Contents

Company Information
at a glance

Board of Directors

Lt Gen (Retd) Syed Muhammad Amjad, HI, HI (M)	Chairman
Maj Gen (Retd) Rehmat Khan, HI (M)	Chief Executive / MD
Brig (Retd) Ghulam Hussain, SI (M)	Director
Mr. Qaiser Javed	Director
Mr. Riyaz H. Bokhari, IFU	Director
Mr. Erling Frandsen, F.L. Smidth & Co	Director
Mr. Muhammad Raza Mirza, CDC	Director
Brig (Retd) Aftab Ahmad, SI (M)	Director
Brig (Retd) Ghazanfar Ali, SI (M)	Director
Mr. Nadir Rahman	Director

Company Secretary:	Brig (Retd) Allah Ditta, SI (M) House No. 8, Street No. 30, Sector F-7/1, Islamabad - Pakistan Tel: (051) 9221690 Fax: (051) 9221693 E-mail: fcclsecy1@isd.wol.net.pk Web Site: http: //www.fccl.com.pk
Audit and Finance Committee:	Mr. Qaiser Javed, President Mr. Riyaz H. Bokhari, Member Mr. Muhammad Raza Mirza, Member Brig (Retd) Aftab Ahmad, SI (M), Member Mr. Nadir Rahman, Member
Registered Office and Marketing/Sales Department:	Ist Floor, Aslam Plaza, 60 Adam Jee Road, Saddar, Rawalpindi, Pakistan Tel: (051) 5523836, 5528042, 5528960, 5528963-64, 9270434 Fax: (051) 5528965-66
Factory:	Near Village Jhang, Tehsil Fateh Jang District: Attock Tel: 0596-538047-48, 538138, 538148-49 Fax: 0596-538025
Auditors:	M/s Taseer Hadi Khalid & Co, Chartered Accountants Fax No: (051) 2822671
Legal Advisors:	M/s Orr. Dignam & Co, Advocates Fax No: (051) 2260653 Farooq Law Associates, Advocates & Attorneys Fax No: (051) 2272643
Registration & Shares Transfer Officer	Mr. Aftab Muhammad Hafeez, Shares Manager House No. 8, Street No. 30, Sector F-7/1, Islamabad Tel: (051) 9221695

Vision Statement

To turn around the Company with a view to making it a profitable concern through its life while contributing to National Development and benefiting all stake-holders, inclusive of employees, in an optimal manner.

• • •

Mission Statement

FCCL to optimise profitability in order to ensure fair return to shareholders, as soon as possible, on a continuous basis while ensuring product quality and in the process contribute towards national development.

Notice
of the Twelfth Annual General Meeting

Notice is hereby given that the Twelfth Annual General Meeting of the Company will be held at 09:30 A.M. on Tuesday, 12 October 2004 at Hotel Pearl Continental, The Mall, Rawalpindi, to transact the following business:-

1. To confirm the minutes of Eleventh Annual General Meeting held on 8 December 2003.

2. To receive, consider and adopt the audited accounts of the Company alongwith the Directors' and the Auditors' Reports for the year ended 30 June 2004.

3. To appoint auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS

4. To seek the consent of shareholders for transmission of quarterly accounts through website in compliance with Section 245 of the Companies Ordinance 1984 and Securities & Exchange Commission of Pakistan's circular No. 19 of 2004 and if deemed fit pass the following resolution as an ordinary resolution:-

   "Resolved that the Company is hereby authorized to place its quarterly accounts on its website instead of sending the same to members by post, subject to compliance with the Securities & Exchange Commission of Pakistan's circular No. 19 of 2004".

5. Any other business with the permission of the Chairman.

By order of the Board

Place: Rawalpindi
Date: 20 September 2004

Brig (Retd) Allah Ditta, SI (M)
Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from 04 October 2004 to 12 October 2004 (both days inclusive). No transfer will be accepted for registration during this period.

2 A member entitled to attend and vote at the Annual General Meeting may appoint a proxy to attend and vote in place of the member. Proxies, in order to be effective, must be received at the Registered Office located at First Floor, Aslam Plaza, 60 Adam Jee Road, Saddar, Rawalpindi, Pakistan duly stamped and signed, not less than 48 hours before the Meeting. A member may not appoint more than one proxy. Proxy Form is placed at the end.

3. CDC Account Holders will further have to follow the undermentioned guidelines as laid down by the Securities & Exchange Commission of Pakistan:-

(A) For attending the Meeting

(1) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the regulations, shall authenticate his/her identity by showing his/her original national identity card or original passport at the time of attending the meeting.

(2) In case of corporate entity, the Board of Directors' resolution/ power of attorney with specimen signature of the nominee shall be produced at the meeting.

(B) For appointing proxies

(1) In case of individuals, the account holder or sub-account holder and/or the persons whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.

(2) The proxy form shall be witnessed by two persons whose names, addresses and NIC numbers shall be mentioned on the form.

(3) Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

(4) The Proxy shall produce his/her original NIC or original passport at the time of meeting.

(5) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted along with proxy form to the Company.

4. Members are requested to promptly notify any change in their address.

5. For any other information, contact Ph: 051-9221690, Fax No: 051-9221693, E-mail: **fcclsecy1@isd.wol.net.pk** and Web Site: **http://www.fccl.com.pk**

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

1. This statement sets out the material facts concerning the Special Business, given in agenda item No. 4 (Placement of Quarterly Accounts on Website) to be transacted at the Annual General Meeting of Fauji Cement Company Limited to be held at Hotel Pearl Continental, The Mall, Rawalpindi on Tuesday, October 12, 2004.

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

3. The Company is maintaining a website **www.fccl.com.pk** and latest accounts are already being placed there for information of the shareholders and the general public. Prior permission of the Securities & Exchange Commission of Pakistan would be sought for transmitting the quarterly accounts through Company's website after the approval of the shareholders. The Company, however, will supply the copies of accounts to the shareholders on demand at their registered address, free of cost, within one week of receiving such request.

4. The Directors of the Company have no interest in the above resolution that would need a further disclosure.

Report of the Directors - 2004

General

1. The Directors of Fauji Cement Company Limited (FCCL) are pleased to present the Twelfth Annual Report alongwith Company's audited accounts for the financial year ended 30 June 2004 and Auditors' Report thereon. With His utmost kindness and beneficence, Allah has made it possible for the Company to report an all-round betterment and progress.

Market Overview

2. Cement industry in Pakistan has shown excellent recovery in the year 2003-2004. Although the capacity is still underutilized, the overall industry-wise cement sales (including exports) were 13,634,463 tons i.e 19.49% higher than the year 2002-2003. In the backdrop of this industrial rebound, FCCL has shown comparatively strong growth i.e 29.51 % higher than last year. Despite occasional ups and downs in the industry and low rates of some brands, your company has increased its domestic market share as compared to last year. Our export profile has been equally impressive at a premium rate. Highlights are as under:-

a.	**Fauji Cement's Performance**	**2003-2004**	**2002-2003**	**Difference**
	Domestic dispatches (tons)	719,165	616,621	+16.63%
	Exports (tons)	113,314	26,150	+333.32%
	Total Dispatches (tons)	832,479	642,771	+29.51%
	Capacity Utilization (%)	88.09%	68.02%	+20.07
	Market Share (North Zone)	7.45%	7.06%	+ 0.39
	Export Share	10.13%	6.07%	+ 4.06
	Net Sales (Rs. In Millions)	2,296.231	1,510.738	+51.99%
	Operating Profit (Rs. In Millions)	680.339	122.213	+456.68%

b.	**Overall Industrial Data**			
	Local Dispatches (tons)	12,516,355	10,979,816	+13.99%
	Exports (tons)	1,118,108	430,322	+159.83%
	Total Dispatches (tons)	13,634,463	11,410,138	+19.49%
	Capacity Utilization (%)	80.70%	67.42%	+13.28

3. It is expected that during the next three years demand of cement will grow by about 10% per annum, thus achieving full utilization of present capacity. This has encouraged most of the cement plants to undertake expansion/ optimization. Accordingly FCCL has also to undertake capacity enhancement. Our dealers' network and institutional selling (projects) are well poised to absorb the additional business.

Production Aspects

4. Performance of the plant remained satisfactory. In terms of fuel, power, raw material consumption and human resources cost, our plant is still among the best. Due to improved demand of cement our production has shown a remarkable increase over the previous year. Comparative production figures are given hereunder:-

				2003-2004	2002-2003	Difference
a.	Clinker	(tons)	=	799,617	583,796	+36.97%
b.	Cement	(")	=	826,203	643,218	+28.45%
c.	Average cost / ton	(Rs)	=	1,868.40	2,077.15	(-)10.05%

5. To reduce the fuel cost, FCCL installed gas firing system in the main burner in October 2003. However the gas was not available for about three months in winter. Combined with the indigenized coal firing system for calciner already working, the average fuel consumption at the plant during 2003-2004 came to 49% coal, 21% gas and only 30% furnace oil as compared to 32% coal and 68% furnace oil in 2002-2003.

6. The coal grinding plant supplied and installed by M/s CEMAG of Germany is in the process of being commissioned and once completed it will result in saving of cost.

7. To guard against non-availability of good quality coal and maintain flexibility in face of rising coal prices, an order for calciner burners and gas station has been placed with M/s CEMAG.

8. A contract for up-grading of the plant from present rated capacity of 3000 tpd to 3700 tpd has been signed with M/s F.L. Smidth of Denmark, the original suppliers of plant. This project will, Insha-Allah, be completed by June 2005.

Financial Overview

9. We are happy to report that the company has been able to fulfill its mission of achieving profitability well before the deadline set last year. The profit and loss account for the year ended June 30, 2004 shows the net profit after tax of Rs. 314.148 million as compared to last year's loss of Rs. 531.381 million despite amortising the deferred cost of Rs. 762.152 Millions during this year. This is mainly due to the following factors:-

a. The average cost of sales per ton of cement has decreased to Rs. 1,868 as compared to Rs. 2,077 last year due to better capacity utilization of 88 % as compared to 68 % last year, partial use of gas / coal and some other cost cutting measures. Consequently there is an increase in gross profit margin from 12% of last year to 32% this year.

b. Financial charges during the year ended 30 June 2004 have decreased to Rs. 204 million as compared to Rs. 463 million last year as a result of re-profiling and rescheduling of refinanced local loans at lower interest rate, prepayment of secured foreign loans and settlement of certain local loans at softer terms.

c. In line with the requirements of International Accounting Standard 12 “Income Taxes”, Net Deferred Tax Asset of Rs 570.039 million has been recognized as explained in notes 12 and 24 of the financial statements.

Re-profiling and Re-pricing of Loans

10. In order to reduce financial charges, the Company took the following steps:

a. Prepaid local loans of Rs 499.323 million.

b. Refinanced all outstanding foreign loans as on January 30, 2004 by less costly guaranteed local loans.

c. Reduced mark-up rate of the guaranteed local loans from 6 Month T Bill rate + 1% to 6 Month T Bill rate + 0.8% with effect from January 2004.

d. FCCL is in the process of signing an agreement with a consortium of local banks for refinancing of guaranteed loans of Rs. 3.3 Billions against the first charge on all present and future assets. This will further reduce financial charges.

Salient Aspects of Company's Control and Reporting Systems

11. The Company is working transparently and efficiently as per laid-down guidelines of the Regulatory Authorities. The views of the Board on various aspects are as under:-

a. Presentation of Financial Statements. The financial statements prepared by the management present the Company's state of affairs, the results of its operations, cash flows and changes in equity and future prospects fairly and accurately.

b. Books of Account. Proper books of accounts have been maintained.

c. Accounting Policies. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment (except for accounting policy in respect of gratuity as explained in note 2.14 of the financial statements).

d. Compliance with International Accounting Standards (IAS). International Accounting Standards as applicable in Pakistan, have been followed in preparation of financial statements.

e. **Internal Control System.** The system of internal control is sound in design, has been effectively implemented and is being monitored continuously. The Company is in the process of installing a modern MIS to streamline analysis, planning, control and coordination. Frequent review of procedures is also undertaken.

f. **Going Concern.** The company has a sound potential to continue as a going concern.

g. **Best Practices of Corporate Governance.** There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations and other guidelines applicable to the Company for the year ended June 30, 2004.

h. **Deviations from Last Year's Operating Results.** The company has done better due to stable market environment, enhanced efficiency and re-profiling of debt.

j. **Financial Data of Last Six Years.** Key operating and financial data of last six years is given below:-

Description	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Operating Results (Rs) in Millions)						
Net Sales	2,296.231	1,510.738	1,586.606	1,575.604	1,696.581	1,340.411
Gross Profit	740.824	175.605	398.707	307.202	522..887	222.339
Operating Profit	680.339	122.213	317.023	237.677	482.081	178.601
Financial Charges	204.223	463.409	416.732	807.856	763.906	745.565
Profit/(Loss) after taxation	314.148	(531.381)	(110.480)	(570.455)	(282.974)	(562.901)
Balance Sheet						
Shareholder's Equity	1,939.134	1,624.986	2,156.367	228.674	799.129	1,082.103
Fixed Assets	4,729.253	4,659.449	4,854.117	5,210.007	5,139.740	5,376.742
Working Capital	202.344	249.006	223.735	(3,342.227)	(2,646.994)	(1,845.043)
Long Term Loans including Current portion	3,645.347	4,325.878	4,412.582	4,588.028	3,723.456	3,755.552

k. **Dividend.** Keeping in view the accumulated losses of the Company it is not yet in a position to declare any dividend.

l. **Outstanding Statutory Dues.** The Company does not have any outstanding statutory dues except Sales Tax appearing in Note No 7 to Annual Accounts 2003-2004.

m. **Significant Plans and Decisions.** Paras 3 to 10 refer.

n. **Value of Investment of Employees.** As on 30 June 2004 the value is given below:-

		Management Staff	Non-Management Staff
Pension Fund	:	Nil	Nil
Provident Fund	:	21,416,432	16,168,357

o. **Attendance of Meetings.** During the year (1 July 2003 to 30 June 2004) the Board of Directors held three meetings. Attendance of each director is as follows:-

*	Lt Gen (Retd) Syed Muhammad Amjad, HI, HI (M)	-	3 Meetings
*	Maj Gen (Retd) Rehmat Khan, HI (M)	-	3 Meetings
*	Brig (Retd) Ghulam Hussain, SI (M)	-	3 Meetings
*	Mr. Qaiser Javed	-	3 Meetings
*	Mr. Riyaz H. Bokhari, IFU	-	3 Meetings
*	Mr. Muhammad Raza Mirza, CDC	-	1 Meeting
*	Mr. Erling Frandsen, FLS	-	Nil
*	Brig (Retd) Aftab Ahmad, SI (M)	-	3 Meetings
*	Brig (Retd) Arshad Shah, SI (M)	-	2 Meetings
*	Brig (Retd) Ghazanfar Ali, SI (M)	-	1 Meeting

p. **Disclosures.** To the best of our knowledge, the Directors, CEO, CFO, Company Secretary, Company's Auditors, their spouses and their minor children have not undertaken any trading of Company's shares during the year 2003-2004.

Pattern of Share-holdings

12. Pattern of share-holdings as on 30 June 2004 is attached.

Relations With Personnel and Locals

13. Relations between the management and the workers continue to be extremely cordial based on mutual respect and confidence contributing to the optimally high efficiency of the Company. Concurrently the company continues to enjoy a high degree of good-will and cooperation from locals in the Area.

Directors

14. After approval by the shareholders in the 11th AGM to increase the number of Directors from 9 to 10; Brig (Retd) Ghazanfar Ali has been elected and appointed as 10th Director of the company.

15. On retirement of Brig (Retd) Arshad Shah, Mr Nadir Rahman has been appointed as Director of the Company with effect from 27 July 2004. The Board places on record its appreciation for the valuable advice and services rendered by the retired director and welcomes the new directors on the Board.

Auditors

16. a. The present auditors M/s Taseer Hadi Khalid & Co, Chartered Accountants, will retire at the conclusion of the 12th Annual General Meeting and, being eligible, have offered themselves for re-appointment at a total fee of Rs. 500,000/- for annual audit and half yearly review.

b. They are also recommended by the Audit Committee.

Acknowledgments

17. The Directors express their deep appreciation for the constant support and encouragement of Fauji Foundation, the dedication of company's employees and the cooperation of financial institutions / government agencies, which has enabled the company to display good performance both in operational and financial fields and make a financial turn-around giving the glimpse of a bright future.

Conclusion

18. With profound thanks for the blessings of Allah Almighty, the Board is of the firm opinion that the Company is on its way to lasting success.

For and on behalf of the Board

Lt Gen (Retd) Syed Muhammad Amjad, HI, HI(M)
Chairman

Rawalpindi
17 September 2004

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the code in the following manner:-

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board comprises ten directors out of whom only one is executive director. Remaining nine (including the Chairman) are non-executive directors; out of these nine, three are nominees of smaller parties.

2. The directors have confirmed that none is serving as a director in more than ten listed companies, including this Company.

3. All the resident directors of the Company have confirmed that they are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. Casual vacancies occurring in the Board as a result of resignation by various directors were filled up by the directors without any gap.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along-with the dates on which they were approved or amended has been maintained. The same are being updated.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter except the first quarter as annual accounts 2003 and first quarter accounts were approved in one meeting in October 2003. Written notices of the Board meetings, along with agenda and working papers, were normally circulated seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.

9. All the directors of the Board are fully conversant of their duties and responsibilities as directors. Orientation courses will be conducted as and when considered necessary.

10. The appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, were made by the CEO as per authorization / approval of the Board. However Internal Auditor resigned in May 2004, subsequent to which the internal audit function was outsourced to M/s Ebrahim & Co who are effectively reporting to the Audit Committee.

11. The Directors' Report for FY 2003-2004 has been prepared in compliance with the requirements of the code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were presented by CEO and CFO for approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company, other than as disclosed in pattern of share-holding, except recently appointed Director Mr Nadir Rahman who holds 3000 shares purchased on a date before 27 July 2004 when he became the director.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an audit committee. It comprises five members and all of them are non-executive directors including the President of the committee.

16. The meetings of the audit committee were held prior to approval of interim and annual results of the Company and as required by the code. The committee is following the terms of reference given in the Code of Corporate Governance.

17. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review Programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

19. We confirm that all other material principles contained in the Code have been complied with in spirit to ensure transparency, accountability and efficiency.

Rawalpindi
17 September 2004

Lt Gen (Retd) Syed Muhammad Amjad, HI, HI (M)
Chairman
NIC No 36302-0407304-1

Statement of Compliance with the Best Practices on Transfer Pricing for the Year Ended 30 June 2004

The Company has fully complied with the best practices on Transfer Pricing as contained in the related Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges.

Rawalpindi
17 September 2004

Lt Gen (Retd) Syed Muhammad Amjad, HI, HI (M)
Chairman
NIC No 36302-0407304-1

Review Report to the Members

on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Fauji Cement Company Limited ("the Company") to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

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

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

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

ISLAMABAD
7 September 2004

TASEER HADI KHALID & CO.
CHARTERED ACCOUNTANTS

Auditors' Report to the Members of Fauji Cement Company Limited

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

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

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

(a) In our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion-

   (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as stated in note 2.15 with which we concur;

   (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2004 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance 1980 (XVIII of 1980).

Taseer Hadi Khalid & Co.

ISLAMABAD
7 September 2004

TASEER HADI KHALID & CO.
CHARTERED ACCOUNTANTS

Balance Sheet
as at June 30, 2004

	Note	2004 Rupees	2003 Rupees
SHAREHOLDERS' EQUITY			
Authorized share capital:			
Ordinary shares:			
551,300,813 ordinary shares of Rs. 10 each		5,513,008,130	5,513,008,130
Preference shares:			
48,699,187 preference shares of Rs. 10 each		486,991,870	486,991,870
		6,000,000,000	6,000,000,000
Issued, subscribed and paid-up capital	3	4,194,422,350	4,194,422,350
Accumulated loss		(2,255,288,327)	(2,569,436,163)
		1,939,134,023	1,624,986,187
LONG TERM LOANS	4	3,558,839,081	4,188,487,125
PROVISION FOR STAFF RETIREMENT BENEFITS	5	40,264,085	27,450,649
CURRENT LIABILITIES			
Current portion of long term loans	4	86,508,407	137,390,439
Short term loan	6	–	15,914,497
Creditors, accrued and other liabilities	7	285,607,944	319,027,853
		372,116,351	472,332,789
CONTINGENCIES AND COMMITMENTS	8	–	–
		5,910,353,540	**6,313,256,750**

The annexed notes 1 to 30 form an integral part of these accounts.
These accounts were approved for issue by the Board of Directors of the Company in their meeting held on 07 September 2004.

Chairman

	Note	2004 Rupees	2003 Rupees
FIXED CAPITAL EXPENDITURE			
Operating fixed assets - tangible	9	4,386,945,532	4,581,054,157
Capital work in progress	10	342,308,435	78,395,337
		4,729,253,967	4,659,449,494
DEFERRED COST	11	–	762,151,922
DEFERRED TAX ASSET - NET	12	570,038,539	–
LONG TERM DEPOSITS	13	36,600,000	21,600,000
LONG TERM ADVANCE		–	4,000,000
FOREIGN EXCHANGE RISK INSURANCE CONTRACT		–	144,716,969
CURRENT ASSETS			
Stores, spares and loose tools	14	197,400,283	188,640,194
Stock in trade	15	61,599,838	47,962,326
Trade debtors	16	44,788,587	45,244,848
Advances, deposits, prepayments and other receivables	17	73,584,212	60,721,925
Current portion of Foreign Exchange Risk Insurance Contract		–	184,776,841
Cash and bank balances	18	197,088,114	193,992,231
		574,461,034	721,338,365
		5,910,353,540	**6,313,256,750**

Chief Executive

Director

Profit and Loss Account
for the year ended June 30, 2004

	Note	2004 Rupees	2003 Rupees
SALES		3,247,262,167	2,488,991,903
Less : Sales tax and excise duty		951,030,699	978,253,894
NET SALES		2,296,231,468	1,510,738,009
Less: Cost of sales	19	1,555,407,148	1,335,132,784
GROSS PROFIT		740,824,320	175,605,225
General and administration expenses	20	40,068,452	38,375,591
Selling and distribution expenses	21	20,416,474	15,016,844
		60,484,926	53,392,435
OPERATING PROFIT		680,339,394	122,212,790
Other income	22	42,744,472	8,526,766
		723,083,866	130,739,556
Financial charges	23	204,222,647	463,409,114
		518,861,219	(332,669,558)
Amortization of deferred cost	11	762,151,922	191,061,437
LOSS BEFORE TAXATION		(243,290,703)	(523,730,995)
Taxation	24	557,438,539	(7,650,000)
PROFIT/(LOSS) AFTER TAXATION		314,147,836	(531,380,995)
Earnings/(loss) per share - Basic	25	0.85	(1.43)
Earnings/(loss) per share - Diluted	25	0.75	(1.27)

The annexed notes 1 to 30 form an integral part of these accounts.

Cash Flow Statement
for the year ended June 30, 2004

	Note	2004 Rupees	2003 Rupees
Cash flows from operating activities			
Net loss before taxation		(243,290,703)	(523,730,995)
Adjustment for:			
Depreciation		245,806,428	248,018,465
Amortization/write off of deferred cost		762,151,922	191,061,437
Provision for staff retirement benefits		14,597,994	7,387,675
Provision for doubtful debts written back		(32,680,086)	–
Financial charges		204,222,647	463,409,114
Gain on disposal of fixed assets		(377,646)	(1,258,587)
Interest on bank deposits		(9,517,468)	(6,795,471)
		1,184,203,791	901,822,633
Operating Cash Flow before working capital changes		940,913,088	378,091,638
Increase in stores and stocks		(19,470,603)	(32,574,129)
Decrease/(increase) in receivables		25,519,404	(8,888,128)
Increase in payables		60,129,735	3,739,527
		66,178,536	(37,722,730)
Cash generated from operations		1,007,091,624	340,368,908
Staff retirement benefits paid		(1,784,558)	(4,556,468)
Taxes paid		(16,349,822)	(4,348,775)
Net cash from operating activities		988,957,244	331,463,665
Cash flows from investing activities			
Fixed capital expenditure		(319,754,253)	(15,717,318)
Insurance claim realized on fixed assets		1,494,000	1,444,000
Proceeds from sale of fixed assets		100,000	1,870,374
Long term advance		4,000,000	(4,000,000)
Payment of long term deposit		(15,000,000)	–
Income received on bank deposits		8,021,947	6,822,540
Net cash used in investing activities		(321,138,306)	(9,580,404)
Cash flows from financing activities			
Proceeds from long term borrowings		973,924,959	492,084,693
Repayment of long term loans		(1,324,961,225)	(466,081,411)
Short term borrowings		(15,914,497)	(60,991,184)
Financial charges paid		(297,772,292)	(382,040,822)
Net cash used in financing activities		(664,723,055)	(417,028,724)
Net increase/(decrease) in cash and cash equivalents		3,095,883	(95,145,463)
Cash and cash equivalents at the beginning of the year		193,992,231	289,137,694
Cash and cash equivalents at the end of the year	18	197,088,114	193,992,231

The annexed notes 1 to 30 form an integral part of these accounts.

Statement of Changes in Equity
for the year ended June 30, 2004

	Ordinary share capital Rupees	Preference share capital Rupees	Accumulated loss Rupees	Total Rupees
Balance as at June 30, 2002	3,707,430,480	486,991,870	(2,038,055,168)	2,156,367,182
Loss for the year	–	–	(531,380,995)	(531,380,995)
Balance as at June 30, 2003	3,707,430,480	486,991,870	(2,569,436,163)	1,624,986,187
Profit for the year	–	–	314,147,836	314,147,836
Balance as at June 30, 2004	3,707,430,480	486,991,870	(2,255,288,327)	1,939,134,023

The annexed notes 1 to 30 form an integral part of these accounts.

Notes to the Accounts
for the year ended June 30, 2004

1. LEGAL STATUS AND OPERATIONS

Fauji Cement Company Limited ("the Company") is a public limited company incorporated in Pakistan on 23 November 1992 under the Companies Ordinance, 1984. The Company commenced its business with effect from 22 May 1993. The shares of the Company are quoted on all the three stock exchanges in Pakistan. The principal activity of the Company is manufacturing and sale of ordinary portland cement and its registered office is situated at Aslam Plaza, Adamjee Road, Rawalpindi. Fauji Foundation holds 52% of its shares as a major sponsor of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

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

2.2 Accounting convention

These accounts have been prepared under the historical cost convention.

2.3 Taxation

Current

Provision for current taxation is based on taxable income at current rates of taxation.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of tax. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent to which it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

2.4 Fixed capital expenditure

Operating assets except freehold land are stated at cost less accumulated depreciation. Freehold

Land and capital work in progress are stated at cost. Stores and spares held for capital expenditure are valued at moving average basis less allowance for impairment, if any. Cost of operating assets includes capitalized borrowing cost during construction phase of the asset and exchange differences related to foreign currency loans obtained for financing of the asset.

Depreciation is charged to income on straight line method so as to write off the cost of the assets over their estimated useful lives at the rates specified in note 9. Capitalized exchange differences are depreciated in annual installments so as to write them off over the remaining estimated useful life of the assets.

Maintenance and repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and assets so replaced, if any are retired. Gains and losses on disposal of assets, if any, are included in income currently.

2.5 Intangible asset

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of such assets can also be measured reliably. The assets so recognized are amortized over the period during which the related economic benefits are likely to accrue to the Company. Intangible assets are stated at cost less accumulated amortization.

2.6 Impairment

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense in the profit and loss account.

2.7 Stores, spares and loose tools

These are stated at moving average cost less allowance for impairment, if any. Items in transit are valued at cost comprising invoice value and other charges paid thereon.

2.8 Stock in trade

Stocks are valued at lower of cost and net realizable value. Cost in relation to raw and packing materials is determined on first-in-first-out basis and in relation to work in process and finished goods represents average cost comprising direct material, labour and appropriate manufacturing overheads. Net realizable value represents the selling price less costs necessarily to be incurred for sale.

2.9 Foreign currency transactions

Transactions in foreign currencies are recorded into local currency at the rates of exchange prevailing at the date of the transaction. All monetary assets and liabilities in foreign currencies are translated at exchange rates prevailing at the balance sheet date. Exchange differences are accounted for as follows:

(a) Exchange differences on translation and repayment of foreign currency loans utilized for acquisition of fixed assets are capitalized and incorporated in the cost of the related asset.

(b) All other exchange differences are dealt with through the profit and loss account.

2.10 Revenue recognition

Sales are recorded on dispatch of goods to customers. Profit on deposits is accounted for on a time proportion basis using the applicable rate of interest.

2.11 Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, markup bearing borrowings are stated at original cost less repayments, while the difference between the cost (as reduced by periodic payments) and redemption value is recognized in the profit and loss account over the period of borrowings on an effective mark-up basis.

2.12 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The Company de-recognizes the financial assets and liabilities when it ceases to be a party to such contractual provision of the instruments.

Derivative financial instruments
Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, the derivative financial instruments are stated at fair value. The Company has been maintaining hedging relationship for foreign currency loans. Changes in fair value of this derivative financial instrument were recognized in the profit and loss account, along with any changes in the carrying value of the hedged liability.

Trade and other payables
Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in future for goods and services received.

Trade and other receivables
Trade and other receivables are recognized at nominal value less allowance for impairment.

Off-setting of Financial Assets and Liabilities
A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on net basis or to realize the asset and settle the liability simultaneously.

2.13 Borrowing cost

Mark up, interest and other charges on borrowings are capitalized up to the date of commissioning of the related qualifying asset. All other mark-up, interest and related charges are charged to income.

2.14 Staff retirement benefits

Gratuity
The Company operates a defined benefit plan comprising an unfunded gratuity scheme, under which benefits are paid on cessation of employment subject to minimum qualification period of service. Projected Unit Credit Method based on the following assumptions has been used for the valuation of the scheme:

Discount rate	8 % per annum
Rate of increase of eligible salary	7 % per annum

The Company has changed its accounting policy in respect of gratuity as a result of an actuarial valuation, carried out during the year, in accordance with the requirements of International Accounting Standard - 19 "Employees Benefits" whereby, with effect from current year, Projected Unit Credit Method is used for determining staff gratuity as opposed to the past policy of determining and recognizing staff gratuity on the basis of last drawn salary for each completed year of service. Consequent to the adoption of International Accounting Standard 19 " Employee Benefits " (revised 2000) , the actuarial valuation for the plan determined a transitional liability of Rs. 3,828,466 as at July 01, 2003 which is being recognized over a period of 5 years. Had the company not changed its policy in this regard, net profit for the year would have been higher by Rs. 965,065 whereas deferred liability and accumulated loss at the end of the year would have been reduced by the same amount.

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 (revised 2000).

Provident fund
The Company also operates a defined contribution provident fund scheme for permanent employees. Monthly contributions are made to the fund by the Company and employees at an agreed rate of salary.

Compensated absences
The Company also provides for compensated absences of its employees on unavailed leaves according to the Company's policy.

2.15 Cash and cash equivalents

Cash and cash equivalent are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, cheques in hand and deposits in banks.

2.16 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3 ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2004 Number	2003 Number		2004 Rupees	2003 Rupees
		Ordinary shares		
171,310,499	171,310,499	Ordinary shares of Rs 10 each fully paid in cash	1,713,104,990	1,713,104,990
199,432,549	199,432,549	Ordinary shares of Rs 10 each issued at a discount of Rs 3.85 per share - paid in cash (note 3.1)	1,994,325,490	1,994,325,490
370,743,048	370,743,048		3,707,430,480	3,707,430,480
		Preference shares (note 3.2)		
48,699,187	48,699,187	48,699,187 preference shares of Rs 10 each issued at a discount of Rs 3.85 per share - paid in cash (note 3.1)	486,991,870	486,991,870
419,442,235	419,442,235		4,194,422,350	4,194,422,350

3.1 Discount on issue of shares amounting to Rs 955,307,183 (2003: Rs. 955,307,183) was shown as deferred cost and was being amortized over five years from the date of issue of shares as allowed by the Fourth Schedule to the Companies Ordinance, 1984. As referred to in Note 11, during the year, the Company has charged off the entire un-amortized balance of deferred cost to the profit and loss account.

3.2 Preference shares have the following characteristics :

(i) Entitling the holder to receive cumulative preferential dividend in amounts and during the years set out below (preferential dividend) in the event the Company has funds available from operations to pay the preferential dividend, it is profitable and current on its debt service obligations:

Year ending	Amount of dividend Rupees
2007	8,360,597
2008	8,360,597
2009	16,721,193
2010	33,442,386
2011	66,884,772
2012	175,572,527
2013	210,687,032
2014	227,408,225
2015	240,785,179

(ii) Convertible into ordinary shares at any time without further payment, such conversion being irreversible once exercised.

(iii) Except as provided above, having the same rights as ordinary shares in the Company, including pari passu voting rights with ordinary shares.

3.3 Fauji Foundation held 169,780,232 (2003: 169,780,232) ordinary shares and 48,699,187 (2003: 48,699,187) preference shares at the year end.

4. LONG TERM LOANS

	Balance Outstanding 2004 Rupees	Balance Outstanding 2003 Rupees	Interest/ mark up rate per annum	Guarantee commission rate % p.a.	Repayment terms No of installments	Repayment terms Final Repayment Date
Loans from Financial institutions						
Foreign loans-secured (4.1)						
(i) Commonwealth Development Corporation (CDC) £ NIL; June 2003 : £3,785,713)	–	362,375,738	11%		–	–
(ii) Nederlandse Financierings - Maatschappijvoor Ontwikkelingslanden N.V. (FMO) (Euro NIL : June 2003 : Euro 1,815,121)	–	120,187,613	11.3%		–	–
(iii) International Finance Corporation (IFC) Loan A (US $ NIL : June 2003 : US $ 6,400,000)	–	370,431,350	8.94%		–	–
(iv) Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG) (Euro NIL : June 2003 : Euro 1,095,623)	–	72,546,093	11.75%		–	–
	–	925,540,794				
Local loans-secured						
(v) Askari Commercial Bank Limited	83,014,144	83,014,144	SBP discount rate less 1.5% (Floor 6%)		10 semi annual	December 31,2009
(vi) Saudi Pak Agricultural and Investment Company (Private) Limited (4.10)	33,534,547	33,534,547	SBP discount rate less 1.5%		27 quarterly	March 20, 2012
(vii) Faysal Bank Limited (4.12)	–	98,924,940	SBP discount rate less 2.5% (Floor 6%)		–	–
(viii) Standard Chartered Bank (4.12)	–	84,810,551	16%		–	–
(ix) Faysal Bank Limited (4.12)	–	58,109,901	SBP discount rate less 2.5% (Floor 6%)		–	–
(x) Pak Kuwait Investment Company (Private) Limited (4.12)	–	60,885,213	6 month T Bill + 4%		–	–
(xi) The Bank of Punjab (4.12)	–	196,592,007	SBP discount rate less 1.5%		–	–
	116,548,691	615,871,303				
Deferred mark up (4.8)	16,703,147	122,855,673				
	133,251,838	738,726,976				
Refinanced loans guaranteed by foreign lenders (4.2)						
(xii) **Syndicated term finance arrangement (STFA)-phase 1 (4.3)**						
Standard Chartered Bank	178,042,399	181,841,910	6 month TB rate +0.8%	4.25%	19 semi annual	October 15, 2013
Standard Chartered Bank	178,042,399	181,841,910	6 month TB rate +0.8%	4.25%	19 semi annual	October 15, 2013
Habib Bank Limited	205,135,808	209,513,505	6 month TB rate +0.8%	4.25%	19 semi annual	October 15, 2013
National Bank of Pakistan	116,114,608	118,592,549	6 month TB rate +0.8%	4.25%	19 semi annual	October 15, 2013
	677,335,214	691,789,874				
(xiii) **STFA-phase 2**						
- Facility 1 (4.4)						
Habib Bank Limited	246,122,125	264,862,106	6 month TB rate +0.8%	3.25%	19 semi annual	December 23,2013
Muslim Commercial Bank Limited	309,967,575	333,568,812	6 month TB rate +0.8%	3.25%	19 semi annual	December 23,2013
Standard Chartered Bank	371,961,089	400,282,574	6 month TB rate +0.8%	3.25%	19 semi annual	December 23,2013
	928,050,789	998,713,492				

	Balance Outstanding 2004 Rupees	Balance Outstanding 2003 Rupees	Interest/ mark up rate per annum	Guarantee commission rate % p.a.	Repayment terms: No of installments	Repayment terms: Final Repayment Date
- Facility 2 Tranch I and II (4.5)						
Habib Bank Limited	440,699,995	479,021,735	6 month TB rate +0.8%	3.25%	19 semi annual	December 23,2011
- Facility 2 Tranch III (4.6)						
Habib Bank Limited	138,125,468	138,125,468	6 month TB rate +0.8%	3.25%	19 semi annual	December 23,2012
Muslim Commercial Bank Limited	104,430,477	104,430,477	6 month TB rate +0.8%	3.25%	19 semi annual	December 23,2012
	242,555,945	242,555,945				
- Facility 2 Tranch IV (4.6)						
Habib Bank Limited	161,285,216	161,285,216	6 month TB rate +0.8%	3.25%	19 semi annual	December 23, 2012
Muslim Commercial Bank Limited	88,243,532	88,243,532	6 month TB rate +0.8%	3.25%	19 semi annual	December 23, 2012
	249,528,748	249,528,748				
- Facility 2 Tranch V (4.7)						
Habib Bank Limited	226,403,915	–	6 month TB rate +0.8%	3.25%	19 semi annual	December 23, 2013
Muslim Commercial Bank Limited	126,554,662	–	6 month TB rate +0.8%	3.25%	19 semi annual	December 23, 2013
	352,958,577	–				
- Facility 2 Final Tranch (4.8)						
Habib Bank Limited	363,024,369	–	6 month TB rate +0.8%	3.25%	19 semi annual	December 23, 2013
Muslim Commercial Bank Limited	207,942,013	–	6 month TB rate +0.8%	3.25%	19 semi annual	December 23, 2013
	570,966,382	–				
Loans from associated undertaking						
Local loans-unsecured						
(xiv) Fauji Foundation (4.13)	50,000,000	–	6%		20 semi annual	December 31,2014
	3,645,347,488	4,325,877,564				
Less: Amount payable within 12 months shown as current liability.						
Overdue installments of loans	–	109,244,878				
Installments due within next 12 months	86,508,407	28,145,561				
	86,508,407	137,390,439				
	3,558,839,081	**4,188,487,125**				

Security

4.1 Loans (i) to (xi) were secured by mortgage and first charge ranking pari passu on all present and future assets of the Company. The foreign lenders have issued guaranteed in favour of local lenders, as detailed below, against the same security upon repayment of their loans.

4.2 Interest on these loans has been reduced from 6 month T Bill rate plus 1% to 6 month T Bill rate plus 0.8% with effect from 30 January 2004.

4.3 This facility is secured by guarantee of IFC.

4.4 The overdue portion of CDC, FMO, IFC-A and DEG loans up to June 30, 2001 was refinanced in June 2002 through STFA-phase 2 facility-1, obtained from a syndicate of local banks led by Habib Bank Limited. The facility is secured by guarantees of the foreign lenders on their portion of the foreign currency loan refinanced by the consortium.

4.5 The installments of CDC, FMO, IFC-A and DEG loans due during financial year ended June 30, 2002 were refinanced in June 2002 through STFA-phase 2 facility 2 tranche I and II, obtained from HBL. This facility is secured by guarantees of the foreign lenders on their portion of the foreign currency loan refinanced by HBL.

4.6 The installments of CDC, FMO, IFC-A and DEG loans becoming due during financial year ended June 30, 2003 were refinanced through STFA-phase 2 facility 2 tranche III and IV, obtained from Syndicate of local banks led by HBL. This facility is secured by guarantees of the foreign lenders on their portion of the foreign currency loan refinanced by the consortium.

4.7 The installments of CDC, FMO, IFC-A and DEG loans becoming due during financial year ended June 30, 2004 were refinanced through STFA-phase 2 facility 2 tranche V, obtained from Syndicate of local banks led by HBL. This facility is secured by guarantees of the foreign lenders on their portion of the foreign currency loan refinanced by the consortium.

4.8 During the year, the Company prepaid the outstanding foreign currency installments. This prepayment was financed through STFA-phase 2 facility 2 final tranche , obtained from consortium of local banks led by HBL. This facility is secured by guarantee of the foreign lenders on their portion of the foreign currency loans refinanced by the consortium.

4.9 **Penal charges**

Guarantee commission payable to the foreign lenders carries penal charges per annum on unpaid amounts as under:

- IFC 6 month LIBOR +5.5%
- CDC 11%
- FMO 13.30%
- DEG 13.75%

4.10 Local currency loan from Saudi Pak Industrial and Agricultural Company (Private) Limited has been restructured during the year and interest rate is reduced from 16% per annum to State Bank Discount Rate less 1.5%. Further, principal due is now payable in 17 quarterly installments commencing from 20 September 2005. Deferred markup on this loan has also been rescheduled and is now payable in 15 equal quarterly installments commencing from 20 September 2008.

4.11 **Deferred mark-up**

Markup deferred in previous periods on loans (iv) and (v) is payable as per terms mentioned below. Deferred markup, in accordance with the requirements of International Accounting Standard 39 “Financial Instruments – Recognition and Measurement” is stated at fair value based on imputed interest rate of 6% per annum. The difference between carrying amount and fair value of deferred markup has been included in financial charges for the year.

	Balance outstanding		Repayment terms	
	2004 Rupees	2003 Rupees	Installments No.	Date of final repayment
(a) Saudi Pak Industrial and Agricultural Investment Company (Private) Limited	9,536,578	7,875,929	15 quarterly	March 20, 2012
(b) Standard Chartered Bank	–	26,102,973	–	–
(c) Pak Kuwait Investment Company (Private) Ltd	–	17,553,639	–	–
(d) Faysal Bank Limited	–	25,428,351	–	–
(e) Faysal Bank Limited	–	11,350,504	–	–
(f) Askari Commercial Bank Limited	15,014,144	15,014,144	4 semi annual	June 30, 2012
(g) The Bank of Punjab		69,010,241		
	24,550,722	172,335,781		
Less: Adjustment on account of fair value	(7,847,575)	(49,480,108)		
	16,703,147	122,855,673		

4.12 During the year, the Company prepaid these local currency loans. Upon prepayment, lenders allowed adjustment of certain amounts which are as follows:

	Balance adjusted in respect of		
Lender	Principal Rupees	Markup Rupees	Deferred Markup Rupees
Faysal Bank Limited (Loan (vii) and (ix)	–	–	27,778,853
Standard Chartered Bank	8,481,055	11,737,229	26,102,973
Pak Kuwait Investment Company (Private) Ltd	–	–	13,165,229
The Bank of Punjab	–	–	51,757,681
	8,481,055	11,737,229	118,804,736

4.13 This loan has been obtained from Fauji Foundation for a period of 11 years including a grace period of 1 year at a markup rate of SBP Discount rate less 1.5% per annum repayable in 20 half yearly installments

5 PROVISION FOR STAFF RETIREMENT BENEFITS

	2004 Rupees	2003 Rupees
Gratuity		
Present (2003; Terminal) value of obligation	15,856,541	8,414,131
Less: non-vested past services cost	(162,857)	–
Add: un-recognized actuarial (loss)	(147,429)	–
Less: un-recognized transitional liability due to adoption of IAS 19	(3,062,773)	–
	12,483,482	8,414,131
Balance at the beginning of the year	8,414,131	7,355,288
Add: Charge for the year - (5.1)	4,739,023	3,543,436
	13,153,154	10,898,724
Less: Amount paid during the year	669,672	2,484,593
	12,483,482	8,414,131

	2004 Rupees	2003 Rupees
Compensated Absences		
Balance at the beginning of the year	19,036,518	17,264,154
Add: Charge for the year	9,858,971	3,844,239
	28,895,489	21,108,393
Less: Amount paid during the year	1,114,886	2,071,875
	27,780,603	19,036,518
	40,264,085	27,450,649
5.1 Charge for the year comprises of the following:-		
Transitional liability due to adoption of IAS-19 (revised-2000)	765,692	–
Current service cost	2,757,242	3,543,436
Interest cost	1,134,660	–
Past service cost	81,429	–
	4,739,023	3,543,436

6 SHORT TERM LOAN - SECURED

This loan was secured having ranking charge on all assets of the Company and carried interest @ 13% per annum (2003: 13% per annum). This loan has been paid during the year.

7. CREDITORS, ACCRUED AND OTHER LIABILITIES

	2004	2003
Trade creditors	45,651,260	24,388,922
Accrued liabilities	63,424,554	33,083,766
Retention money	10,818,692	6,392,652
Accrued fees and charges on long term loans - Secured	496,723	3,147,933
Accrued interest/mark up on loans - Secured (7.1)	13,132,567	99,268,404
Guarantee commission on refinanced loans-Secured	76,001,607	75,148,434
Accrued exchange risk coverage fee on foreign currency loans secured	–	5,615,771
Amount due to an associated undertaking	–	3,668,209
Security deposits	25,462,020	24,827,020
Advances from customers	23,121,103	11,147,994
Sales tax payable	22,303,720	22,357,415
Other liabilities	5,195,698	9,981,333
	285,607,944	319,027,853

7.1 This includes Rs. Nil (2003: Rs.22,140,463) representing the effect of re-measuring accrued interest on long term loans to their fair value.

8 CONTINGENCIES AND COMMITMENTS

8.1 Contingencies

a] The Custom Authorities allowed release of plant and machinery imported by the Company at concessionary rates of duty in terms of SRO 484(1)/92 dated May 14, 1992 against an undertaking provided by the Company. Subsequent to the release of plant and machinery the Custom Authorities raised a demand of Rs. 808 million in respect of items which are considered by the Central Board of Revenue (CBR) as not qualifying for the concessionary rate of duty. The status of the cases out of the above amount are as follows:

(i) Case for Rs. 347.048 million was decided in the Company's favour by the Sindh High Court (SHC).
(ii) Case for Rs. 15.797 million was decided by the SHC against the Company.
Both the above cases are pending in appeals before the Supreme Court of Pakistan.
(iii) Case for Rs. 87.442 million is pending before SHC.
(iv) Demand for Rs. 39.285 million is pending with Custom Authorities.
(v) Remaining amount of Rs. 318.514 million has been claimed by Custom Authorities by revising the above custom duty as being short levied as per letter No. SI/NISC/IB/191/96-VI dated 31 December 1999.

In the opinion of the management, all the above cases will ultimately be decided in favour of the Company.

b] The Company is contesting a claim for damages in civil court, filed by a supplier of raw materials upon termination of his contract of services. Arbitrators of the case have ascertained a liability of Rs. 32.979 million payable by the company out of which Rs. 14.923 million has been provided for in these accounts. The net liability of Rs. 18.056 million so arising, has not been accounted for, as the management is confident that the case will ultimately be decided in favour of the Company.

c] Claims for sales tax amounting to Rs. 20.486 million, alongwith the associated penalty and additional tax amounting to Rs. 24.117 million not recorded as a liability are currently contested by the Company. Management is confident of a favourable outcome of these cases.

d] Claims against the Company not acknowledged as debts of Rs. 1.6 million (June 2003: Rs.1.6 million) are pending in Lahore High Court (LHC).

e] The Company is contingently liable in respect of guarantees amounting to Rs. 18.790 million (June 2003: Rs. 51.529 million) issued by banks and insurance companies on behalf of the Company in the normal course of business.

f] Indemnity bonds of Rs. 3.439 million (June 2003: Rs. Nil) have been issued to the Custom Authorities.

g] For tax related contingencies, refer to note 24.2.

8.2 Commitments

a] The Company has opened Letters of Credit for the import of machinery, spare parts and coal valuing Rs. 155.405 million (June 2003: Rs. 186.19 million).

b] Capital commitments of Rs. 19.372 million (June 2003: Rs. 61.625 million) in respect of purchase of local machinery components for the conversion of plant from furnace oil to coal firing system.

9. OPERATING FIXED ASSETS - TANGIBLE

	COST			Depreciation					
	As at July 01	Of additions /(deletions) during the year	As at June 30	As at July 01	Charge for the year	On Deletions for the year	As at June 30	Written Down Value as at, June 30	Rate of Depreciation %
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
Freehold land	141,246,104	—	141,246,104	—	—	—	—	141,246,104	—
Buildings on free hold land	1,397,906,945	14,602,729	1,412,509,674	354,361,215	54,074,988	—	408,436,203	1,004,073,471	4
Plant, machinery and equipment	4,451,745,554	24,568,073	4,476,313,627	1,096,865,144	174,462,571	—	1,271,327,715	3,204,985,912	4
Office equipment	7,592,538	1,157,094	8,500,721	5,029,507	1,007,980	209,731	5,827,756	2,672,965	15
		(248,911)							
Electric installations	30,652,778	—	30,652,778	25,701,303	4,597,917	—	30,299,220	353,558	15
Electrical equipment	23,470,196	1,722,405	25,145,071	17,047,332	2,446,421	35,979	19,457,774	5,687,297	15
		(47,530)							
Furniture and fixtures	5,709,212	310,105	6,019,317	5,033,754	356,023	—	5,389,777	629,540	15
Motor vehicles	26,768,667	9,902,575	34,629,254	16,340,050	5,326,329	876,625	20,789,754	13,839,500	25
		(2,041,988)							
Tubwells	3,030,854	—	3,030,854	909,255	303,085	—	1,212,340	1,818,514	10
Quarry road and development	27,854,507	—	27,854,507	15,659,576	2,785,451	—	18,445,027	9,409,480	10
Elevators	3,850,985	—	3,850,985	1,854,225	385,099	—	2,239,324	1,611,661	10
Fire fighting instruments	110,080	651,176	758,656	82,902	60,564	2,340	141,126	617,530	15
		(2,600)							
Total 2004	6,119,938,420	52,914,157	6,170,511,548	1,538,884,263	245,806,428	1,124,675	1,783,566,016	4,386,945,532	
		(2,341,029)							
Total 2003	6,071,673,830	66,052,314	6,119,938,420	1,296,226,579	248,018,465	5,360,781	1,538,884,263	4,581,054,157	
		(17,787,724)							

9.1 Additions in plant and machinery during the year include exchange loss capitalized of Rs.13.912 million (2003: Rs. 40.947 million).

The depreciation charged for the year has been allocated as follows:-

	Rupees	
	2004	2003
Cost of sales	243,055,819	245,737,338
General and administration expenses	1,969,212	1,471,488
Selling and distribution expenses	781,397	809,640
	245,806,428	248,018,466

9.2 Details of operating assets disposed off during the year is as follows:

	Original cost Rupees	Book value Rupees	Sale proceeds Rupees	Gain / (loss) Rupees	Mode of disposal	Particulars of the Purchaser
Motor vehicles	1,163,300	1,139,987	1,494,000	354,013	Insurance claim	Habib Insurance Company Limited
-do-	838,088	1	50,000	49,999	Company policy	Mir Khawar Saleem (Executive)
-do-	40,600	25,375	50,000	24,625	Company policy	Fazl e Rahim (Executive)
Office equipment	248,911	39,180	—	(39,180)	Scrapped	N/A
Electric equipment	47,530	11,551	—	(11,551)	Scrapped	N/A
Fire fighting equipment	2,600	260	—	(260)	Scrapped	N/A
2004	2,341,029	1,216,354	1,594,000	377,646		
2003	5,432,337	2,055,787	3,314,374	1,258,587		

		2004 Rupees	2003 Rupees
10	**CAPITAL WORK IN PROGRESS**		
	Plant, machinery and equipment (10.1)	269,033,596	2,193,500
	Stores and spares held for capital expenditure	73,274,839	76,201,837
		342,308,435	78,395,337

10.1 This represents the cost incurred so far on fuel substitution project. This includes capitalized borrowing cost amounting to Rs. 6,767,571. Borrowing cost eligible for capitalization has been determined on the basis of capitalization rate of 6% per annum.

		2004 Rupees	2003 Rupees
11	**DEFERRED COST**		
	Balance at beginning of the year	762,151,922	953,213,359
	Less: Amortized/written off during the year	762,151,922	191,061,437
		–	762,151,922

11.1 During the year, the Company has charged off the entire un-amortized balance of deferred cost to profit and loss account.

		2004 Rupees	2003 Rupees
12	**DEFERRED TAX ASSET - NET**		
	Deductible temporary differences		
	Unused tax losses	1,442,608,341	1,682,097,367
	Provision for doubtful debts	548,464	11,986,494
	Taxable temporary difference		
	Excess of accounting book value of fixed assets over the tax base	(873,118,266)	(904,699,568)
		570,038,539	789,384,293
	Less: Valuation reserve	–	(789,384,293)
		570,038,539	–

12.1 Owing to the under utilization of capacity in prior periods, the Company had not recognized any deferred tax asset by creating an equivalent amount of valuation reserve. The Company has reversed the valuation reserve as at December 31, 2003, so as to record a net deferred tax asset of Rs. 710.286 million, out of which Rs. 132.927 million has been recovered during the year. The asset has been recorded on the basis of management's assessment of projected taxable profits for the future years, arising due to improved market conditions, which are likely to prevail during the period of recovery of the asset.

		2004 Rupees	2003 Rupees
13	**LONG TERM DEPOSITS**		
	Islamabad Electric Supply Company Limited	21,600,000	21,600,000
	Sui Northern Gas Pipelines Limited	15,000,000	–
		36,600,000	21,600,000

13.1 These represent interest free deposits for the provision of utilities to the plant and are repayable on disconnection of services.

		2004 Rupees	2003 Rupees
14	**STORES, SPARES AND LOOSE TOOLS**		
	Stores (Including items in transit Rs. 38.405 million; 2003: Rs. Nil)	71,837,045	64,242,557
	Spares (Including items in transit Rs. 5.459 million; 2003: Rs. 5.827 million)	118,324,345	118,429,221
	Loose tools	7,238,893	5,968,416
		197,400,283	188,640,194
15	**STOCK IN TRADE**		
	Raw and packing material	15,223,951	10,149,401
	Work in process	27,760,995	5,816,672
	Finished goods	18,614,892	31,996,253
		61,599,838	47,962,326
16	**TRADE DEBTORS**		
	Unsecured		
	Considered good	22,265,893	45,244,848
	Considered doubtful	1,567,041	34,247,127
		23,832,934	79,491,975
	Less: Provision for doubtful debts	(1,567,041)	(34,247,127)
		22,265,893	45,244,848
	Secured- Considered good	22,522,694	–
		44,788,587	45,244,848

	2004 Rupees	2003 Rupees
17 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Advances unsecured, considered good		
to suppliers	34,044,492	40,151,745
to employees (17.1)	449,183	130,970
Due from associated undertaking (17.2)	1,127,038	39,298
Balances with statutory authorities		
Excise duty	9,911,490	4,535,292
Sales tax	3,773,697	3,773,697
Deposits	1,313,296	825,942
Taxation	9,538,784	5,788,961
Prepayments	10,606,227	4,033,874
Profit receivable on bank deposits	2,174,955	679,434
Other receivables	645,050	762,712
	73,584,212	60,721,925

17.1 Included in advances to employees are amounts due from executives of Rs. 449,183 (2003: Rs. 42,571). The maximum aggregate amount due from executives at the end of any month during the year was Rs. 1,378,185 (2003: Rs. 774,487)

17.2 This comprises amount due from Fauji Foundation Resident Director Office, Karachi. This relates to normal business operations of the Company and is interest free. The maximum aggregate amount due at the end of any month during the year was Rs. 26,870,416 (2003: Rs. 3,125,338)

18 CASH AND BANK BALANCES

	2004 Rupees	2003 Rupees
At banks on:		
Deposit accounts	137,433,326	166,928,792
Current accounts	21,325,836	1,591,430
Collection accounts	38,275,007	25,025,370
	197,034,169	193,545,592
Cash in hand	53,945	446,639
	197,088,114	193,992,231

18.1 Balance with banks include Rs.23,703,797 (2003: Rs 24,827,020) in respect of security deposits received.

18.2 Deposits of Rs 8,021,608 (2003: Rs 8,021,608) with banks were under lien to secure letters of guarantee.

		2004 Rupees	2003 Rupees
19	**COST OF SALES**		
	Raw materials consumed:		
	Opening stock	4,042,189	2,798,731
	Purchases	115,960,079	76,968,030
	Closing stock	(4,838,359)	(4,042,189)
		115,163,909	75,724,572
	Packing material consumed	155,487,347	129,984,000
	Stores and spares consumed	5,285,288	3,360,937
	Salaries, wages and benefits (including retirement benefits Rs. 10,243,376; 2003 Rs. 4,991,825)	91,288,886	65,299,323
	Rent, rates and taxes	952,226	881,850
	Insurance	14,919,668	18,895,930
	Fuel consumed	564,590,951	472,772,452
	Power consumed	310,041,061	246,489,345
	Depreciation	243,055,819	245,737,339
	Repairs and maintenance	49,891,364	31,848,370
	Printing and stationery	607,847	498,200
	Traveling and conveyance	4,308,952	3,483,319
	Technical assistance	843,480	20,573
	Communication, establishment and other expenses	7,533,312	4,639,382
		1,563,970,110	1,299,635,592
	Add: Opening work-in-process	5,816,672	43,417,738
	Less: Closing work-in-process	(27,760,995)	(5,816,672)
	Cost of goods manufactured	1,542,025,787	1,337,236,658
	Add: Opening finished goods	31,996,253	29,892,379
	Less: Closing finished goods	(18,614,892)	(31,996,253)
		1,555,407,148	1,335,132,784
20	**GENERAL AND ADMINISTRATION EXPENSES**		
	Salaries, wages and benefits (including retirement benefits Rs. 2,864,611; 2003 Rs. 1,600,901)	21,817,193	15,407,949
	Traveling and entertainment	2,053,435	2,932,603
	Insurance	312,232	394,101
	Rent rates and taxes	1,064,446	788,929
	Repairs and maintenance	710,738	1,112,184
	Printing and stationery	855,529	1,180,308
	Communication, establishment and other expenses	2,685,367	2,460,126
	Auditor's remuneration (20.1)	532,500	525,000
	Legal and professional charges	1,654,654	1,490,939
	Depreciation	1,969,212	1,471,488
	Restructuring expenses	6,413,146	10,611,964
		40,068,452	38,375,591

		2004 Rupees	2003 Rupees
20.1	This is made up as follows:		
	Annual audit	325,000	325,000
	Half yearly review	100,000	100,000
	Out of pocket expenses audit	50,000	50,000
	Other certifications	50,000	50,000
	Out of pocket expenses - other certifications	7,500	–
		532,500	525,000

21 SELLING AND DISTRIBUTION EXPENSES

	2004 Rupees	2003 Rupees
Salaries, wages and benefits (including retirement benefits Rs. 1,490,006; 2003 Rs. 635,472)	12,011,093	7,991,659
Traveling and entertainment	1,033,833	911,256
Rent, rates and taxes	1,144,382	1,209,266
Repairs and maintenance	410,804	313,603
Printing and stationery	508,829	575,380
Depreciation	781,398	809,640
Communication, establishment and other expenses	1,849,892	1,149,308
Advertisement and sale promotion expenses	2,295,538	1,736,942
Insurance	380,705	319,790
	20,416,474	15,016,844

22 OTHER INCOME

	2004 Rupees	2003 Rupees
Interest on bank accounts	9,517,468	6,795,471
Interest on long term advance	118,904	78,904
Gain on disposal of fixed assets (9.2)	377,646	1,258,587
Provision for doubtful debts written back	32,680,086	–
Others	50,368	393,804
	42,744,472	8,526,766

23 FINANCIAL CHARGES

	2004 Rupees	2003 Rupees
Fee and charges on loans	11,615,315	3,347,708
Interest/mark-up on long term loans	57,323,773	307,050,857
Interest/mark-up on long term loan from associated undertaking	873,421	–
Interest on short term loan	–	4,246,396
Unrealized gain on re-measurement of long term loans and interest	(38,754,265)	(37,400,399)
Unrealized loss on re-measurement of (FERI) contract	38,754,265	37,400,399
	–	–
Guarantee commission	111,947,295	91,274,064
Foreign exchange risk insurance (FERI) fee	17,905,808	55,330,941
Bank charges and commission	4,557,035	2,159,148
	204,222,647	463,409,114

	2004 Rupees	2003 Rupees
24 TAXATION		
Current	12,600,000	7,650,000
Deferred		
Prior years'	(789,384,293)	–
Current year	219,345,754	–
	(570,038,539)	–
	(557,438,539)	7,650,000

24.1 The charge for current taxation is worked out based on the minimum tax at the rate of 0.5 percent on local/domestic sale and 1 percent on export's turnover less Government levies under section 113 of the Income Tax Ordinance, 2001. The following is a reconciliation of relationship between tax charge and accounting profit.

	2004	2003
Accounting loss for the year	(243,290,703)	(523,730,995)
Applicable tax rate	35%	35%
Income tax at applicable rate	(85,151,746)	(183,305,848)
Tax effect of expenses that are not deductable in determining taxable profits:		
Ammortization/write off of deferred cost	266,753,173	66,871,503
Inadmissible expenses	2,275,000	3,184,240
Tax effect of low rates on certain income	(18,994,936)	(3,155,023)
Charge of deferred tax liability relating to origination and reversal of timing differences	54,464,263	7,542,101
Net effect on tax charge due to (reversal)/addition of valuation reserve	(789,384,293)	108,863,027
Minimum tax required at applicable rates	12,600,000	7,650,000
Charge for the year	(557,438,539)	7,650,000

24.2 The income tax assessments of the Company have been finalized upto and including assessment year 2002-2003 (year ended 30 June 2002) creating refund of Rs. 15,288,238.

24.3 Assessments of the Company were finalized by the taxation officer mainly by treating advances received from customers as deemed income and curtailing administrative expenses claimed by the Company. The Commissioner (Appeals) decided the issue of advances from customers in favour of the Company for assessment year 1999-2000. The Department has filed appeal against this order before Income Tax Appellate Tribunal [ITAT]. This appeal is pending disposal. For assessment year 2000-2001, the Commissioner (Appeals) directed the taxation officer to reconsider the issue of advances from customers. The Company has filed appeal before ITAT against this order which is awaiting disposal.

Assessment for the assessment year 2001-2002 and 2002-2003 were finalized by the taxation officer in line with assessment history of the Company. The Company has filed appeals before Commissioner (Appeals) which have not been decided yet.

No provision has been made in these accounts in respect of outstanding issues as management is confident of a favourable outcome.

		2004 Rupees	2003 Rupees
25	**EARNINGS/(LOSS) PER SHARE**		
	Basic		
25.1	Profit/(loss) after taxation (Rupees)	314,147,836	(531,380,995)
	Weighted average number of ordinary shares outstanding during the year (Numbers)	370,743,048	370,743,048
	Earnings/(loss) per share -basic (Rupees)	0.85	(1.43)
	Diluted		
25.2	Profit/(loss) after taxation (Rupees)	314,147,836	(531,380,995)
	Weighted average number of ordinary shares and convertible preference shares outstanding during the year (Numbers)	419,442,235	419,442,235
	Earnings/(loss) per share -diluted (Rupees)	0.75	(1.27)

26 REMUNERATION OF DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the year for remuneration, including benefits and perquisites, were as follows:

	Chief Executive		Executives	
	2004 Rupees	2003 Rupees	2004 Rupees	2003 Rupees
Managerial remuneration	1,806,300	2,312,258	35,468,757	16,034,923
Provident fund	108,450	97,044	1,364,516	729,400
Gratuity	259,521	223,862	2,193,332	1,345,850
Compensated absences	544,054	121,685	4,464,862	1,122,151
Utilities and upkeep	584,973	320,958	2,847,021	1,953,199
	3,303,298	3,075,807	46,338,488	21,185,523
No of persons	1	1	109	43

In addition, the above were provided with free medical facilities. The managing director and certain executives were also provided Company's maintained cars and household equipment in accordance with the Company's policy.

The other directors of the Company were paid meeting fee of Rs. 28,500 (2003: Rs. 31,000)

27 Financial Instruments - risk management

27.1 Interest rate risk

The information about the Company's exposure to interest rate risk based on contractual refinancing or maturity dates whichever is earlier is as follows:

	2004					2003				
	Markup/Interest bearing			Non Interest bearing	Total	Markup/Interest bearing			Non Interest bearing	Total
	Maturity upto one year	Maturity between one to five years	Maturity after five years			Maturity upto one year	Maturity between one to five years	Maturity after five years		
Financial assets	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Long term deposits	—	—	—	36,600,000	36,600,000	—	—	—	21,600,000	21,600,000
Long term advance	—	—	—	—	—	4,000,000	—	—	—	4,000,000
Foreign Exchange Risk Insurance Contract	—	—	—	—	—				329,493,810	329,493,810
Trade debts	—	—	—	44,788,587	44,788,587	—	—	—	45,244,848	45,244,848
Advances, deposits, prepayments and other receivables	—	—	—	3,488,251	3,488,251	—	—	—	1,505,757	1,505,757
Cash and bank balances	175,708,333	—	—	21,379,781	197,088,114	191,954,162	—	—	2,038,069	193,992,231
	175,708,333	—	—	106,256,619	281,964,952	195,954,162	—	—	399,882,484	595,836,646
Financial liabilities										
Long term loans	86,508,407	1,209,282,609	2,332,853,325	16,703,147	3,645,347,488	137,390,439	936,717,392	3,128,914,060	122,855,673	4,325,877,564
Provision for staff retirement benefits	—	—	—	40,264,085	40,264,085	—	—	—	27,450,649	27,450,649
Short term loans	—	—	—	—	—	15,914,497	—	—	—	15,914,497
Creditors, accrued and other liabilities	—	—	—	234,987,423	234,987,423	—	—	—	307,879,859	307,879,859
	86,508,407	1,209,282,609	2,332,853,325	291,954,655	3,920,598,996	153,304,936	936,717,392	3,128,914,060	458,186,181	4,677,122,569
Off balance sheet items										
Commitments	—	—	—	19,371,569	19,371,569				61,625,000	61,625,000
Guarantees	—	—	—	18,790,358	18,790,358				51,528,379	51,528,379
Letter of credit	—	—	—	155,405,975	155,405,975				186,194,458	186,194,458
	—	—	—	193,567,902	193,567,902	—	—	—	299,347,837	299,347,837

27.2 The effective interest rates for financial assets and liabilities are as follows:

	2004	2003
	Effective interest rate %	
Assets		
Long term advance	—	4.00
Cash and bank balances	1.50 - 3.50	1.60 - 4.50
Liabilities		
Long term loans	5.89 - 6.00	5.92 - 16.00
Short term loans	—	12.00 - 13.00

27.3 Credit risk

Credit risk represents accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. All financial assets except cash in hand are subject to credit risk. Since major part of the Company's sales is against advance payment, the Company believes that it is not exposed to major concentration of credit risk. To manage exposure to credit risk, the Company applies credit limits to its customers besides obtaining guarantees and by dealing with a variety of major banks and financial institutions.

27.4 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. As at year end, the Company is not exposed to any significant currency risk.

27.5 **Liquidity risk**
Liquidity risk is the risk that an enterprise will encounter difficulties in funds to meet commitments associated with financial instruments. The Company believes that it is not exposed to any significant level of liquidity risk.

27.6 **Fair value of financial assets and liabilities**
The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

28 RELATED PARTY TRANSACTIONS

The Company is a subsidiary of Fauji Foundation, therefore all subsidiaries and associated undertakings of Fauji Foundation are related parties of the Company. Other related parties comprise directors, key management personnel, entities over which the directors are able to exercise influence and employees' funds. Amounts due from these related parties are shown under receivables and the remuneration of Chief Executive, Directors and executives is disclosed in note 26 to these financial statements. Transactions with related parties, other than remuneration and benefits to key management personnel under the terms of their employment are as follows:

	2004 Rupees	2003 Rupees
Fauji Foundation		
- Sale of Cement	2,992,199	653,000
- Interest paid on long term loan	1,311,476	–
- Settlement of expenses incurred on behalf of the Company	3,668,209	–
- Payment for use of medical facilities	268,909	103,667
- Payment on account of clearance of shipments	58,530,000	6,780,000
FCCL Employees' Provident Fund		
- Contributions made by the Company	2,669,086	2,424,370

The Company has a policy whereby transactions with related parties are entered into at arms length prices determined in accordance with Comparable Un-controlled Price Method.

29 Plant capacity and actual production	2004	2003
	Metric Tons	Metric Tons
Installed capacity	945,000	945,000
Actual production of cement	826,203	643,218

The shortfall in the actual production against the installed capacity was due to the gap between demand and supply in the market during the first half of the year. The capacity of the plant has been determined on the basis of 300 days.

30 GENERAL

Number of employees
30.1 Total number of employees at the year end was 502 (2003: 477)

30.2 Figures have been rounded off to the nearest rupee.

Chairman Chief Executive Director

Pattern of Share-holdings

as on June 30, 2004

No of Shareholders	Shareholding From	To	Total Shares held Ordinary Shares of Rs. 10/ Each
15	1	100	393
617	101	500	308200
929	501	1000	928700
1923	1001	5000	6262000
624	5001	10000	5430714
185	10001	15000	2493000
144	15001	20000	2726333
99	20001	25000	2390500
77	25001	30000	2258500
30	30001	35000	1008000
36	35001	40000	1403100
18	40001	45000	783500
56	45001	50000	2780000
11	50001	55000	578500
12	55001	60000	713000
7	60001	65000	440500
13	65001	70000	898000
19	70001	75000	1410000
11	75001	80000	865000
4	80001	85000	331500
7	85001	90000	620500
7	90001	95000	659500
40	95001	100000	3990000
9	100001	105000	933000
2	105001	110000	220000
3	110001	115000	342500
4	115001	120000	474000
4	120001	125000	494500
6	125001	130000	778000
5	130001	135000	666500
2	135001	140000	280000
3	140001	145000	434000
9	145001	150000	1349000
1	150001	155000	155000
4	155001	160000	634500
1	160001	165000	165000
2	165001	170000	337000
2	170001	175000	346000
1	175001	180000	180000
4	180001	185000	731500

No of Shareholders	Shareholding From	To	Total Shares held Ordinary Shares of Rs. 10/ Each
1	185001	190000	187500
1	190001	195000	194500
15	195001	200000	3000000
2	200001	205000	410000
2	210001	215000	422000
2	215001	220000	433500
5	220001	225000	1125000
3	225001	230000	689500
7	235001	240000	1654500
1	240001	245000	244500
8	245001	250000	1996500
2	255001	260000	515000
2	260001	265000	525000
2	265001	270000	533976
2	275001	280000	555500
3	280001	285000	846000
4	295001	300000	1200000
1	300001	305000	305000
1	305001	310000	306500
1	325001	330000	330000
1	335001	340000	339000
2	345001	350000	700000
2	355001	360000	714500
2	360001	365000	726000
2	370001	375000	748500
1	380001	385000	383500
2	385001	390000	775000
1	400001	405000	404500
3	420001	425000	1266500
1	440001	445000	441000
1	445001	450000	450000
1	455001	460000	458500
1	460001	465000	462500
1	490001	495000	492000
9	495001	500000	4499000
1	500001	505000	505000
1	535001	540000	535500
2	575001	580000	1157500
1	585001	590000	587500
1	610001	615000	614500
1	615001	620000	617000
1	625001	630000	625500
1	630001	635000	634000

No of Shareholders	Shareholding From	Shareholding To	Total Shares held Ordinary Shares of Rs. 10/ Each
1	650001	655000	653500
1	665001	670000	666000
2	695001	700000	1400000
1	700001	705000	701500
1	755001	760000	760000
1	760001	765000	765000
1	770001	775000	775000
1	820001	825000	825000
1	835001	840000	835500
1	855001	860000	855500
1	860001	865000	863500
2	870001	875000	1749000
2	990001	995000	1986000
6	995001	1000000	5995300
1	1050001	1055000	1053000
2	1095001	1100000	2200000
1	1105001	1110000	1110000
1	1260001	1265000	1261000
1	1270001	1275000	1270500
1	1425001	1430000	1430000
1	1440001	1445000	1445000
2	1795001	1800000	3600000
1	1875001	1880000	1879500
1	2250001	2255000	2251500
1	2450001	2455000	2454707
1	2495001	2500000	2500000
1	2665001	2670000	2670000
1	2825001	2830000	2827000
1	3330001	3335000	3330500
1	4720001	4725000	4725000
1	7260001	7265000	7263000
1	8210001	8215000	8212000
1	8560001	8565000	8565000
1	10090001	10095000	10093500
2	15285001	15290000	30579400
1	218475001	218480000	218479412
5097			**419442235**

Categories of shareholders	Shares held	Percentage
Directors		
Lt.Gen (Retd) Syed Muhammad Amjad HI,HI(M)	1	–
Maj Gen (Retd) Rehmat Khan	1	–
Brig (Retd) Ghulam Hussain	1	–
Mr Qaiser Javed	1	–
Brig (Retd) Aftab Ahmad	1	–
Brig (Retd) Arshad Shah	1	–
Brig. (Retd) Ghazanfar Ali	1	–
Mr Nadir Rehman	500	–
Spouses and minor children of Directors/CEO	NIL	
Executives	NIL	–
Associated Companies, undertakings and related parties	NIL	–
NIT and ICP	9500	–
Banks, Development Finance Institutions, Non Banking Finance Institutions	8446600	2.01
Insurance Companies	146500	0.03
Modarabas and Mutual Funds	590000	0.14
Shareholders holding 10 % or above		
Fauji Foundation	218479412	52.09
General Public		
a. Local	161190316	38.43
b. Foreign	NIL	–
Others (Foreign Investors)		
Industrialization Fund For Developing Countries (IFU)	15289700	3.65
F.L. Smidth & Co. A/S (FLS)	15289700	3.65
Total Shares Held	419,442,235	100%

Form of Proxy

12th Annual General Meeting

I/We ____

of____

being Member (s) of **Fauji Cement Company Limited**_______________________________________

hereby appoint Mr./Mrs./Miss of____

to attend and vote for me/us and on my/our behalf at the Twelfth Annual General Meeting of the Company to be held on Tuesday, 12 October 2004 and at any adjournment thereof.

As witness my/our hand/seal this ___________________________ day of _____________________2004.

Signed by____

said in the presence of:

(1) Name ______________________________ Address:____

_______________________________________ N.I.C No:______________________________________

(2) Name _______________________________ Address:______________________________________

_______________________________________ N.I.C. No: _____________________________________

Folio No	CDC Account #	
	Participant I.D.	Account #

Signature on
Four Rupees
Revenue Stamp

The signature should agree with the specimen registered with the Company

IMPORTANT:

1. This Form of proxy, duly completed and signed, must be received at the registered office of the Company, **at First Floor, Aslam Plaza, 60 Adam Jee Road, Saddar, Rawalpindi – Pakistan**, not less than 48 hours before the time of holding the meeting.

2. If a member appoints more than one proxy and more than one instruments of proxy are deposited, by a member, with the Company, all such instruments of proxy shall be rendered invalid.

AFFIX
CORRECT
POSTAGE

The Company Secretary
Fauji Cement Company Limited
First Floor, Aslam Plaza,
60 Adam Jee Road,
Saddar,
Rawalpindi - Pakistan