

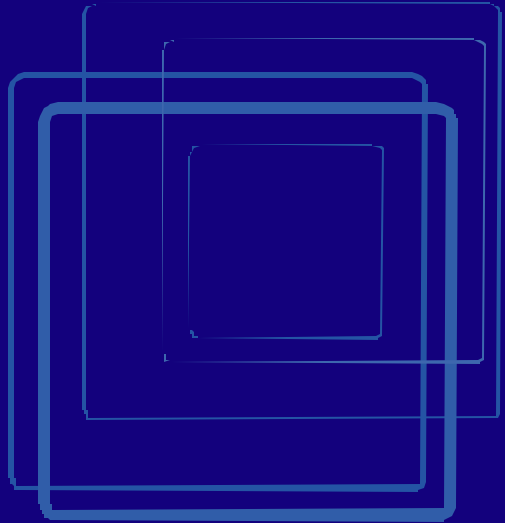


HALF YEARLY ACCOUNTS

FOR THE HALF YEAR ENDED
DECEMBER 31, 2004
(UN-AUDITED)

Our VISION

'To be the quality telecommunication service provider of choice using sound business practices while enhancing the quality of life of the community and providing a strong return for our stakeholders'



Our MISSION

Our goal is to be the leading telecommunication service provider in the market and to make TeleCard a name, which inspires pride and confidence.

We will achieve our goal by:



Making this company a customer driven organization providing quality telecommunication products and services which meet and exceed customer expectations.



Valuing our employees and providing a satisfying, challenging and rewarding work environment.



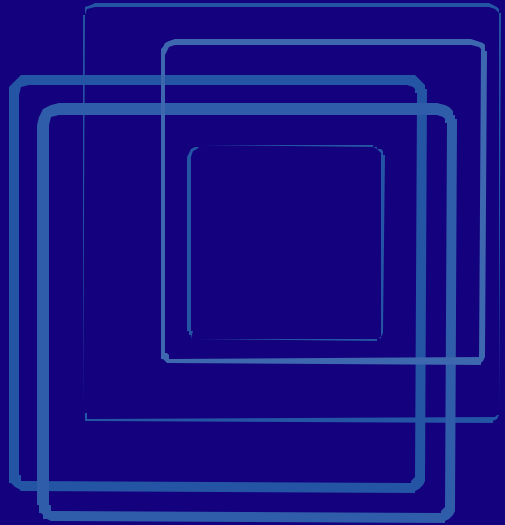
Maintaining mutually beneficial relations with our business partners.



We instill pride of ownership and we are a financially rewarding investment for stakeholders.



We are an exemplary corporate citizen which adds value to the community.



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Company Information



Board of Directors

Mr. Sultan-ul-Arfeen (Chairman)
 Mr. Shahid Firoz
 Mr. Khalid Firoz
 Mr. Javaid Firoz
 Mr. Aamir Niazi
 Mr. Bo Ericsson
 Mr. Peregrine Moncreiffe

Audit Committee

Mr. Sultan-ul-Arfeen (Chairman)
 Mr. Shahid Firoz
 Mr. Khalid Firoz

Chief Executive

Mr. Fazal Hussain

Chief Financial Officer

Mr. Haroon Iqbal

Company Secretary

Mr. Habib A. Farooqi

External Auditors

M/s Ford Rhodes Sidat Hyder & Company

Legal Advisor

Mohsin Tayebally & Co.

Bankers

Union Bank Limited
 Faysal Bank Limited
 Habib Bank Limited
 Allied Bank Limited
 Bolan Bank Limited
 SaudiPak Commercial Bank Limited

Registered Office

3rd Floor, World Trade Center, 75 East Blue Area,
 Fazal-ul- Haq Road, Islamabad, Paksitan.

Corporate Office

7th Floor, World Trade Center,
 10 -Khayaban-e- Roomi, Clifton, Karachi, Pakistan.

I give me immense pleasure in presenting the report of your Company's performance for the six months ended December 31, 2004 along with the consolidated financial statements for the six months ended December 31, 2004.

Review of Current Operations

I am happy to report that by the grace of Almighty Allah, subsequent to the year end the company has been able to successfully reposition itself as the alternate service provider in the country, providing a full range of telecom services to all the segments including Corporate, SME and Residential, while accelerating its leadership status in the payphone sector as well.

In the newly deregulated environment your company is strategically placed to leverage its first mover advantage in the WLL segment. Your company was granted the WLL commencement certificate for the KTR region under the new licensing regime, and on Jan. 12, 2005 the service was launched under the GO CDMA brand, the first of its kind in the country. The launch was very successfully executed and it is now considered to be among the best recognized brands in the country. We are now ready to launch the GO CDMA service nationally, once the formal regulatory procedures and approvals are processed. With the successful launch of our WLL service, we are now ready to launch additional services including LDI and BWA.

Your company has been investing in acquiring licenses, network infrastructure and in human resources in order to position itself for rapid growth. These investments will show significant results in coming months.

During the six months under the review TeleCard posted net sales of Rs. 1,021 million as against Rs. 757 million in the corresponding period last year showing an increase of 35% over the corresponding period of last year, while on a consolidated basis net sales is Rs. 1,197 million. Gross Profit increased to Rs. 246 million from Rs. 169 million, an increase of 45% over last year. Operating Profit increased by 9% to Rs. 102 million, lower than the percentage increase in Gross Profit due to higher SG&A expenses, expenses incurred for raising funds for payment of frequency spectrum, 50% increase in depreciation charge, 100% increase in deferred tax and higher financial charges, affected the bottom line thus reducing the net profit by more than Rs. 120 million. It is important to note that this increased cost has been incurred to prepare for the country wide network for future benefit of the company.

TeleCard achieved the financial closure of Rs. 4,400 million and subsequent to the period under review the right issue of Rs. 2,000 million was successfully completed.

Future Outlook

TeleCard has entered the telecom market with a full range of services and has leveraged its existing WLL presence into a strategic competitive advantage. In addition, TeleCard has a clear advantage over other entrants in terms of having the necessary infrastructure, channels and a highly experienced team with considerable exposure to this business.

In a competitive environment there will be pressure on prices, however, the company's focus is on providing a differentiated service based on quality of service rather than price, and will focus on maximizing its customer base rapidly based on a sustainable competitive advantage.

With the start of new services, we also expect a very rapid increase in revenues and improvement in profitability of the company.

Karachi.
February 28, 2005



Fazal Hussain
Chief Executive

Review Report to the Members

We have reviewed the annexed Balance Sheet of TELECARD LIMITED as at December 31, 2004, and the related Profit and Loss Account, Cash Flow Statement and Statement of Changes in Equity together with the notes forming part thereof (here-in-after referred to as the "financial statements") for the half-year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. 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 Company personnel and analytical procedures applied to financial data and thus provide 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.

Without qualifying our opinion, we draw attention to the:

- (i) lawsuit, as discussed in note 11.1(a), filed by the company during the year ended June 30, 2000 in the Honourable High Court of Sindh with regard to the recovery of Karachi Relief Rebate and Interconnect Discount from the Pakistan Telecommunication Company Limited (PTCL). On an application filed by the company, the above referred Court passed an interim order in favour of the company and appointed a firm of Chartered Accountants to determine the actual amount due from the PTCL in this regard. The said firm submitted its report to the Court during the year ended June 30, 2002, containing various amounts determined under various alternatives, for the period commencing January, 1997 to August, 2001. Accordingly, pending a final decision by the above-referred court in this matter, no provision for any amount that may not be recoverable has been made in the financial statements of the current year;
- (ii) contents of note 11.1(b) with regard to a lawsuit filed by the PTCL against the company during the year ended June 30, 2002;
- (iii) note 11.3 and 11.4 with regard to certain refunds which are pending settlement with PTCL and Pakistan Telecommunication Authority;
- (iv) contents of note 16.1 in respect of the amount which the company believes has been over billed by PTCL;
- (v) trade debts shown in note 10 include Rs.9.455 million, which are in overdues of 1 to 3 years. Pending the outcome of the efforts being made by the management to collect these balances no provision in this respect has been made in these financial statements; and
- (vi) note 17(a) with regard to contingencies, these matters also existed as at June 30, 2004. The ultimate outcome thereof cannot presently be determined and, hence, no provision for any under recovery and / or any liability that may result or arise from these matters has been made in the accompanying financial statements.
- (vii) note 4.2 to the financial statements regarding the change in Company's policy in respect of wireless terminals and the amendments to the customer agreement forms and the treatment adopted by the Company in accordance therewith. However, the aforesaid treatment and its impact on financial statements, if any, is dependent upon completion of the required documentation.

Imad Hussain Siddiqi

CHARTERED ACCOUNTANTS

KARACHI:

February 28, 2005




Balance Sheet

As At December 31, 2004 (UN-AUDITED)

	Note	December 31, 2004 Rupees	June 30, 2004 Rupees
ASSETS			
NON-CURRENT ASSETS			
Tangible fixed assets			
Operating fixed assets	4	1,269,706,751	1,210,426,314
Capital work-in-progress	5	683,656,555	665,412,710
Uninstalled wireless terminals	6	129,420,008	-
		<u>2,082,783,314</u>	<u>1,875,839,024</u>
Intangible assets	7	3,321,798,226	-
Long term investment in a subsidiary company		340,536,662	340,536,662
Long term loans and deposits	8	60,291,316	32,852,123
Deferred costs		33,259,658	42,590,807
CURRENT ASSETS			
Stock-in-trade	9	15,796,221	76,248,022
Trade debts	10	100,017,699	95,540,895
Loans and advances		24,396,127	10,023,751
Deposits, prepayments and other receivables	11	791,215,866	665,946,692
Taxation - net		108,031,529	101,471,137
Cash and bank balances	12	481,250,548	17,244,986
		<u>1,520,707,990</u>	<u>966,475,483</u>
TOTAL ASSETS		<u>7,359,377,166</u>	<u>3,258,294,099</u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVE			
Share Capital			
Authorised			
400,000,000 (June 30, 2004: 125,000,000)			
Ordinary shares of Rs.10/- each	1.2	<u>4,000,000,000</u>	<u>1,250,000,000</u>
Issued, subscribed and paid-up			
100,000,000 (June 30, 2004: 100,000,000)			
Ordinary shares of Rs.10/- each		1,000,000,000	1,000,000,000
Revenue reserve			
Unappropriated profit		466,220,048	444,841,175
		<u>1,466,220,048</u>	<u>1,444,841,175</u>
DEPOSIT AGAINST ISSUE OF RIGHT SHARES	13	1,010,853,864	-
NON-CURRENT LIABILITIES			
Long term loans	14	1,510,577,309	280,641,410
Obligations under finance leases		141,475,382	179,502,431
Deferred liabilities		175,990,788	123,963,071
Long term deposits		61,416,735	64,958,971
		<u>1,889,460,214</u>	<u>649,065,883</u>
CURRENT LIABILITIES			
Current maturities of long term loans and obligations under finance leases		254,537,605	247,168,065
Short term loans		75,272,042	96,165,770
Short term running finances		64,462,213	65,357,827
Local loop license fee payable	15	1,609,126,000	-
Creditors, accrued and other liabilities	16	982,822,330	749,072,529
Unclaimed dividends		6,622,850	6,622,850
		<u>2,992,843,040</u>	<u>1,164,387,041</u>
CONTINGENCIES AND COMMITMENTS	17		
TOTAL EQUITY AND LIABILITIES		<u>7,359,377,166</u>	<u>3,258,294,099</u>

The annexed notes 1 to 24 form an integral part of these financial statements.


Chief Executive


Director

Profit and Loss Account

For The Half Year Ended December 31, 2004 (UN-AUDITED)



	Note	Half-Year Ended		Quarter Ended	
		December 31, 2004	December 31, 2003	December 31, 2004	December 31, 2003
----- (Rupees) -----					
NET SALES AND SERVICES	18	1,021,342,853	756,844,037	508,255,947	402,055,646
Cost of sales and services	19	774,912,006	587,385,704	371,489,374	322,115,646
GROSS PROFIT		246,430,847	169,458,333	136,766,573	79,940,000
Administrative and selling expenses	20	144,866,941	76,248,404	76,338,404	42,269,831
OPERATING PROFIT		101,563,906	93,209,929	60,428,169	37,670,169
OTHER INCOME		6,021,874	1,933,975	3,592,374	1,193,977
		107,585,780	95,143,904	64,020,543	38,864,146
Financial charges		29,524,229	14,371,675	18,855,640	10,057,822
PROFIT BEFORE TAXATION		78,061,551	80,772,229	45,164,903	28,806,324
Taxation	21	56,682,678	28,465,964	49,251,740	25,289,285
NET PROFIT / (LOSS) FOR THE PERIOD		21,378,873	52,306,265	(4,086,837)	3,517,039
Unappropriated profit brought forward		444,841,175	320,492,984	493,563,674	369,282,210
UNAPPROPRIATED PROFIT CARRIED FORWARD TO THE BALANCE SHEET		466,220,048	372,799,249	489,476,837	372,799,249
BASIC EARNINGS / (LOSS) PER SHARE		0.214	0.523	(0.041)	0.035
DILUTIVE EARNINGS / (LOSS) PER SHARE		0.095	0.287	(0.022)	0.019

The annexed notes 1 to 24 form an integral part of these financial statements.



Chief Executive



Director



Cash Flow Statement

For The Half Year Ended December 31, 2004 (UN-AUDITED)

	Half year ended	
	December 31, 2004 Rupees	December 31, 2003 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	78,061,551	80,772,229
Adjustments for non-cash charges and other items:		
Depreciation	90,541,511	60,000,490
Provision for gratuity	2,900,000	2,125,843
Financial charges	29,524,229	14,371,675
Royalty to Pakistan Railways (PR)	111,111	166,666
Royalty to Pakistan Telecommunications Authority (PTA)	-	2,191,557
Gain on sale of fixed assets - net	-	(83,800)
Amortization of deferred cost in respect of WLL Project	7,811,800	3,037,366
Amortization of deferred pre-launching expenses in respect of WLL Project	1,519,349	1,424,856
Deferred Income	(1,396,897)	(1,306,275)
	<u>131,011,103</u>	<u>81,928,378</u>
Profit before working capital changes	<u>209,072,654</u>	<u>162,700,607</u>
(Increase) / Decrease in current assets		
Stock-in-trade	60,451,801	(32,451,829)
Trade debts	(4,476,804)	(22,277,065)
Loans and advances	(14,372,376)	(7,635,230)
Deposits, prepayments and other receivables	(125,269,174)	(26,704,690)
	<u>(83,666,553)</u>	<u>(89,068,814)</u>
(Decrease) / Increase in current liabilities	<u>1,821,474,836</u>	<u>(25,558,143)</u>
Cash generated from operations	<u>1,946,880,937</u>	<u>48,073,650</u>
Income tax paid	(11,667,106)	(21,281,164)
Financial charges paid	(8,123,264)	(13,977,534)
Gratuity paid	(1,051,350)	(728,100)
Royalty paid	-	(1,191,537)
Deferred costs	-	(4,870,385)
Long term deposits and prepayments	(27,439,193)	(13,139,955)
Long term deposits	(3,542,236)	(3,880,998)
	<u>(51,823,149)</u>	<u>(59,069,673)</u>
Net cash inflow from / (used in) operating activities	<u>1,895,057,788</u>	<u>(10,996,023)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditure	(3,606,176,496)	(218,118,426)
Sale proceeds of fixed assets	-	367,000
Investment in a subsidiary company	-	(203,511,662)
Proceeds of sale and lease back of equipments	-	159,254,655
	<u>(3,606,176,496)</u>	<u>(262,008,433)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of right shares	1,010,853,864	497,787,000
Long term loans	1,280,000,000	-
Repayment of long term loans	(30,833,332)	(3,549,184)
Short term loan	(20,893,728)	(24,289,978)
Repayment of obligations under finance leases	(63,106,920)	(55,779,819)
	<u>2,176,019,884</u>	<u>414,168,019</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>464,901,176</u>	<u>141,163,563</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>(48,112,841)</u>	<u>(10,969,550)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u><u>416,788,335</u></u>	<u><u>130,194,013</u></u>

The annexed notes 1 to 24 form an integral part of these financial statements.

Chief Executive

Director

Statement of Changes in Equity

For The Half Year Ended December 31, 2004 (UN-AUDITED)



	<u>Share Capital</u> Issued, Subscribed and paid-up	<u>Revenue Reserve</u> Unappropriated Profit	<u>Total</u>
	----- Rupees -----		
Balance as at June 30, 2003	500,000,000	320,492,984	820,492,984
Issue of right shares	500,000,000	-	500,000,000
Net profit for the period ended December 31, 2003	-	52,306,265	52,306,265
Balance as at December 31, 2003	<u>1,000,000,000</u>	<u>372,799,249</u>	<u>1,372,799,249</u>
Balance as at June 30, 2004	1,000,000,000	444,841,175	1,444,841,175
Net profit for the period ended December 31, 2004	-	21,378,873	21,378,873
Balance as at December 31, 2004	<u>1,000,000,000</u>	<u>466,220,048</u>	<u>1,466,220,048</u>

The annexed notes 1 to 24 form an integral part of these financial statements.

Chief Executive

Director



Notes to the Financial Statements

For The Half Year Ended December 31, 2004 (UN-AUDITED)

1. THE COMPANY AND ITS OPERATIONS

1.1 Teletcard Limited was incorporated in Pakistan on October 29, 1992 as a public limited company. The shares of the company are listed on the Karachi and Islamabad Stock Exchanges. The company has obtained a license from the Government of Pakistan to install, own and operate a network of card operated wireline pay phones throughout the country and, as a result thereof, embarked on building a nation wide pay phones network. The company is also operating a country wide network of Wireless Local Loop (WLL) pay phones.

The registered office of the company is located at World Trade Centre, 75, East Blue Area, Fazal-ul-Haq Road, Islamabad. The principal place of business of the company is located at World Trade Centre, 10, Khayaban-e-Roomi, Clifton, Karachi.

1.2 During the period, the authorised capital of the company has been increased from Rs. 1,250 million to Rs. 4,000 million as approved by the shareholders in their meeting held on August 21, 2004.

2. BASIS OF PREPARATION

These financial statements are unaudited but subject to limited scope review by auditors and are being submitted to the shareholders in accordance with Section 245 of the Companies Ordinance, 1984. These have been prepared in accordance with the requirements of International Accounting Standard (IAS) - 34 "Interim Financial Reporting", as applicable in Pakistan.

3. ACCOUNTING POLICIES

3.1 The accounting policies and methods of computation followed in the preparation of these financial statements are the same as those applied in preparing the financial statements for the year ended June 30, 2004. However, the following new accounting policy has been adopted during the period.

3.1.1 Intangible assets

The cost of license to provide telecommunication services are classified as intangible assets. These are amortised over the period of license commencing from the date when the license is deemed ready for intended use.

The cost of intangible asset comprise of its purchase price and any directly attributable expenditure on preparing the asset for its intended use including the borrowing cost.

The carrying value of intangible assets are revised for impairment when events as changes in circumstances indicate that the carrying value may not be recoverable.

4. OPERATING FIXED ASSETS

	Note	December 31, 2004 Rupees	June 30, 2004 Rupees
Opening net book value		1,210,426,314	770,478,682
Additions during the period / year	4.1	149,821,948	680,275,121
		<u>1,360,248,262</u>	<u>1,450,753,803</u>
Disposals during the period / year	4.3	-	(6,521,350)
Accumulated depreciation on disposals		-	121,283,759
Depreciation charged during the period / year		90,541,511	125,565,080
		<u>90,541,511</u>	<u>240,327,489</u>
		<u>1,269,706,751</u>	<u>1,210,426,314</u>

4.1 Details of additions during the period / year are as follows:

Owned

Payphones and ancillary equipment	4.2	46,423,180	1,447,509
Wireless local loop equipment		83,759,221	412,607,069
Sign boards		1,787,322	5,330,230
Computers and related accessories		1,289,934	2,458,147
Furniture, fixtures and office equipment		4,285,712	1,959,347
Tools, workshop and laboratory equipment		459,284	190,616
Card verifiers		148,000	45,000
Vehicles		668,310	-
		<u>138,820,963</u>	<u>424,037,918</u>

Leased

Wireless local loop equipment		-	247,066,227
Vehicles		11,000,985	9,170,976
		<u>11,000,985</u>	<u>256,237,203</u>
		<u>149,821,948</u>	<u>680,275,121</u>

Notes to the Financial Statements

For The Half Year Ended December 31, 2004 (UN-AUDITED)

- 4.2 The company has changed its policy in respect of wireless terminals provided to its customers effective October 01, 2004. The company is now carrying the wireless terminals in its books as assets instead of recognizing such as sales. Necessary amendments to customer agreement forms in this respect are being implemented and the company expects that no adjustment would arise in the financial statements in respect of the above matter.

	December 31, 2004 Rupees	June 30, 2004 Rupees
4.3 Details of disposals (cost), including sale and lease back of assets, during the period / year are as follows:		
Owned		
Payphones and ancillary equipment	-	1,880,800
Wireless local loop equipment	-	3,785,750
Vehicles	-	854,800
	<u>-</u>	<u>6,521,350</u>

	Note	As at June 30, 2004	Additions/ (transfers) during the period (Rupees)	As at December 31, 2004
5. CAPITAL WORK-IN-PROGRESS				
Tangible				
Wireless local loop equipment				
Owned		495,898,432	240,896,456 (80,688,399)	656,106,489
Leased		20,000,000	-	20,000,000
Advances to suppliers		515,898,432 12,199,278	160,208,057 (4,649,212)	676,106,489 7,550,066
		<u>528,097,710</u>	<u>155,558,845</u>	<u>683,656,555</u>
Intangible				
Advance against local loop license	5.1	108,286,000	(108,286,000)	-
Advance against long distance and international license	5.1	29,029,000 137,315,000	(29,029,000) (137,315,000)	- -
		<u>665,412,710</u>	<u>18,243,845</u>	<u>683,656,555</u>

- 5.1 These advances have been adjusted during the period on issuance of the licenses (note 7).

6 UNINSTALLED WIRELESS TERMINALS

Represents wireless terminals that would be activated upon issuance of connection to the customers.

7 INTANGIBLE ASSETS

Wireless Local Loop (WLL) License	7.1	3,240,525,000	-
Long Distance International (LDI) License	7.2	29,029,000	-
Financial costs	7.3	52,244,226	-
		<u>3,321,798,226</u>	<u>-</u>

- 7.1 Represents non-exclusive license granted by Pakistan Telecommunication Authority (PTA) to the company to provide telecommunication services effective August 04, 2004 for a period of 20 years. The commercial operations in relation to the license have commenced subsequent to the balance-sheet date.
- 7.2 Represents non-exclusive licenses granted by PTA to the company to provide telecommunication services effective July 27, 2004 for a period of 20 years. The commercial operations in respect of the license have not yet commenced.
- 7.3 Represents arrangement fee, interest cost and other ancillary cost to finance the acquisition of the above licenses. These costs are being capitalized upto the time the licenses are ready for intended use.



Notes to the Financial Statements

For The Half Year Ended December 31, 2004 (UN-AUDITED)

8. LONG-TERM LOANS AND DEPOSITS

This includes Rs. 28.580 (June 30, 2004: Rs. 8.950) million representing line deposits paid to Pakistan Telecommunication Limited (PTCL).

	Note	December 31, 2004 Rupees	June 30, 2004 Rupees
9. STOCK-IN-TRADE			
Pay phone cards			
In hand		15,796,221	12,186,374
In transit		-	7,182
Wireless terminals			
In hand		-	64,054,466
In transit		-	-
		-	64,054,466
		15,796,221	76,248,022
10. TRADE DEBTS			
Unsecured			
Considered good		100,017,699	95,540,895
Considered doubtful		17,395,632	17,395,632
	10.1	117,413,331	112,936,527
Provision for debts considered doubtful		(17,395,632)	(17,395,632)
		100,017,699	95,540,895

10.1 This includes balances of Indoor Call Point (ICP) holders amounting to Rs.24.224 million outstanding for more than one year against which the company has made a provision for doubtful debts of Rs.14.769 million to date. Pending the outcome of the efforts being made by the management to collect these balances, additional provision as may be required in case of under recovery has not been made in these financial statements as the company expects to collect the unprovided amount in full.

11. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Deposits			
Current portion of long term lease deposits		24,407,267	31,954,762
Margin against letters of credit		63,332,696	7,607,699
WLL deposit paid to PTCL		3,675,342	3,140,574
Others		422,000	422,000
		91,837,305	43,125,035
Prepayments			
Current portion of long term prepayments		-	111,111
Optical fibre charges		4,364,141	-
Rent		9,014,702	1,055,250
		13,378,843	1,166,361
Other receivables			
Due from Pakistan Telecommunication Company			
Limited (PTCL) in respect of:			
Karachi Relief rebate	11.1	614,764,414	574,807,097
Interconnect discount	11.2	28,701,229	28,701,229
Payments for Optical Fibre	11.3	10,360,764	-
Receivable from ZTE Corporation, China		9,836,225	5,543,200
Receivable from PTA	11.4	8,839,894	-
Insurance claims		7,479,668	8,204,668
Claim against a bank	11.5	997,939	997,939
Miscellaneous		6,499,311	4,880,889
		687,479,444	623,135,022
		792,695,592	667,426,418
Provision for other receivables considered doubtful		(1,479,726)	(1,479,726)
		791,215,866	665,946,692

11.1 (a) In the interest of public safety, the Government of Pakistan (GoP) is empowered to close transmission of all messages / services, subject to certain conditions. Section 54 of the Pakistan Telecommunication (Reorganization) Act states that GoP can do so "Provided that the GoP may compensate any licensee whose facilities or services are affected by any action under that section". Under these powers, the GoP shut down the service of the company from July 1995 to January 1997. The company served a notice to the GoP for compensation and as a quid pro quo and in consideration of the company having agreed to withdraw its claim, GoP offered the Interim Relief

Notes to the Financial Statements

For The Half Year Ended December 31, 2004 (UN-AUDITED)

Rebate Package. This arrangement was duly approved by the cabinet and announced, on behalf of GoP, by Pakistan Telecommunication Authority (PTA).

As per the award of GoP, PTCL started paying the Interim Relief Rebate up to June 30, 1998 and thereafter, unilaterally PTCL decided to discontinue payments against the said package.

The company, under the above-referred interim relief package, filed a law suit during the year ended June 30, 2000 against the PTCL in the Honourable High Court of Sindh for the recovery of Rs.71.276 million accrued up to October 1999 and consequential losses thereon aggregating to Rs.2,261.924 million. The Honourable High Court of Sindh, during the year ended June 30, 2002, on an application filed by the company, passed an interim order in favor of the company and appointed a firm of Chartered Accountants for the determination of the actual amount receivable (final sum) from the PTCL. The said firm calculated the relief rebate and interconnect discount in accordance with the direction of the Court, containing various amounts determined under various alternatives, for the period January 1997 to August 2001.

The company contends that the relief rebate allowed to it through PTA's letter dated January 20, 1997 is of a continuing nature as no cessation date is mentioned in that letter. The company further contends that the relief package was approved by the GoP after negotiations between the GoP and the company.

As the Honourable High Court of Sindh has already passed an interim order in August 2001 in favour of the company and in light of the above, the management of the company is confident that the recovery of the amount accrued to date would be as prayed by the company.

In the meantime, pending the determination of the final amount, as aforesaid, the company has accrued a sum of Rs. 39.957 million (June 30, 2004: Rs. 96.319 million) in the financial statements of the current period (note 25.1), in addition to a sum of Rs. 574.807 million accrued up to the year ended June 30, 2004.

In the opinion of the legal advisor of the company, the company has a strong case and the likelihood of losing the case is remote. Hence, the management is confident about the realization of the amount accrued to-date in the financial statements and considers the same to be virtually certain.

- (b) During the year ended June 30, 2002, the PTCL filed a law suit against the company for the recovery of Rs.334.313 million, alleging and disputing the relief rebate claimed / adjusted by the company. Against this sum, the company maintains that it has withheld Rs.100.238 (June 30, 2004: Rs.100.238) million, included in Rs.190.832 (June 30, 2004: Rs. 112.257) million shown under creditors as due to the PTCL and that the calculation made by the PTCL is also not correct. In the opinion of the legal advisor of the company, if it is decided by the court that the company is not entitled to the Karachi relief rebate and the decision in this case is against the company, then the company would have to pay only the amount actually held back by the company on account of Karachi relief rebate. If, however, it was concluded by the court that the relief rebate is applicable, then, no amount would be liable to be paid by the company to the PTCL but in fact the company would be entitled to recover certain amounts as claimed in law suit discussed in (a) above. As per the above-referred legal advisor, the result of the above lawsuit of the company is correlated with the proceeding of the lawsuit, as referred to in note 11.1 (a) above.

The Honourable High Court of Sindh, in its order dated June 25, 2003, ordered the company not to create third party interest on its fixed assets as well as undertakings except in the ordinary course of business till the disposal of this case.

- 11.2** This includes a sum of Rs.6.341 (June 30, 2004: Rs.6.341) million due in respect of interconnect discount the company is entitled for under an agreement signed by the company with the PTCL. It relates to the period commencing July 1998 to March 1999 and is also subject to the determination of the final sum, as stated in note 11.1 (a) above. The company is confident that it will recover the entire amount of Rs. 6.341 million from the PTCL and, hence, no provision has been made thereagainst in the financial statements of the current year.
- 11.3** Represents amounts over billed by PTCL in respect of Optical Fibre lines based on the rates applicable during the relevant billing periods. A refund claim in respect of the above is pending settlement.
- 11.4** This represents payments made to Pakistan Telecommunication Authority against their claims for additional royalty. These payments have been made under protest and the company believes that these amounts are not due to PTA and hence are refundable to the company. Pending the settlement of the matter, the management believes that no provision is necessary in respect of the above receivable.
- 11.5** This represents amount receivable from a bank in respect of the PTCL bills paid by the company into the bank but the same were not passed over to the PTCL by the bank. The company has filed a law suit in the Honourable High Court of Sindh for the recovery of Rs.0.998 million from the bank. Accordingly, pending a final decision by the Honourable High Court of Sindh in this regard, no provision has been made for the same in the financial statements of the current year.



Notes to the Financial Statements

For The Half Year Ended December 31, 2004 (UN-AUDITED)

	Note	December 31, 2004 Rupees	June 30, 2004 Rupees
12. CASH AND BANK BALANCES			
In hand		14,537,744	2,693,266
At banks in			
current accounts		1,095,263	9,987,041
Deposits accounts	12.1	<u>465,617,541</u>	<u>4,564,679</u>
		<u>481,250,548</u>	<u>17,244,986</u>

12.1 Includes Rs. 210 million Special Deposit Account in respect of right shares subscription.

13. DEPOSITS AGAINST ISSUE OF RIGHT SHARES

During the period the Board of Directors (BoD) in their meeting held on September 25, 2004 approved issuance of 200 percent right shares. Accordingly, the company received an aggregate amount of Rs. 1,011 million as subscription against the right issue during the period ended December 31, 2004. Subsequent to the balance sheet date the Board of Directors have approved allotment of 200,000,000 ordinary shares of the nominal value of Rs. 10/- each as right shares.

14. LONG-TERM LOANS

This includes bridge finance facility of Rs. 1,280 million from a consortium of bank / financial institutions availed for the payment of first installment of frequency spectrum fee to PTA under local loop license awarded to the company. The said financing has been disbursed by the consortium bank / financial institutions against their shares of Pre Initial Public Offering (IPO) placement in respect of proposed issue of Term Finance Certificates (TFCs) aggregating to Rs. 2,400 million.

15. LOCAL LOOP LICENSE FEE PAYABLE

Represents the balance of local loop license fee payable to PTA by May 30, 2005.

16. CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors

Pakistan Telecommunication Company Limited	16.1	186,300,341	112,257,417
ZTE Corporation Limited		46,586,650	45,571,350
Bills payable		456,170,750	388,846,673
Due to related parties		12,961,275	34,578,978
Other trade creditors		1,423,054	5,752,905
		<u>703,442,070</u>	<u>587,007,323</u>

Accrued liability

Accrued expenses		22,182,872	26,469,594
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Mark-up on secured:

Long term loans		25,088,845	857,991
Short term loans		411,196	2,704,666
Short term running finances		755,472	1,291,891
Interest on instalments of finance leases in overdue		<u>2,057,212</u>	<u>2,057,212</u>
		<u>28,312,725</u>	<u>6,911,760</u>

Other liabilities

Royalty payable to Pakistan Telecommunication Authority (PTA)		2,328,048	2,073,048
Access charges payable to PTCL		6,079,252	2,479,252
Advances from customers		1,787,370	965,767
Sales tax - net		2,364,971	7,099,009
Tax deducted at source	16.2	210,107,851	114,674,032
Book overdraft		4,428,836	-
Others		1,788,335	1,392,744
		<u>228,884,663</u>	<u>128,683,852</u>
		<u>982,822,330</u>	<u>749,072,529</u>

16.1 This amount represents net payable to PTCL in respect of their monthly bills, including the bills of Rs.100,238 million withheld by the company, as discussed in note 11.1(b), reduced by a sum of approximately Rs. 147 million (June 30, 2004: Rs. 147 million), which the company believes has been over billed by PTCL. The company is confident that the said amount will be adjusted from the future bills of PTCL, after the decision of the law suit, as referred to in note 11.1(a), has been made.

Notes to the Financial Statements

For The Half Year Ended December 31, 2004 (UN-AUDITED)

16.2 This represents advance tax on payphone cards withheld by the company but not deposited into the National Exchequer. The Association of Payphone Operators has filed a suit in the Honourable High Court of Lahore challenging the applicability of the provisions of Section 236 of the Income Tax Ordinance, 2001 which is currently pending hearing therewith. The company, being a member of the aforementioned association, has not deposited the tax withheld on the basis of the above mentioned case.

17. CONTINGENCIES AND COMMITMENTS

(a) Contingencies

17.1 There has been no change in the status of contingencies reported in the financial statements for the year ended June 30, 2004, which amounted to an aggregate sum of Rs. 67.302 million (June 30, 2004: Rs.66.301 million) at that date.

	December 31, 2004 Rupees	June 30, 2004 Rupees
(b) Commitments		
17.2 Outstanding letters of credit including capital expenditure	<u>429,471,589</u>	<u>416,031,299</u>
17.3 Counter guarantees given to banks	<u>30,000,000</u>	<u>30,000,000</u>
17.4 Commitments in respect of LDI and LL license	<u>-</u>	<u>3,200,000,000</u>
17.5 Rentals payable under operating lease agreements for vehicles are:		
Year ending December 31, 2005 / June 30, 2005	3,083,312	3,235,836
Year ending December 31, 2006 / June 30, 2006	<u>-</u>	<u>1,498,790</u>
	<u>3,083,312</u>	<u>4,734,626</u>

Note	Half-Year Ended		Quarter Ended	
	December 31, 2004 Rupees	December 31, 2003 Rupees	December 31, 2004 Rupees	December 31, 2003 Rupees

18. NET SALES AND SERVICES

Sales							
Pay phone cards		<u>983,608,817</u>	676,491,525	<u>490,404,926</u>	357,727,802		
Wireless terminals	4.2	<u>38,470,000</u>	129,384,835	<u>-</u>	70,262,298		
		<u>1,022,078,817</u>	805,876,360	<u>490,404,926</u>	427,990,100		
Less: Discount		<u>(41,521,357)</u>	(49,032,323)	<u>(22,934,372)</u>	(25,934,454)		
		<u>980,557,460</u>	756,844,037	<u>467,470,554</u>	402,055,646		
Service fee							
Membership fee		1,593,648	-	1,593,648	-		
Connection fee		39,191,745	-	39,191,745	-		
		<u>1,021,342,853</u>	<u>756,844,037</u>	<u>508,255,947</u>	<u>402,055,646</u>		



Notes to the Financial Statements

For The Half Year Ended December 31, 2004 (UN-AUDITED)

Note	Half-Year Ended		Quarter Ended	
	December 31, 2004 Rupees	December 31, 2003 Rupees	December 31, 2004 Rupees	December 31, 2003 Rupees
19. COST OF SALES AND SERVICES				
Pakistan Telecommunication Company Limited (PTCL) charges - net	613,004,244	409,715,882	295,962,036	227,851,910
Cost of cards sold	5,829,410	8,040,265	2,819,104	3,787,369
Cost of wireless terminals sold (note 4.2)	31,687,658	103,686,692	-	57,881,642
Optical Fibre Network	6,454,229	1,235,826	5,604,229	1,235,826
Depreciation	82,213,481	54,977,939	41,474,094	25,350,780
Royalty payable to PTCL	255,000	2,191,557	155,000	1,191,556
Access charges payable to PTCL	3,600,000	-	2,700,000	-
Cards printing charges	930,325	833,906	579,325	644,500
Insurance	1,556,750	1,405,355	1,084,541	952,832
Rentals for BTS	17,472,651	740,334	15,672,651	740,334
Pay phones and canopy maintenance - net	846,553	(205,163)	303,294	(237,531)
Pay phones and canopy rentals	1,296,165	1,418,400	575,709	727,950
Amortisation of deferred cost	9,331,149	3,037,366	4,208,333	1,764,466
Amortisation of royalty	111,111	166,666	27,778	83,333
Internet bandwidth	72,600	-	72,600	-
Railway royalty expense	250,680	140,679	250,680	140,679
	774,912,006	587,385,704	371,489,374	322,115,646
20. ADMINISTRATIVE AND SELLING EXPENSES				
Salaries and other benefits	39,703,815	30,401,232	23,522,651	15,552,897
Gratuity	2,900,000	2,125,843	1,700,000	2,125,843
Postage, telephone and telex	5,163,932	4,999,407	3,027,377	3,059,413
Vehicles running and maintenance	7,292,325	6,648,570	3,349,788	3,239,135
Travelling and entertainment	5,842,119	2,716,692	3,414,557	1,305,750
Office maintenance	1,188,801	865,645	623,042	107,281
Stationery and photocopies	1,559,052	978,968	860,617	376,267
Rent	9,878,262	5,942,454	5,955,730	3,011,109
Electricity	11,276,026	4,763,249	7,342,133	1,243,418
Insurance	1,352,241	618,690	787,926	445,532
Legal and professional charges	3,465,573	472,091	2,822,268	271,035
Auditors' remuneration	1,033,620	349,195	481,893	199,195
Sales promotion	23,230,921	2,820,865	17,161,028	2,223,545
Subscription	9,988,380	2,255,258	2,264,776	1,435,286
Operating lease rentals	1,651,314	1,611,823	825,657	1,611,823
Donations	83,000	1,500,000	60,000	1,500,000
Depreciation	8,328,032	5,022,551	1,464,243	2,519,343
Amortisation of deferred pre-launching expenses in respect of WLL Project	-	1,424,856	-	1,424,856
Underwriting fee	10,000,000	-	-	-
Commission of cards	40,240	-	40,240	-
Miscellaneous	889,288	731,015	634,478	618,103
	144,866,941	76,248,404	76,338,404	42,269,831
21. TAXATION				
Current	5,106,714	6,583,541	2,541,279	3,728,347
Deferred	51,575,964	21,882,423	46,710,461	21,560,938
	56,682,678	28,465,964	49,251,740	25,289,285

Notes to the Financial Statements

For The Half Year Ended December 31, 2004 (UN-AUDITED)



22. TRANSACTIONS WITH RELATED PARTIES

Related parties of the company comprise subsidiary, associated undertakings, directors and key management personnel. Material transactions with related parties, other than remuneration and benefits to the directors and key management personnel under the terms of their employment, are given below:

	December 31, 2004 Rupees	December 31, 2003 Rupees
Amount paid to the subsidiary in respect of internet hours purchased and data linkage charges	<u>60,000</u>	<u>2,429,118</u>
Expenditure charged by associated undertakings	<u>20,048,912</u>	<u>12,790,948</u>
Payments made by associated undertakings on behalf of the company	<u>11,114,760</u>	<u>1,187,994</u>
Amount charged by the company to an associated undertaking	<u>2,258,460</u>	<u>-</u>
Deposits / proceeds from issue of right shares subscribed by associated undertakings / directors	<u>1,000,000,000</u>	<u>12,617,500</u>
Amount paid to shareholders of Supernet Limited for the acquisition thereof	<u>-</u>	<u>200,554,100</u>

The above transactions are at arm's length using admissible valuation methods.

23. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 28, 2005 by the Board of Directors of the company.

24. GENERAL

24.1 Figures for the quarter ended December 31, 2004 and December 31, 2003 have not been subject to limited scope review by the auditors as it was not required under the law.

24.2 Figures have been rounded off to the nearest rupee.

Chief Executive

Director




Consolidated Balance Sheet

As At December 31, 2004 (UN-AUDITED)

	Notes	December 2004 Rupees	June 2004 Rupees
ASSETS			
NON-CURRENT ASSETS			
Tangible fixed assets			
Operating fixed assets	4	1,637,611,127	1,589,056,284
Capital work-in-progress	5	683,303,418	664,868,858
Uninstalled wireless terminals		129,420,008	-
		<u>2,450,334,553</u>	<u>2,253,925,142</u>
Intangible assets	6	3,422,442,812	106,575,035
Long term loans, deposits and advances		72,437,899	44,796,006
Deferred costs		33,259,658	42,590,807
Deferred taxation		73,824,863	73,824,863
CURRENT ASSETS			
Communication stores and spares		22,330,203	26,935,395
Stock-in-trade		15,796,221	76,248,022
Trade debts		183,234,357	157,795,647
Loans and advances		24,396,127	17,170,245
Deposits, Prepayments and Other Receivable	7	798,336,723	686,388,398
Taxation-net		141,798,150	134,195,297
Cash and bank balances	8	483,114,744	18,663,226
		<u>1,669,006,525</u>	<u>1,117,396,230</u>
TOTAL ASSETS		<u>7,721,306,310</u>	<u>3,639,108,083</u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVE			
Share capital			
Authorised			
400,000,000 (June 30, 2004: 125,000,000) Ordinary shares of Rs.10/- each		<u>4,000,000,000</u>	<u>1,250,000,000</u>
Issued, subscribed and paid-up			
100,000,000 (June 30, 2004: 100,000,000) Ordinary shares of Rs.10/- each		1,000,000,000	1,000,000,000
Revenue reserve			
Unappropriated profit		<u>446,252,807</u>	<u>439,600,579</u>
		<u>1,446,252,807</u>	<u>1,439,600,579</u>
DEPOSIT AGAINST ISSUE OF RIGHT SHARES		1,010,853,864	-
NON-CURRENT LIABILITIES			
Payable to a related party	9	-	179,908,872
Long term loans		1,635,577,309	405,641,410
Obligations under finance leases		152,502,734	193,438,652
Deferred liabilities		182,152,411	130,481,739
Long term deposits		61,416,735	64,958,971
		<u>2,031,649,189</u>	<u>974,429,644</u>
CURRENT LIABILITIES			
Current maturities of long term loans and obligations under finance leases		261,293,038	253,149,277
Short term loans		75,272,042	96,165,770
Short term running finances		247,537,059	69,235,935
Local loop license fee payable		1,609,126,000	-
Creditors, accrued and other liabilities	10	1,032,699,461	799,904,028
Dividends		6,622,850	6,622,850
		<u>3,232,550,450</u>	<u>1,225,077,860</u>
CONTINGENCIES AND COMMITMENTS	11		
TOTAL EQUITY AND LIABILITIES		<u>7,721,306,310</u>	<u>3,639,108,083</u>

The annexed notes 1 to 14 form an integral part of these financial statements.


Chief Executive


Director

Consolidated Profit and Loss Account

For The Half Year Ended December 31, 2004 (UN-AUDITED)



	Notes	Half - Year Ended		Quarter Ended	
		December 2 0 0 4 Rupees	December 2 0 0 3 Rupees	December 2 0 0 4 Rupees	December 2 0 0 3 Rupees
NET SALES AND SERVICES		1,197,717,459	887,666,201	600,730,043	467,095,822
Cost of sales and services		925,796,160	682,125,091	459,655,105	367,369,916
GROSS PROFIT		271,921,299	205,541,110	141,074,938	99,725,906
Administrative and selling expenses		182,011,493	109,533,786	114,535,910	59,904,461
OPERATING PROFIT		89,909,806	96,007,324	26,539,028	39,821,445
OTHER INCOME		11,526,329	2,321,858	9,197,712	1,241,860
		101,436,135	98,329,182	35,736,740	41,063,305
Financial charges		37,205,160	15,039,944	25,032,540	8,339,995
PROFIT BEFORE TAXATION		64,230,975	83,289,238	10,704,200	32,723,310
Taxation		57,578,747	18,389,637	51,939,403	14,258,058
NET PROFIT FOR THE PERIOD		6,652,228	64,899,601	(41,235,203)	18,465,252
Unappropriated profit brought forward		439,600,579	320,492,984	439,600,579	320,492,984
UNAPPROPRIATED PROFIT CARRIED FORWARD		446,252,807	385,392,585	398,365,376	338,958,236
BASIC EARNINGS PER SHARE		0.07	0.65	(0.41)	0.18

The annexed notes 1 to 14 form an integral part of these financial statements.

Chief Executive

Director



Consolidated Cash Flow Statement

For The Half Year Ended December 31, 2004 (UN-AUDITED)

	December 2 0 0 4 Rupees	December 2 0 0 3 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	64,230,975	32,723,310
Adjustments for non cash charges and other items:		
Depreciation	150,772,329	43,912,022
Provision for gratuity	2,900,000	1,062,227
Financial charges	37,205,160	6,699,949
Deferred Income	(1,396,897)	(646,668)
Royalty provided during the period	1,141,926	94,365
Gain on sale of fixed assets	(5,504,456)	(13,000)
Amortization of goodwill	5,826,814	2,913,407
Amortization of deferred cost	9,442,260	1,192,900
	<u>200,387,136</u>	<u>55,215,202</u>
Profit before working capital changes	264,618,111	87,938,512
(Increase) / Decrease in current assets		
Communication stores and spares	4,605,192	(1,471,053)
Stock-in-trade	60,451,801	(5,750,729)
Trade debts	(4,476,804)	(14,413,648)
Loans and advances	(32,063,977)	(7,406,317)
Deposits, Prepayments and Other Receivable	(119,024,729)	6,832,038
	<u>(90,508,517)</u>	<u>(22,209,709)</u>
Increase / (Decrease) in current liabilities	1,828,358,309	29,852,730
	<u>2,002,467,903</u>	<u>95,581,533</u>
Cash generated from operations		
Income tax paid	(13,573,473)	(11,630,248)
Financial charges paid	(13,473,948)	(8,352,788)
Gratuity paid	(1,408,394)	(392,323)
Royalty paid	-	(133,464)
Long term deposits and prepayments	(27,439,193)	(5,219,293)
Long term deposits	(3,744,936)	(304,863)
	<u>(59,639,944)</u>	<u>(26,032,979)</u>
Net cash inflow from operating activities	1,942,827,959	69,548,554
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure	(3,655,798,801)	(144,861,895)
Sale proceeds of fixed assets	-	692,000
Proceeds of sale and lease back of equipment	-	36,448,583
Investment in subsidiary	-	(185,445,462)
	<u>(3,655,798,801)</u>	<u>(293,166,774)</u>
Net cash used in investing activities	(3,655,798,801)	(293,166,774)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of right shares	1,010,853,864	497,787,000
Long term loans	1,280,000,000	-
Repayment of long term loans	(30,833,332)	(3,446,494)
Cash paid on behalf of shareholders	(174,764,000)	-
Repayment of short term loans	(20,893,728)	(35,932,266)
Repayment of obligations under finance leases	(65,241,568)	(112,701)
	<u>1,999,121,236</u>	<u>458,295,539</u>
Net cash inflow from financing activities	1,999,121,236	458,295,539
NET DECREASE IN CASH AND CASH EQUIVALENTS	286,150,394	234,677,319
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	(50,572,709)	(25,393,600)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	235,577,685	209,283,719

The annexed notes 1 to 14 form an integral part of these financial statements.


Chief Executive


Director

Consolidated Statement of Changes in Equity

For The Half Year Ended December 31, 2004 (UN-AUDITED)



	Share Capital	Revenue reserve	
	Issued, Subscribed and paid-up	Unappropriated Profit	Total
	----- Rupees -----		
Balance as at June 30, 2003	500,000,000	320,492,984	820,492,984
Issue of right shares	500,000,000	-	500,000,000
Net profit for the period ended December 31, 2003	-	64,899,601	64,899,601
Balance as at December 31, 2003	<u>1,000,000,000</u>	<u>385,392,585</u>	<u>1,385,392,585</u>
Balance as at June 30, 2004	1,000,000,000	439,600,579	1,439,600,579
Net profit for the period ended December 31, 2004	-	6,652,228	6,652,228
Balance as at December 31, 2004	<u>1,000,000,000</u>	<u>446,252,807</u>	<u>1,446,252,807</u>

The annexed notes 1 to 14 form an integral part of these financial statements.

Chief Executive

Director



Notes to the Consolidated Financial Statements

For The Half Year Ended December 31, 2004 (UN-AUDITED)

1. THE GROUP AND ITS OPERATIONS

Telecard Limited (the holding company) was incorporated in Pakistan on October 29, 1992 as a public limited company. The shares of the company are listed on the Karachi and Islamabad Stock Exchanges. The company has obtained a license from the Government of Pakistan to install, own and operate a network of card operated wireline payphones throughout the country and has, therefore, embarked on building a nationwide payphones network. The company is also operating a country wide network of Wireless Local Loop (WLL) payphones.

Telecard Limited holds 100% equity in Supernet Limited. Supernet Limited has been granted a license by the Ministry of Communications, Government of Pakistan, to establish and operate a data network system in Pakistan and is currently engaged in providing satellite and microwave communication services e.g. internet, radiolinks, Single Channel Per Carrier (SCPC), Time Division Multiple Access (TDMA), etc. and sale and installation of related equipment and accessories.

The principal place of business of the group is located at World Trade Centre, 10, Khayaban-e-Roomi, Clifton, Karachi.

2. BASIS OF PREPARATION

These consolidated financial statements are unaudited and are being submitted to the shareholders in accordance with section 237 of the Companies Ordinance, 1984. These have been prepared in accordance with the requirements of International Accounting Standard (IAS) - 34 "Interim Financial Reporting", as applicable in Pakistan.

3. ACCOUNTING POLICIES

The accounting policies and methods of computation followed in the preparation of these consolidated financial statements are the same as those applied in preparing the financial statements of the group for the year ended June 30, 2004. However, the new accounting policy for intangible assets has been adopted during the year as disclosed in note 3.1.1 to the company's financial statements for the current period.

4. OPERATING FIXED ASSETS

	December 2004 Rupees	June 2004 Rupees
Opening carrying value	1,589,056,284	770,478,682
Add: Fair value of assets acquired from Supernet Limited	-	140,283,487
Add: Additions during the period / year	199,327,173	984,005,992
	<u>1,788,383,457</u>	<u>1,894,768,161</u>
Less: Depreciation charge for the period / year	150,772,330	190,949,468
Less: Disposals during the period / year	-	114,762,409
	<u>150,772,330</u>	<u>305,711,877</u>
	<u>1,637,611,127</u>	<u>1,589,056,284</u>

5. CAPITAL WORK-IN-PROGRESS

Wireless local loop equipment	675,753,352	515,324,579
Advances to suppliers	7,550,066	12,229,279
	<u>683,303,418</u>	<u>527,553,858</u>
Intangible		
Advances to Pakistan Telecommunication Authority (PTA) in respect of LL and LDI licenses	-	137,315,000
	<u>683,303,418</u>	<u>664,868,858</u>

6. INTANGIBLE ASSETS

Goodwill	116,536,289	116,536,289
Wireless Local Loop (WLL) License	3,240,525,000	-
Long Distance International (LDI) License	29,029,000	-
Computer Software	2,019,487	1,922,107
Financial costs	52,244,226	-
	<u>3,440,354,002</u>	<u>118,458,396</u>
Amortisation to date:		
Goodwill	17,480,443	11,653,629
Computer Software	430,747	229,732
	<u>17,911,190</u>	<u>11,883,361</u>
	<u>3,422,442,812</u>	<u>106,575,035</u>

Notes to the Consolidated Financial Statements

For The Half Year Ended December 31, 2004 (UN-AUDITED)



7. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Included in other receivables are amounts due from Pakistan Telecommunication Company Limited (PTCL) in respect of:

- (i) Karachi Relief Rebate, amounting to Rs. 614.764 (June 30, 2004: Rs. 574.807) million;
- (ii) Interconnect discount, amounting to Rs. 28.701 (June 30, 2004: Rs. 28.701) million; and
- (iii) Payments for Optical Fibre, amounting to Rs. 10.361 (June 30, 2004: Rs. Nil) million.

8. CASH AND BANK BALANCES

	December 2004 Rupees	June 2004 Rupees
In hand	14,761,187	3,039,132
At banks in		
Current accounts	2,736,016	11,059,415
Deposit accounts	8.1 <u>465,617,541</u>	<u>4,564,679</u>
	<u>483,114,744</u>	<u>18,663,226</u>

8.1 Includes Rs. 210.000 million Special Deposit Account in respect of right shares subscription.

9. PAYABLE TO A RELATED PARTY

Balance due	-	174,764,000
Interest thereon	<u>-</u>	<u>5,144,872</u>
	<u>-</u>	<u>179,908,872</u>

10. CREDITORS, ACCRUED AND OTHER LIABILITIES

Included herein is a sum of Rs. 456.171 (June 30, 2004: Rs. 388.847) million on account of Bills Payable.

11. CONTINGENCIES AND COMMITMENTS

(a) Contingencies

11.1 There has been no change in the status of contingencies reported in the consolidated financial statements for the year ended June 30, 2004, which amounted to an aggregate sum of Rs. 67.302 million (June 30, 2004: Rs. 66.301 million) at that date.

(b) Commitments

	December 2004 Rupees	June 2004 Rupees
11.2 Outstanding letters of credit	<u>429,471,589</u>	<u>416,031,299</u>
11.3 Counter guarantees given to banks	<u>30,000,000</u>	<u>30,000,000</u>
11.4 Commitments in respect of LL and LDI licenses	<u>-</u>	<u>3,200,000,000</u>
11.5 Rentals payable under operating lease agreements for vehicles and equipments are:		
Year ending December 31, 2005 / June 30, 2005	18,169,028	18,321,552
December 31, 2006 / June 30, 2006	15,085,516	16,584,506
December 31, 2007 / June 30, 2007	8,042,858	15,585,716
	<u>41,297,402</u>	<u>50,491,774</u>

12. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

Related parties of the group comprise associated undertakings, directors and key management personnel. Material transactions with related parties, other than remuneration and benefits to the directors and key management personnel under the terms of their employment, are given below;



Notes to the Consolidated Financial Statements

For The Half Year Ended December 31, 2004 (UN-AUDITED)

	December 2004 Rupees	December 2003 Rupees
Amount charged by the group to associated undertakings	<u>5,077,260</u>	<u>-</u>
Expenditure charged by associated undertakings	<u>26,739,283</u>	<u>12,790,948</u>
Payments made by associated undertakings on behalf of the group	<u>11,114,760</u>	<u>1,187,994</u>
Payments made by the group on behalf of associated undertakings	<u>3,398,220</u>	<u>-</u>
Deposits / proceeds from issue of right shares subscribed by associated undertakings / directors	<u>1,000,000,000</u>	<u>12,617,500</u>
Amount paid to shareholders of Supernet Limited for the acquisition thereof	<u>-</u>	<u>200,554,100</u>

The above transactions are at arm's length using admissible valuation methods.

13. DATE OF AUTHORISATION FOR ISSUE

These consolidated financial statements were authorised for issue on February 28, 2005 by the Board of Directors of the company.

14. GENERAL

Figures have been rounded off to the nearest rupee.

Chief Executive

Director