000</u>	<u>1,663,762</u>	<u>4,491,181</u>
Balance as at July 1, 2005	1,200,576	-	126,843	1,500,000	3,384,782	6,212,201
Final dividend for the year ended June 30, 2005 declared subsequent to the year end (Rs 2 per share)	-	-	-	-	(240,115)	(240,115)
Transfer to reserve for issue of bonus shares appropriated subsequent to the year end	-	120,058	-	-	(120,058)	-
Transfer to general reserve appropriated subsequent to the year end	-	-	-	2,000,000	(2,000,000)	-
Profit after taxation for the six months period ended December 31, 2005	-	-	-	-	775,164	775,164
Surplus on revaluation of property, plant and equipment realised through incremental depreciation charged on related assets for the period - net of tax	-	-	-	-	235,121	235,121
Issue of bonus shares	120,058	(120,058)	-	-	-	-
Balance as at December 31, 2005	<u>1,320,634</u>	<u>-</u>	<u>126,843</u>	<u>3,500,000</u>	<u>2,034,894</u>	<u>6,982,371</u>

The annexed notes 1 to 9 form an integral part of these financial statements.

**Chief Financial Officer**

**Chairman and Chief Executive**

**Chairman and Chief Executive**

**Director**

**PAKISTAN NATIONAL SHIPPING CORPORATION**  
**CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2005 (UNAUDITED)**

	Note	Six months period ended December 31, 2005 ------(Rupees in '000)-----	Six months period ended December 31, 2004
<b>Cash flow from operating activities</b>			
Cash generated from operations	5	43,246	653,754
Staff retirement gratuity paid		(17,380)	1,800
Employees' compensated absences paid		(2,970)	(19,588)
Post retirement medical benefits paid		(20,402)	(2,272)
Long-term loans and advances - net		92,750	(237,759)
Finance costs paid		(37,434)	(30,345)
Taxes paid		(78,132)	(85,534)
Net cash (outflow) / inflow from operating activities		<u>(20,322)</u>	<u>280,056</u>
<b>Cash flow from investing activities</b>			
Fixed capital expenditure		(12,594)	(3,902)
Proceeds from disposal of property, plant and equipment		-	1
Interest / mark-up received		189,527	41,053
Dividend received		1,092	767
Net cash inflow from investing activities		178,025	37,919
<b>Cash flow from financing activities</b>			
Repayment of long-term financing		(256,329)	(254,850)
Dividend paid		(235,725)	(111,914)
Net cash outflow from financing activities		(492,054)	(366,764)
Net decrease in cash and cash equivalents		<u>(334,351)</u>	<u>(48,789)</u>
Cash and cash equivalents at July 1		4,051,579	2,234,625
Cash and cash equivalents at December 31	6	<u><u>3,717,228</u></u>	<u><u>2,185,836</u></u>

The annexed notes 1 to 9 form an integral part of these financial statements.

**Chief Financial Officer**

**Chairman and Chief Executive**

**Chairman and Chief Executive**

**Director**

**PAKISTAN NATIONAL SHIPPING CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2005 (UNAUDITED)**

**1. THE CORPORATION AND ITS OPERATIONS**

Pakistan National Shipping Corporation (the Corporation) was established under the provisions of the Pakistan National Shipping Corporation Ordinance, 1979 and is principally engaged in the business of shipping, including charter of vessels, transportation of cargo and other related services and providing commercial, technical, administrative, financial and other services to third parties in relation to the business of shipping. The Corporation is also engaged in renting out its properties to tenants under long-term lease arrangements. The Corporation is listed on the Karachi Stock Exchange. The Corporation's registered office is situated in PNSC Building , Moulvi Tamizuddin Khan Road, Karachi.

During the year ended June 30, 2005, the Corporation had applied for delisting from the Lahore and Islamabad Stock Exchanges which was approved by the Securities and Exchange Commission of Pakistan (SECP). The Lahore Stock Exchange (LSE) had filed an appeal in the Lahore High Court against the order of the SECP and at present the matter of delisting from LSE is currently pending subject to final decision by the High Court.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Statement of compliance**

These financial statements have been prepared in accordance with requirements of the International Accounting Standard No. 34 'Interim Financial Reporting' and are being submitted to the shareholders, as required under Section 245 of the Companies Ordinance, 1984 and the listing regulations of the Karachi Stock Exchange.

These financial statements are unaudited and comprise of the balance sheet as at December 31, 2005 and the profit and loss account, statement of changes in equity and the cash flow statement for the six months period ended December 31, 2005 which have been subjected to a review in accordance with the Code of Corporate Governance. The financial statements also include the profit and loss account for the quarter ended December 31, 2005.

The comparative balance sheet presented in these financial statements as at June 30, 2005 has been extracted from the audited financial statements of the company for the year ended June 30, 2005 whereas the comparative profit and loss account, statement of changes in equity and cash flow statement are for the six months period ended December 31, 2004 and were subjected to a review in accordance with the Code of Corporate Governance but were not audited. The comparative profit and loss account for the quarter ended December 31, 2004 is also included in the financial statements.

**2.2 Accounting policies**

The accounting policies and the methods of computation of balances adopted in the preparation of these financial statements are the same as those applied in the preparation of the annual audited financial statements of the Corporation for the year ended June 30, 2005.

### 3. **LONG-TERM INVESTMENTS IN RELATED PARTIES - SUBSIDIARIES AND ASSOCIATES**

Consistent with the annual audited financial statements of the Corporation for the year ended June 30, 2005 the investments in subsidiaries and associates have been accounted for on the basis of the equity method of accounting less any accumulated impairment losses.

Consequent to revisions in the International Accounting Standard No. 27 'Consolidated and Separate Financial Statements' (IAS-27) made applicable in Pakistan to the financial statements covering accounting periods beginning on or after January 1, 2005, investments in subsidiaries and associates should be carried in the separate financial statements of the investor, at cost or at fair value in accordance with IAS-39 'Financial Instruments: Recognition and Measurement'.

However, the Corporation believes that due to the typical group structure of its subsidiaries and associates and the manner in which the operations are conducted, the equity method of accounting would result in more appropriate presentation of its financial statements and, therefore, an exemption was sought from the Securities and Exchange Commission of Pakistan (SECP) for complying with the revised requirements of IAS-27. In response to the Corporation's request, the SECP has through its letter referenced EMD/233/474/2002, dated March 3, 2006, allowed the Corporation to continue to account for investments in subsidiaries on the basis of the equity method only for the purpose of its financial statements for the six months period ended December 31, 2005. Although the said exemption from the SECP has been given only in respect of investments in subsidiaries, the Corporation has also accounted for its investments in associates on the basis of equity method, maintaining that the effects thereof on these financial statements are not material.

Had the investments in subsidiaries and associates been carried at cost, the long-term investments, revenue reserves and surplus on revaluation of property, plant and equipment at the end of the period would have been lower by Rs 6,886 million, Rs 3,753 million and Rs 3,056 million respectively and deferred tax asset would have been higher by Rs 77 million whereas profit after taxation for the period would have been lower by Rs 333 million.

The Corporation will, nonetheless, be required to prepare its financial statements for the year ending June 30, 2006 in accordance with the requirements of IAS-27, however, the Corporation intends to approach the SECP for obtaining similar exemption for future periods also.

### 4. **CONTINGENCIES**

There has been no material change in the status of contingencies reported in the financial statements of the Corporation for the year ended June 30, 2005, except for the contingent liability in respect of claims not admitted by the Corporation which as at December 31, 2005 amount to Rs 1,030.786 million (June 30, 2005: Rs 987.181million). These claims mainly relate to deficiencies in shipping documentation, delay in delivery of cargo, damages to cargo and miscellaneous claims lodged by workers and others. These include Rs 32.281 million (June 30, 2005: Rs 32.806 million) approximately in respect of insurance claims which, if accepted, will be borne by the Corporation as the P&I Club, Oceanus Mutual Underwriting Association (Bermuda) Limited has gone into liquidation. Out of the remaining claims, a sum of Rs 312.479 million (June 30, 2005: Rs 270.824 million ) approximately would be recoverable from the P&I Club, Steamship Mutual Underwriting Association, in the event these claims are accepted by the Corporation. As a matter of prudence, the management has made a total provision of Rs 115.051 million (June 30, 2005: Rs 103.927 million) against the afore-mentioned claims in these financial statements.

<b>For the six months period ended December 31, 2005</b>	<b>For the six months period ended December 31, 2004</b>
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(Rupees in '000)

## 5. CASH GENERATED FROM OPERATIONS

Profit before taxation	884,511	1,180,572
Adjustments for non cash charges and other items:		
Share of net profit in subsidiaries and associates	(344,394)	(967,123)
Depreciation	11,969	12,748
Amortisation	1,650	-
Gain on disposal of property, plant and equipment	-	(1)
Property, plant and equipment written off	-	1
Provision for staff retirement gratuity	10,221	1,991
Provision for employees' compensated absences	4,887	5,501
Provision / (reversal) for post retirement medical benefits	2,694	(267)
Dividend income	(728)	(548)
Provision no longer required written back	(1,281)	-
Interest / mark-up income	(189,256)	(42,282)
Finance costs	37,563	30,338
Gain on revaluation of investments	(3,563)	(2,638)
Provision against claims for damages	11,124	-
Unrealised exchange loss	1,957	26,479
Working capital changes - note 5.1	(384,108)	408,983
	<u>43,246</u>	<u>653,754</u>

### 5.1 WORKING CAPITAL CHANGES

#### (Increase) / decrease in current assets

Stores and spares	1,317	(3,356)
Freight and hire receivable	(45,788)	(29,448)
Agents' and owners' balances	(19,346)	(55,213)
Loans and advances	(14,452)	90,327
Deposits and prepayments	(1,758)	(4,564)
Other receivables (net)	(55,676)	(16,846)
Incomplete voyages	5,868	(13,782)
Insurance claims	999	(1,415)
	(128,836)	(34,297)

#### Increase / (decrease) in current liabilities

Trade and other payables	(255,272)	411,300
	<u>(384,108)</u>	<u>377,003</u>

	<b>December 31, 2005</b>	<b>December 31, 2004</b>
	<b>(Rupees in '000)</b>	
<b>6. CASH AND CASH EQUIVALENTS</b>		
Short term investments - held to maturity	2,900,000	-
Cash and bank balances	817,228	2,185,836
	<u>3,717,228</u>	<u>2,185,836</u>

**7. TRANSACTIONS WITH RELATED PARTIES**

The Corporation has related party relationship with its associated undertakings, subsidiary companies, employee benefit plans and its directors and executive officers (including their associates). Transactions with related parties essentially entail investments made in subsidiary companies, dividend income received from related investee companies, freight income and chartering revenue recorded, services fee charged on account of rendering of technical, commercial, administrative and financial services, expenses charged to subsidiary companies on actual cost basis etc. Service fee charges on account of rendering of technical, commercial, administrative and financial services is charged to subsidiaries and associates on the basis of mutually agreed terms. Further, transactions entered into with the key management personnel as per their terms of employment are also included in related party transactions.

The significant transactions carried out by the Corporation with related parties during the period are given below:

	<b>For the six months period ended December 31, 2005</b>	<b>For the six months period ended December 31, 2004</b>
	<b>(Rupees in '000)</b>	
Long-term loans and advance to subsidiary companies	90,056	360,000
Repayment of long-term loan and interest thereon by subsidiary companies	238,720	150,142
Repayment of short term loan and interest thereon by subsidiary companies	-	91,314
Freight income from subsidiary companies	3,564	3,417
Service fee charged to subsidiary companies	126,193	97,382
Rental income from subsidiary companies	1,805	1,805
Expenses charged to subsidiary companies	110,643	77,613
Retirement benefits cost charged to subsidiary companies	16,315	10,726
Contribution to provident fund	4,720	3,680
Directors' fee	108	7
Key management personnel compensation	3,660	4,252

- 7.1 In addition, the Corporation is also engaged in making certain payments / collections on behalf of the subsidiary companies in accordance with the Technical and Commercial Services and Administrative and Financial Services Agreement which are settled through a current account with each of the subsidiary companies.

8. **DATE OF AUTHORISATION**

These financial statements were authorised for issue on March 8, 2006 by the Board of Directors of the Corporation.

9. **REDESIGNATION OF INVESTMENT HELD UNDER 'AVAILABLE FOR SALE' TO 'FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS'**

Effective July 1, 2005 the Corporation has redesignated its investments held under the head 'available for sale' securities to 'Financial assets at fair value through profit or loss'. This change has been made in accordance with the requirements of revised International Accounting Standard No. 39 'Financial Instruments: Recognition and Measurement' which became applicable to the Corporation effective July 1, 2005. There is, however, no change in the measurement basis and recognition of unrealised gains/losses as a result of the said redesignation.

**Chief Financial Officer**

**Chairman and Chief Executive**

**Chairman and Chief Executive**

**Director**

**Pakistan National Shipping Corporation  
Group**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS PERIOD ENDED  
DECEMBER 31, 2005**

**PAKISTAN NATIONAL SHIPPING CORPORATION  
CONSOLIDATED BALANCE SHEET (UNAUDITED)  
AS AT DECEMBER 31, 2005**

Note	(Unaudited) December 31, 2005	(Audited) June 30, 2005
	------(Rupees in '000)-----	
<b>NON-CURRENT ASSETS</b>		
Fixed assets		
- Property plant and equipment	6,765,500	6,921,861
- Intangible assets	9,902	11,552
Investment properties	674,768	674,162
Long-term investments in:		
- Related parties - associates	139,637	142,380
- Listed companies and other entities	36,522	32,959
	176,159	175,339
Long term loans and advances	2,452	3,300
Deferred tax asset - net	14,744	-
<b>CURRENT ASSETS</b>		
Stores and spares	105,409	90,178
Freight and hire receivable	506,288	291,678
Agents' and owners' balances	58,161	58,168
Loans and advances	35,054	20,602
Deposits and prepayments	7,800	6,037
Interest / markup accrued	6,758	9,420
Other receivables	214,973	44,841
Incomplete voyages	278,966	201,953
Insurance claims	70,828	73,879
Short term investments - held to maturity	2,900,000	2,950,000
Cash and bank balances	880,655	1,164,991
	5,064,892	4,911,747
<b>LESS: CURRENT LIABILITIES AND PROVISIONS</b>		
Trade and other payables	797,209	1,089,428
Provision against damage claims	115,051	103,927
Current portion of long-term financing	256,671	256,071
Interest accrued	309	180
Taxation - net	104,054	65,278
	1,273,294	1,514,884
<b>NET CURRENT ASSETS</b>	3,791,598	3,396,863
	11,435,123	11,183,077
<b>SHARE CAPITAL AND RESERVES</b>		
Authorised capital		
200,000,000 (June 30, 2005 : 200,000,000) ordinary shares of Rs 10 each	2,000,000	2,000,000
Issued, subscribed and paid -up capital	1,320,634	1,200,576
Capital Reserves	126,843	126,843
Revenue Reserves		
General reserves	3,500,023	1,500,023
Unappropriated profit	1,636,694	2,986,583
	5,136,717	4,486,606
Retained earnings	6,584,194	5,814,025
Minority interest	1,170	3,285
Shareholders' equity	6,585,364	5,817,310
<b>SURPLUS ON REVALUATION OF PROPERTY PLANT AND EQUIPMENT - NET OF TAX</b>	3,982,373	4,220,134
<b>NON-CURRENT LIABILITIES</b>		
Long term loan	470,564	725,536
Deferred liabilities	396,822	419,772
Deferred tax liability - net	-	325
	11,435,123	11,183,077
<b>CONTINGENCIES</b>		

3

The annexed notes 1 to 8 form an integral part of these financial statements.

**Chairman and Chief Executive**

**Director**

**PAKISTAN NATIONAL SHIPPING CORPORATION**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)**  
**FOR THE QUARTER AND HALF YEAR ENDED DECEMBER 31, 2005**

	Quarter ended December 31, 2005	Quarter ended December 31, 2004	Six months period ended December 31, 2005	Six months period ended December 31, 2004
------(Rupees in '000)-----				
<b>REVENUES</b>				
Freight - net	1,538,562	1,092,555	2,991,718	2,210,823
Chartering revenues	446,977	824,442	897,524	1,471,755
Rental income	25,676	21,085	50,828	42,326
	<u>2,011,215</u>	<u>1,938,082</u>	<u>3,940,070</u>	<u>3,724,904</u>
<b>EXPENDITURE</b>				
Fleet expenses - direct	1,485,563	1,265,515	2,914,477	2,527,576
- indirect	4,075	4,739	7,614	8,090
	<u>1,489,638</u>	<u>1,270,254</u>	<u>2,922,091</u>	<u>2,535,666</u>
<b>GROSS PROFIT</b>	<u>521,577</u>	<u>667,828</u>	<u>1,017,979</u>	<u>1,189,238</u>
Administration and general expenses	93,513	86,452	168,662	155,030
Other operating expenses	34,476	190,949	67,828	234,027
	<u>127,989</u>	<u>277,401</u>	<u>236,490</u>	<u>389,057</u>
Other operating income	83,252	288,521	154,651	319,745
<b>OPERATING PROFIT</b>	<u>476,840</u>	<u>678,948</u>	<u>936,140</u>	<u>1,119,926</u>
Finance cost	17,816	24,805	38,236	34,996
	<u>459,024</u>	<u>654,143</u>	<u>897,904</u>	<u>1,084,930</u>
Share of net (loss) in associates	(1,222)	(2,941)	(2,743)	(2,941)
<b>PROFIT BEFORE TAXATION</b>	<u>457,802</u>	<u>651,202</u>	<u>895,161</u>	<u>1,081,989</u>
Taxation - Current period	80,483	23,848	118,799	50,856
- Prior year	16,235	(3,510)	16,235	(3,510)
- Deferred	(18,820)	17,712	(15,069)	13,502
	<u>77,898</u>	<u>38,050</u>	<u>119,965</u>	<u>60,848</u>
<b>PROFIT BEFORE MINORITY INTEREST</b>	<u>379,904</u>	<u>613,152</u>	<u>775,196</u>	<u>1,021,141</u>
Minority interest	(8)	2	(34)	(1)
<b>PROFIT AFTER TAXATION</b>	<u>379,912</u>	<u>613,150</u>	<u>775,162</u>	<u>1,021,142</u>
------(Rupees)-----				
EARNINGS PER SHARE - BASIC / DILUTED	<u>2.88</u>	<u>4.64</u>	<u>5.87</u>	<u>7.73</u>

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 8 form an integral part of these financial statements.

**Chairman and Chief Executive**

**Director**

**PAKISTAN NATIONAL SHIPPING CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE HALF YEAR ENDED DECEMBER 31, 2005**

	Issued, Subscribed and paid-up capital	Capital reserves		Revenue reserves		Total	Minority interest	Total Equity	
		Reserve for issue of bonus shares	Others	Other reserve	General reserve				Unappropriated profit
-----Rupees in '000-----									
Balance as at July 1, 2004	1,143,406	-	126,843	23	500,000	1,351,384	3,121,656	1,036	3,122,692
Final cash dividend for the year ended June 30, 2004 declared subsequent to the year end (Rs. 1 per share)	-	-	-	-	-	(114,341)	(114,341)	-	(114,341)
Transfer to reserve for issue of bonus shares appropriated subsequent to the year end.	-	57,170	-	-	-	(57,170)	-	-	-
Transfer to General reserve appropriated subsequent to the year end.	-	-	-	-	1,000,000	(1,000,000)	-	-	-
Profit after taxation for the six months period ended December 31, 2004	-	-	-	-	-	1,021,142	1,021,142	(1)	1,021,141
Surplus on revaluation of property, plant and equipment realised through incremental depreciation charged on related assets for the period - net of tax	-	-	-	-	-	22,197	22,197	-	22,197
Issuance of bonus shares	57,170	(57,170)	-	-	-	-	-	-	-
Balance at Decemcr 31, 2004	<u>1,200,576</u>	<u>-</u>	<u>126,843</u>	<u>23</u>	<u>1,500,000</u>	<u>1,223,212</u>	<u>4,050,654</u>	<u>1,035</u>	<u>4,051,689</u>
Balance as at July 1, 2005	1,200,576	-	126,843	23	1,500,000	2,986,583	5,814,025	3,285	5,817,310
Final cash dividend for the year ended June 30, 2005 declared subsequent to the year end (Rs. 2 per share)	-	-	-	-	-	(240,115)	(240,115)	-	(240,115)
Transfer to reserve for issue of bonus shares appropriated subsequent to the year end.	-	120,058	-	-	-	(120,058)	-	-	-
Transfer to General reserve appropriated subsequent to the year end.	-	-	-	-	2,000,000	(2,000,000)	-	-	-
Profit after taxation for the six months period ended December 31, 2005	-	-	-	-	-	775,162	775,162	34	775,196
Surplus on revaluation of property, plant and equipment realised through incremental depreciation charged on related assets for the period - net of tax	-	-	-	-	-	235,122	235,122	-	235,122
Adjustment on account of revaluation of fixed assets	-	-	-	-	-	-	-	(2,149)	(2,149)
Issuance of bonus shares	120,058	(120,058)	-	-	-	-	-	-	-
Balance at Decemcr 31, 2005	<u>1,320,634</u>	<u>-</u>	<u>126,843</u>	<u>23</u>	<u>3,500,000</u>	<u>1,636,694</u>	<u>6,584,194</u>	<u>1,170</u>	<u>6,585,364</u>
The annexed notes 1 to 8 form an integral part of these financial statements.							-		-

Chairman and Chief Executive

Director

**PAKISTAN NATIONAL SHIPPING CORPORATION**  
**CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**  
**FOR THE QUARTER AND HALF YEAR ENDED DECEMBER 31, 2005**

		<b>Six months period ended December 31, 2005</b>	<b>Six months period ended December 31, 2004</b>
	Note	------(Rupees in '000)-----	
<b>Cash flow from operating activities</b>			
Cash flow from operations	4	<b>540,076</b>	68,575
Staff retirement gratuity paid		<b>(17,380)</b>	1,800
Employees' compensated absences paid		<b>(2,970)</b>	(19,588)
Post retirement medical benefits paid		<b>(20,402)</b>	(2,272)
Finance costs paid		<b>(37,434)</b>	(93,521)
Taxes paid		<b>(129,484)</b>	(30,345)
Net cash inflow / (outflow) from operating activities		<b>332,406</b>	(75,351)
<b>Cash flow from investing activities:</b>			
Fixed capital expenditure		<b>(368,546)</b>	(78,657)
Long term loans and advances		<b>848</b>	282
Proceeds from disposal of fixed assets		<b>-</b>	458,444
Interest / mark-up received		<b>191,918</b>	12,556
Dividend received		<b>1,092</b>	767
Net cash (outflow) / inflow from investing activities		<b>(174,688)</b>	393,392
<b>Cash flow from financing activities:</b>			
Repayment of long-term financing		<b>(256,329)</b>	(254,850)
Dividend paid		<b>(235,725)</b>	(111,914)
Net cash outflow on financing activities		<b>(492,054)</b>	(366,764)
Net decrease in cash and cash equivalents		<b>(334,336)</b>	(48,723)
Cash and cash equivalents at July 1		<b>4,114,991</b>	2,297,157
Cash and cash equivalents at December 31	5	<b>3,780,655</b>	2,248,434

The annexed notes 1 to 8 form an integral part of these financial statements.

**Chairman and Chief Executive**

**Director**

**PAKISTAN NATIONAL SHIPPING CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE QUARTER AND HALF YEAR ENDED DECEMBER 31, 2005**

**1. THE GROUP AND ITS OPERATIONS**

The Group consists of:

**Holding company**

Pakistan National Shipping Corporation (the Corporation)

**Subsidiary companies**

- Bolan Shipping (Private) Limited
- Chitral Shipping (Private) Limited
- Hyderabad Shipping (Private) Limited
- Islamabad Shipping (Private) Limited
- Kaghan Shipping (Private) Limited
- Khairpur Shipping (Private) Limited
- Makran Shipping (Private) Limited
- Malakand Shipping (Private) Limited
- Multan Shipping (Private) Limited
- Sargodha Shipping (Private) Limited
- Sibi Shipping (Private) Limited
- Shalamar Shipping (Private) Limited
- Johar Shipping (Private) Limited
- Swat Shipping (Private) Limited
- Lalazar Shipping (Private) Limited
- Pakistan Co-operative Ship Stores (Private) Limited

The Group owns 55% of the share capital of Pakistan Co-operative Ship Stores (Private) Limited and 100% of the share capital of the remaining 15 subsidiary companies.

The Group is engaged in providing shipping and other related services. The Group is also engaged in renting out its properties to tenants under lease-term arrangements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Statement of compliance**

These financial statements have been prepared in accordance with the requirements of the International Accounting Standard No. 34 'Interim Financial Reporting' and are being submitted to the shareholders as required under section 245 of the Companies Ordinance, 1984 and the listing regulations of the Karachi Stock Exchange

**2.2 Accounting policies**

The accounting policies and the methods of computation of balances adopted in the preparation of these financial statements are the same as those applied in the preparation of the annual audited financial statements of the group for the year ended June 30, 2005.

### 3. CONTINGENCIES

There has been no material change in the status of contingencies reported in the financial statements of the group for the year ended June 30, 2005, except for the contingent liability in respect of claims not admitted by the group amounts to Rs 1,030.786 million (June 2005: Rs 987.181 million). These claims mainly relate to flaw in shipping documentation, delay in delivery of cargo, damages to cargo and miscellaneous worker and other claims. These include Rs 32.281 million (June 2005: Rs 32.806 million) approximately in respect of insurance claims which, if accepted, will be borne by the group as the P&I Club, Oceanus Mutual Underwriting Association (Bermuda) Limited has gone into liquidation. Out of the remaining claims an amount of Rs 312.479 million (June 2005: Rs 270.824 million) approximately would be recoverable from the P&I Club, Steamship Mutual Underwriting Association, in the event these claims are accepted by the group. As a matter of prudence the management has made a total provision of Rs 115.051 million (June 2005: Rs 103.927 million) against the afore-mentioned claims in these financial

<b>For the six months period ended December 31, 2005</b>	<b>For the six months period ended December 31, 2004</b>
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(Rupees in '000)

### 4. CASH GENERATED FROM OPERATIONS

Profit before taxation	895,161	1,081,989
Adjustments for non cash charges and other items:		
Share of net loss in associates	2,743	2,941
Depreciation	514,480	139,060
Amortisation	-	-
Loss / (Gain) on disposal of property, plant and equipment	-	(264,528)
Deficit on vessel disposed of during the period included in the revaluation surplus	-	108,689
Property, plant and equipment written off	-	1
Provision for staff retirement gratuity	10,221	8,530
Provision for employees' compensated absences	4,887	22,274
Provision / (reversal) for post retirement medical benefits	2,694	(1,083)
Dividend income	(728)	(548)
Provision no longer required written back	(1,281)	-
Interest / mark-up income	(191,918)	(13,317)
Finance costs	37,563	30,338
Gain on revaluation of investments	(3,563)	(2,638)
Provision against claims for damages	11,124	-
Unrealised exchange loss	1,957	26,479
Working capital changes - note 4.1	(743,264)	(1,069,612)
	540,076	68,575

#### 4.1 WORKING CAPITAL CHANGES

##### (Increase) / decrease in current assets

Stores and spares	(15,231)	(3,356)
Freight and hire receivable	(214,610)	(29,448)
Agents' and owners' balances	7	(55,213)
Loans and advances	(14,452)	90,327
Deposits and prepayments	(1,763)	(4,564)
Other receivables (net)	(170,132)	(16,627)
Incomplete voyages	(77,013)	(13,782)
Insurance claims	3,051	(1,415)
	(490,143)	(34,078)

##### Increase / (decrease) in current liabilities

Trade and other payables	(253,121)	(1,035,534)
	(743,264)	(1,069,612)

5. CASH AND CASH EQUIVALENTS	December 31, 2005	December 31, 2004
	(Rupees in '000)	
Short term investments - held to maturity	2,900,000	-
Cash and bank balances	880,655	2,248,434
	<u>3,780,655</u>	<u>2,248,434</u>

#### 6. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of companies affiliated to the holding company and their directors, key executives of the holding company and employee funds maintained by the holding company. Transactions with related parties essentially entail dividend income received from related investee companies, freight income and chartering revenue etc. Transactions with related parties are carried out on arms length basis.

Transactions entered into with key management personnel as per their terms of employment are also included in related party transactions.

The significant transactions carried out by the group with related parties during the period are given below:

	For the six months period ended December 31, 2005	For the six months period ended December 31, 2004
	(Rupees in '000)	
Freight income	3,564	3,417
Rental income	1,805	1,805
Contribution to provident fund	4,720	3,680
Directors' fee	108	7
Key management personnel compensation	3,660	4,252

#### 7. DATE OF AUTHORISATION

These financial statements were authorised for issue on \_\_\_\_\_ by the Board of Directors of the Corporation.

#### 8. REDESIGNATION OF INVESTMENT HELD UNDER 'AVAILABLE FOR SALE TO 'FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS'

Effective July 1, 2005 the group has redesignated its investments held under the head 'available for sale' securities to 'Financial assets at fair value through profit or loss'. This change has been made in accordance with the requirements of revised International Accounting Standard No. 39 'Financial Instruments: Recognition and Measurement' which became applicable to the Corporation effective July 1, 2005. There is however no change in the measurement basis and recognition of unrealised gains/losses as a result of the redesignation.

**Chairman and Chief Executive**

**Director**