FAUJI CEMENT COMPANY LIMITED

ACCOUNTS FOR THE YEAR ENDED

June 30, 2003

FAUJI CEMENT COMPANY LIMITED
BALANCE SHEET AS AT JUNE 30, 2003

	Note	2003 Rupees	2002 Rupees
SHAREHOLDERS' EQUITY			
Authorized 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		(2,569,436,163)	(2,038,055,168)
		1,624,986,187	2,156,367,182
LONG TERM LOANS	4	4,188,487,125	4,180,095,034
PROVISION FOR STAFF RETIREMENT BENEFITS	5	27,450,649	24,619,442
CURRENT LIABILITIES			
Current portion of long term loans	4	137,390,439	232,486,746
Short term loans	6	15,914,497	76,905,681
Creditors, accrued and other liabilities	7	319,027,853	225,825,832
		472,332,789	535,218,259
CONTINGENCIES AND COMMITMENTS	8	-	-
		6,313,256,750	**6,896,299,917**

	Note	2003 Rupees	2002 Rupees
FIXED CAPITAL EXPENDITURE			
Fixed assets	9	4,581,054,157	4,775,447,251
Capital work in progress	10	78,395,337	78,669,448
		4,659,449,494	4,854,116,699
DEFERRED COST	11	762,151,922	953,213,359
LONG TERM DEPOSIT	12	21,600,000	21,600,000
LONG TERM ADVANCE	13	4,000,000	-
FOREIGN EXCHANGE RISK INSURANCE CONTRACT	14	144,716,969	308,416,591
CURRENT ASSETS			
Stores, spares and loose tools	15	188,640,194	121,700,604
Stock in trade	16	47,962,326	81,070,568
Trade Debtors - unsecured	17	45,244,848	42,656,455
Advances, deposits, prepayments and other receivables	18	60,721,925	57,750,484
Current portion of Foreign Exchange Risk Insurance Contract	14	184,776,841	166,637,463
Cash and bank balances	19	193,992,231	289,137,694
		721,338,365	758,953,268
		6,313,256,750	**6,896,299,917**

The annexed notes 1 to 31 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 ________.

Chairman　　　　Chief Executive　　　　Director

FAUJI CEMENT COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2003

	Note	2003 Rupees	2002 Rupees
SALES		2,488,991,903	2,573,206,945
Sales tax and excise duty		978,253,894	986,601,217
NET SALES		1,510,738,009	1,586,605,728
Cost of sales	20	1,335,132,784	1,187,898,693
GROSS PROFIT		175,605,225	398,707,035
General and administration expenses	21	38,375,591	65,709,687
Selling and distribution expenses	22	15,016,844	15,973,959
		53,392,435	81,683,646
OPERATING PROFIT		122,212,790	317,023,389
Other income	23	8,526,766	8,855,639
		130,739,556	325,879,028
Financial charges	24	463,409,114	416,731,834
		(332,669,558)	(90,852,806)
Amortization of deferred cost	11	191,061,437	2,093,824
LOSS BEFORE TAXATION		(523,730,995)	(92,946,630)
Provision for taxation	25	7,650,000	17,533,350
LOSS AFTER TAXATION		(531,380,995)	(110,479,980)
Loss per share - Basic	26	(1.43)	(0.64)
Loss per share - Diluted	26	(1.27)	(0.63)

The annexed notes 1 to 31 form an integral part of these accounts.

Chairman Chief Executive Director

FAUJI CEMENT COMPANY LIMITED
CASH FLOW STATEMENT
FOR FOR THE YEAR ENDED JUNE 30, 2003

	Note	2003 Rupees	2002 Rupees
Cash flows from operating activities			
Net loss before taxation		(523,730,995)	(92,946,630)
Adjustment for:			
Depreciation		248,018,466	240,734,808
Amortization of deferred cost		191,061,437	2,093,824
Provision for staff retirement benefits		7,387,675	23,743,828
Financial charges		463,409,114	416,731,833
(Gain)/ loss on disposal of fixed assets		(1,258,587)	436,257
Interest on bank deposits		(6,795,471)	(9,104,306)
		901,822,634	674,636,244
Operating profit before working capital changes		378,091,639	581,689,614
Increase in stores and stocks		(32,574,129)	(27,424,801)
(Increase)/ decrease in receivables		(8,888,128)	4,885,667
Increase/(decrease) in payables		3,739,527	(17,463,435)
		(37,722,730)	(40,002,569)
Cash generated from operations		340,368,909	541,687,045
Staff retirement benefits paid		(4,556,469)	(1,480,927)
Taxes (paid)/refunded		(4,348,775)	2,961,847
Net cash from operating activities		331,463,665	543,167,965
Cash flows from investing activities			
Fixed capital expenditure		(15,717,318)	(19,364,817)
Insurance claim realized on fixed assets		1,444,000	34,155,198
Proceeds from sale of fixed assets		1,870,374	1,303,750
Payment of long term advance		(4,000,000)	-
Income received on bank deposits		6,822,540	8,786,712
Net cash (used in)/from investing activities		(9,580,404)	24,880,843
Cash flows from financing activities			
Proceeds from issuance of share capital		-	1,016,555,050
Proceeds from long term borrowings		492,084,693	3,068,909,483
Repayment of long term loans		(466,081,411)	(3,758,999,412)
Short term borrowings		(60,991,184)	76,905,681
Financial charges paid		(382,040,822)	(784,839,018)
Net cash used in financing activities		(417,028,724)	(381,468,216)
Net (decrease)/increase in cash and bank balances		(95,145,463)	186,580,592
Cash and bank balances at the beginning of the year		289,137,694	102,557,102
Cash and bank balances at the end of the year	19	193,992,231	289,137,694

The annexed notes 1 to 31 form an integral part of these accounts.

Chairman Chief Executive Director

FAUJI CEMENT COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2003

	Ordinary share capital Rupees	Preference share capital Rupees	Advance against ordinary shares Rupees	Accumulated Loss Rupees	Total Rupees
Balance at June 30, 2001 - As previously reported	1,713,104,990	-	443,144,000	(1,927,575,188)	228,673,802
Issue of ordinary shares	1,994,325,490	-	-	-	1,994,325,490
Advance against ordinary shares transferred to share capital	-	-	(443,144,000)	-	(443,144,000)
Issue of preference shares	-	486,991,870	-	-	486,991,870
Loss for the year - as previously reported	-		-	(110,479,980)	(110,479,980)
Balance as at June 30, 2002 - As previously reported	3,707,430,480	486,991,870	-	(2,038,055,168)	2,156,367,182
Balance at June 30, 2001	1,713,104,990	-	443,144,000	(1,927,575,188)	228,673,802
Unrealized gain on re-measurement of Foreign Exchange Risk Insurance Contracts as at July 01, 2001	-	-	-	731,718,475	731,718,475
Unrealized loss on re-measurement of foreign currency loans and interest as at July 01, 2001				(731,718,475)	(731,718,475)
Issue of ordinary shares	1,994,325,490	-	-	-	1,994,325,490
Advance against ordinary shares transferred to share capital	-	-	(443,144,000)	-	(443,144,000)
Issue of preference shares	-	486,991,870	-	-	486,991,870
Loss for the year	-		-	(110,479,980)	(110,479,980)
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

The annexed notes 1 to 31 form an integral part of these accounts.

Chairman | Chief Executive | Director

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 and 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 1st Floor, Hotel Pak Land Building, Bank Road, Rawalpindi. Fauji Foundation holds 52% of its shares as a major sponsor of the Company.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These accounts have been prepared under the historical cost convention, as modified by capitalization of exchange differences referred to in note 2.10a, and revaluation of certain financial instruments at fair value.

2.2 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 of 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 with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.3 Taxation

Current

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

Deferred

During the year, the Company adopted International Accounting Standard-12 (revised 2000) "Income Taxes" and the policy for deferred taxation is now as follows.

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 that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

The previous policy was "The Company accounts for deferred taxation on all timing differences, using the liability method".

The adoption of this standard has had no effect on the accounts of the Company.

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 lower of cost determined under moving average basis and net realizable value. Cost of operating assets includes capitalized borrowing cost during construction phase of the project and exchange differences related to foreign currency loans obtained for financing of the project.

Depreciation is charged to income on straight line method to write off the cost of an asset over its estimated useful life 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 asset.

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.

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 Deferred cost

This is stated at cost less accumulated amortization. Deferred cost comprises of discount allowed on issue of shares and it is amortized over a period of five years from the date of issue of shares as allowed by the Fourth Schedule to the Companies Ordinance, 1984.

2.8 Stores, spares and loose tools

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

2.9 Stock in trade

Stocks are valued at lower of cost and net realizable value. Cost in relation to raw materials 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.

2.10 Foreign currency transactions

Transactions in foreign currencies are converted into Pak rupees at the rates of exchange ruling on the date of the transaction. All 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 asset.

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

2.11 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.

2.12 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 (reduced for periodic payments) and redemption value is recognized in the profit and loss account over the period of borrowings on an effective mark-up basis.

2.13 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 provisions 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 is currently maintaining hedging relationship for foreign currency loans. Changes in fair value of this derivative financial instrument are recognized in the profit and loss account, along with any changes in the carrying value of the hedged liability.

Hedging

Long term foreign currency loans and accrued interest thereon, hedged against Foreign Exchange Risk Insurance (FERI) contract, previously recognized at cost have been remeasured and carried at fair value. The hedging instrument (FERI) which was not valued previously has also been taken at fair value. Above referred changes have been accounted for retrospectively as per International Accounting Standard 8 "Net Profit or Loss for the period, Fundamental Errors and Changes in Accounting Policies" with restatement of the corresponding figures. Adjustments in the carrying amounts of (a) long term loans and accrued interest, and (b) FERI contract have been recognized in the opening balance of retained earnings whereas subsequent adjustments have been taken to profit and loss account. The effect of this restatement is given in the statement of changes in equity and note 31.3 to the financial statements.

Had the above referred change not been effected, the "total assets" and the "total equity and liabilities" would have been lower by Rs. 329,493,810 (2002: Rs. 475,054,054) each. Net effect on the profit and loss account is nil.

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 original invoice value less an estimate made for doubtful debts based on review of all outstanding amounts at the year end.

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.

2.14 Borrowing cost

Mark up, interest and other charges on borrowings are capitalized up to the date of commissioning of the related plant and machinery, acquired out of the proceeds of such borrowings. All other mark-up, interest and other charges are charged to income.

2.15 Staff retirement benefits

Gratuity

The Company operates a defined benefit plan comprising an unfunded gratuity scheme. Provision for the eligible employees is made annually (in the period in which the benefit is earned) to cover the obligation under the scheme on the basis of salary and length of service with the Company.

Provident fund

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

Compensated absences

The Company also provides for compensated absences according to the Company's rules.

2.16 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, cheques in hand and deposits in banks.

2.17 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

2003 Number	2002 Number		Rupees	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 (2002: Rs. 955,307,183) has been shown as deferred cost and is being amortized over five years from the date of issue of shares i.e. June 27, 2002, as allowed by the Fourth Schedule to the Companies Ordinance, 1984.

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.

(iv) in accordance with the terms of MOU signed between the Company, foreign lenders and Fauji Foundation. Fauji Foundation is required to defer the dividend of preference shares due between financial year 2007 - 2010 till financial year 2015. Pending completion of legal documentation and necessary approvals, restructuring agreements have not yet been finalized.

3.3 Fauji Foundation held 169,780,232 (2002: 169,780,232) ordinary shares and 48,699,187 (2002: 48,699,187) preference shares at the year end.

4 LONG TERM LOANS

		Balance outstanding		Interest/ mark up rate per annum	Exchange risk coverage fee per annum	Repayment terms	
		2003 Rupees	2002 Rupees	%	%	Installments No.	Final repayment date
	Foreign loans-secured (4.1) (4.11)						
(i)	Commonwealth Development Corporation (CDC) £ 3,785,713; June 2002 : £ 5,678,571)	362,375,738	489,681,376	11%	5.90%	4 semi annual	June 23, 2004
(ii)	Nederlandse Financierings - Maatschappijvoor Ontwikkelingslanden N.V. (FMO) (Euro 1,815,121 : June 2002 : Euro 2,722,681)	120,187,613	162,566,400	11.3%	5%	6 semi annual	April 15, 2005
(iii)	International Finance Corporation Loan A (IFC-A) (U.S. $ 6,400,000 : June 2002 : U.S. $ 9,600,000)	370,431,350	578,112,000	8.94%	8.26%	6 semi annual	April 15, 2005
(iv)	Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG) (Euro 1,095,623 : June 2002 : Euro 2,191,249)	72,546,093	130,835,217	11.75%	8.24%	4 semi annual	May 30, 2004
		925,540,794	1,361,194,993				
	Local loans-secured (4.1)						
(v)	Saudi Pak Industrial and Agricultural Investment Company (Private) Limited (4.12)	33,534,547	36,571,680	16%		10 semi annual	September 30, 2007
(vi)	Standard Chartered Bank (4.12)	84,810,551	94,529,376	16%		9 semi annual	November 30, 2006
(vii)	Pak Kuwait Investment Company (Private) Ltd (4.13)	60,885,213	66,347,682	6 month T Bill + 4%		10 semi annual	June 30, 2010
(viii)	Faysal Bank Limited (4.13)	98,924,940	106,450,782	SBP discount rate less 2.5% (Floor 6%)		10 semi annual	June 21, 2010
(ix)	Faysal Bank Limited (4.13)	58,109,901	61,259,520	SBP discount rate less 2.5% (Floor 6%)		10 semi annual	April 27, 2010
(x)	Askari Commercial Bank Limited (4.13)	83,014,144	87,513,600	SBP discount rate less 1.5% (Floor 6%)		10 semi annual	December 31, 2009
(xi)	The Bank of Punjab (4.13)	196,592,007	213,550,007	SBP discount rate less 1.5%		27 quarterly	March 20, 2012
		615,871,303	666,222,647				
	Deferred mark up (4.7)	122,855,673	114,343,148				
		738,726,976	780,565,795				
	Refinanced loans guaranteed by foreign lenders (4.14)				Guarantee commission rate % p.a.		
(xii)	**Syndicated term finance arrangement (STFA)-phase 1** (Note 4.2)						
	Standard Chartered Bank	181,841,910	196,560,849	6 month T Bill rate + 1%	4.25%	19 semi annual	October 15, 2013
	Standard Chartered Bank	181,841,910	196,560,849	6 month T Bill rate + 1%	4.25%	19 semi annual	October 15, 2013
	Habib Bank Limited	209,513,505	226,472,282	6 month T Bill rate + 1%	4.25%	19 semi annual	October 15, 2013
	National Bank of Pakistan	118,592,549	128,191,857	6 month T Bill rate + 1%	4.25%	19 semi annual	October 15, 2013
		691,789,874	747,785,837				
(xiii)	**STFA-phase 2**						
	- Facility 1 (Note 4.3)						
	Habib Bank Limited	264,862,106	276,875,796	6 month T Bill rate + 1%	3.25%	19 semi annual	December 23,2013
	Muslim Commercial Bank Limited	333,568,812	348,698,920	6 month T Bill rate + 1%	3.25%	19 semi annual	December 23,2013
	Standard Chartered Bank	400,282,574	418,438,704	6 month T Bill rate + 1%	3.25%	19 semi annual	December 23,2013
		998,713,492	1,044,013,420				
	- Facility 2 Tranche I and II (Note 4.4)						
	Habib Bank Limited	479,021,735	479,021,735	6 month T Bill rate + 1%	3.25%	16 semi annual	December 23,2011
	- Facility 2 Tranche III (Note 4.5)						
	Habib Bank Limited	138,125,468	-	6 month T Bill rate + 1%	3.25%	16 semi annual	December 23,2012
	Muslim Commercial Bank Limited	104,430,477	-	6 month T Bill rate + 1%	3.25%	16 semi annual	December 23,2012
		242,555,945	-				
	- Facility 2 Tranche IV (Note 4.5)						
	Habib Bank Limited	161,285,216	-	6 month T Bill rate + 1%	3.25%	16 semi annual	December 23, 2012
	Muslim Commercial Bank Limited	88,243,532	-	6 month T Bill rate + 1%	3.25%	16 semi annual	December 23, 2012
		249,528,748	-				
		4,325,877,564	4,412,581,780				
	Less: Amounts payable within 12 months shown as current liability.						
	Overdue installments of loans	109,244,878	-				
	Installments due within next 12 months	28,145,561	232,486,746				
		137,390,439	232,486,746				
		4,188,487,125	**4,180,095,034**				

Security

4.1 Loans (i) to (xi) are secured by mortgage and first charge ranking pari passu on all present and future assets of the Company.

4.2 This facility is secured by guarantee of IFC.

4.3 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.

4.4 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.

4.5 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.

4.6 **Penal charges**

Loans (ii) to (iv) carry penal charges on un-paid interest @ 2% per annum.

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

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

4.7 **Deferred mark-up**

50% of markup payable on loans (v) to (xi) is included in deferred markup till the finalization of their restructuring as mentioned in note 4.12 and 4.13 and will be payable as per terms mentioned below. Deferred markup on restructured loans (vii) to (xi), shown below in (c) to (g), has been rescheduled. Their respective balances, in accordance with International Accounting Standard - 39 " Financial Instruments : Recognition and Measurement ", are stated at their fair values. The difference between carrying amount and fair value is recognized as a reduction in financial charges based on the imputed interest rate of 6% per annum.

	Balance outstanding		Repayment terms	
	2003 Rupees	2002 Rupees	Installments No.	commencement
(a) Saudi Pak Industrial and Agricultural Investment Company (Private) Limited	7,875,929	5,071,680	1	September 30, 2007
(b) Standard Chartered Bank	26,102,973	18,929,376	3 semi annual	November 30,2006
(c) Pak Kuwait Investment Company (Private) Ltd	17,553,639	9,068,182	4 semi annual	December 31, 2010
(d) Faysal Bank Limited	25,428,351	20,650,783	4 semi annual	June 21, 2010
(e) Faysal Bank Limited	11,350,504	8,059,520	4 semi annual	October 27, 2010
(f) Askari Commercial Bank Limited	15,014,144	11,513,600	4 semi annual	June 30, 2010
(g) The Bank of Punjab	69,010,241	41,050,007	14 quarterly	September 20, 2008
	172,335,781	114,343,148		
Less: Adjustment on account of fair value	(49,480,108)	-		
	122,855,673	114,343,148		

4.8 **Exchange risk cover**

Exchange risk cover has been obtained from State Bank of Pakistan (SBP) in respect of foreign currency loans (i) to (iv). Exchange risk cover is applicable from the date of disbursement of loan up to the due date of each repayment installment in accordance with repayment schedule registered with the SBP. Late payment penalty @ 14.6% per annum is payable on overdue exchange risk cover fee. Payment of exchange risk cover fee is guaranteed by Habib Bank Limited.

4.9 **Pre-payment option**

The Company has option to pre-pay the foreign loans subject to the approval of SBP, after payment of pre-payment penalty as contractually agreed with the lenders.

The Company has the option to pre-pay STFA loans without any pre-payment penalty in multiples of Rs. 25 million and will be adjusted in the inverse order of maturity.

The Company under arrangement with foreign lenders, shall set off any Net FERI-Benefits received from SBP on the exchange cover obtained as referred to in Note 4.8, as pre-payment towards the STFA loans. Further, the Company has also made an arrangement with the foreign lenders that in case of excess cash generation by the Company, subject to certain conditions, it will pre-pay the STFA loans in inverse order of maturity.

4.10 Had foreign currency loans been measured at contracted rates, the carrying value of these loans would have been lower by Rs. 307,353,347 (2002: Rs. 469,520,318)

Restructuring of debts

4.11 Subsequent to the year ended 30 June 2003, a Memorandum of Understanding (MOU) has been signed between the foreign lenders, the Company and the Fauji Foundation, whereby the Company is required to prepay the remainder of foreign currency loan installments of approximately U.S $ 15.5 million. The prepayment is to be financed by the Consortium of local banks under the Syndicated Term Finance Arrangement (STFA) secured against guarantees from the respective foreign lenders. The Company is in the process of completing legal documentation and obtaining necessary approvals for the finalization of restructuring. FERI proceeds realized on account of pre-payment of these loans would be utilized for payment of overdue interest and guarantee commission to foreign lenders and partial financing of coal conversion project. The balance would be utilize to repay the local currency loans under STFA. In addition, Fauji Foundation will make a cash contribution of Rs. 50 million for coal conversion project, repayable on same terms as those for STFA loans.

4.12 The Company is in the process of restructuring the loans from Saudi Pak Industrial and Agricultural Investment Company (Private) Limited and Standard Chartered Bank, for which the terms and conditions have not yet been finalized.

4.13 Local currency loans from Pak Kuwait Investment Company (Private) Limited, Faysal Bank Limited, Askari Commercial Bank Limited and The Bank of Punjab have been restructured after the balance sheet date as a result of which the interest rates were reduced from 17% and 16% p.a to rates mentioned there against. Further, principal due is now repayable with a new repayment schedule with two years grace period. Adjustments on account of restructuring have been incorporated in these financial statements in accordance with the effective dates of the restructuring of the respective loans.

4.14 As a result of 1st restructuring effective 1 April 2003, mark up rates on these loans were reduced, the effects thereof have been incorporated in these accounts. Further, in accordance with the MOU signed with the foreign lenders, the company and Fauji Foundation, the principal of the loan installments due from July 2003 to December 2004 will be pushed back to the final installments of the relevant tranches without extension in maturity of such loans. As explained in Note 4.11, the company is in the process of completing legal documentation and obtaining necessary approvals for finalizing the restructuring.

	2003 Rupees	2002 Rupees
5 PROVISION FOR STAFF RETIREMENT BENEFITS		
Gratuity		
Balance at beginning of the year	7,355,288	2,356,541
Add: Liability provided during the year	3,543,436	5,591,855
	10,898,724	7,948,396
Less: Amount paid during the year	2,484,593	593,108
	8,414,131	7,355,288
Compensated Absences		
Balance at beginning of the year	17,264,154	-
Add: Liability provided during the year	3,844,239	18,151,973
	21,108,393	18,151,973
Less: Amount paid during the year	2,071,875	887,819
	19,036,518	17,264,154
	27,450,649	24,619,442

The management is of the opinion that actuarial valuation of the Company's staff retirement benefits will not result in any material adjustment to these accounts.

	2003 Rupees	2002 Rupees
6 SHORT TERM LOANS - SECURED		
Short term loan from Habib Bank Limited	-	76,905,681
Short term loan from PICIC Commercial Bank Limited (6.1)	15,914,497	-
	15,914,497	76,905,681

6.1 This loan is secured having ranking charge on all assets of the Company and carries interest @ 13% per annum. This short term loan is repayable by September 30, 2003.

	2003 Rupees	2002 Rupees
7. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Trade creditors	24,388,922	11,726,236
Accrued liabilities	33,083,766	39,199,609
Retention money	6,392,652	6,098,383
Accrued fees and charges on long term loans - Secured	3,147,933	170,305
Accrued interest/mark up on loans - Secured (7.1)	99,268,404	77,648,666
Guarantee commission on refinanced loans-Secured	75,148,434	10,283,306
Accrued exchange risk coverage fee on foreign currency loans -Secured	5,615,771	8,327,259
Amount due to an associated undertaking (7.2)	3,668,209	3,668,209
Security deposits	24,827,020	25,147,020
Advances from customers	11,147,994	13,962,641
Sales tax payable	22,357,415	21,276,160
Other liabilities	9,981,333	8,318,038
	319,027,853	225,825,832

7.1 This includes Rs. 22,140,463 (2002: Rs. 5,533,736) representing the effect of re-measuring interest accrued on long term loans to their fair value.

7.2 The maximum balance due to associated undertaking at the end of any month during the year was Rs. 3,668,209 (2002: Rs. 3,668,209).

8 CONTINGENCIES AND COMMITMENTS

8.1 **Contingencies**

a] The Custom Authorities allowed release of plant and machinery 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. 347,048,483 was decided in the Company's favour by the Sindh High Court (SHC).
(ii) Case for Rs. 15,797,423 was decided by the SHC against the Company.

Both the above cases are pending in the Supreme Court of Pakistan.

(iii) Case for Rs. 87,441,630 is pending in SHC.
(iv) Demand for Rs. 39,285,418 is pending with Custom Authorities.
(v) Remaining amount of Rs. 318,514,499 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] Claims against the Company not acknowledged as debts of Rs. 1.6 million (2002: Rs.1.6 million) are pending in different courts of law.

c] Claim for sales tax on own consumption of raw materials not accepted by the Company and currently under appeal of Rs. 13.8 million (2002: Rs. 13.8 million)

d] The Company is contingently liable in respect of guarantees amounting to Rs. 51.529 million (2002: Rs. 951.427million) issued by banks on behalf of the Company in the normal course of business.

8.2 **Commitments**

a] The Company has opened Letters of Credit for the import of machinery valuing Rs. 186.19 million (2002: Rs. 8.24 million).

b] Capital commitments in respect purchase of local machinery components for the conversion of plant from furnace oil to coal firing system of Rs. 61.625 million (2002: Rs. Nil.)

9 FIXED ASSETS

	COST				Depreciation					
	As at July 01	Of additions/ (deletions) during the year	Of adjustments during the year	As at June 30	As at July 01	For the year	On deletions / adjustments	As at June 30	Written Down Value at, June 30	Rate of depreciation
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	%
Freehold land	141,246,104	-	-	141,246,104	-	-	-	-	141,246,104	-
Building on freehold land	1,393,447,712	4,459,233	-	1,397,906,945	300,667,467	53,693,748	-	354,361,215	1,043,545,730	4
Plant, machinery and equipment	4,414,563,599	49,627,342	(12,445,387)	4,451,745,554	921,332,789	177,606,586	(2,074,231)	1,096,865,144	3,354,880,410	4
Office equipment	7,006,703	585,835	-	7,592,538	4,034,494	995,013	-	5,029,507	2,563,031	15
Electric installations	30,652,778	-	-	30,652,778	21,103,386	4,597,917	-	25,701,303	4,951,475	15
Electrical equipment	21,396,280	2,073,916	-	23,470,196	13,615,087	3,432,245	-	17,047,332	6,422,864	15
Furniture and fixtures	5,580,464	128,748	-	5,709,212	4,326,470	707,284	-	5,033,754	675,458	15
Motor vehicles	22,953,364	9,157,640	-	26,768,667	16,129,604	3,496,996	(3,286,550)	16,340,050	10,428,617	25
		(5,342,337)								
Tube wells	3,030,854	-	-	3,030,854	606,170	303,085	-	909,255	2,121,599	10
Quarry road and development	27,854,507	-	-	27,854,507	12,874,125	2,785,451	-	15,659,576	12,194,931	10
Elevators	3,850,985	-	-	3,850,985	1,469,126	385,099	-	1,854,225	1,996,760	10
Fire fighting instruments	90,480	19,600	-	110,080	67,860	15,042	-	82,902	27,178	15
Total 2003	6,071,673,830	66,052,314	(12,445,387)	6,119,938,420	1,296,226,578	248,018,466	(5,360,781)	1,538,884,263	4,581,054,157	
		(5,342,337)								
Total 2002	6,190,609,423	18,154,425	-	6,071,673,830	1,064,843,433	240,734,808	(9,351,662)	1,296,226,579	4,775,447,251	
		(137,090,018)								

9.1 Additions in plant and machinery during the year include exchange loss capitalized of Rs.40.947 million (2002: exchange gain Rs. 91.843 million).

9.2 Adjustments in plant and machinery during the year comprises amount received from cement plant supplier against liquidated damages and re-imbursable expenses.

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

	2003	2002
	Rupees	**Rupees**
Cost of sales	245,737,338	238,885,399
General and administration expenses	1,471,488	1,445,073
Selling and distribution expenses	809,640	404,336
	248,018,466	240,734,808

9.3 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	944,103	1	545,000	544,999	Tender	Mohammad Saleem, Islamabad
-do-	655,474	1	400,000	399,999	Tender	M/s Khan Transport, Islamabad
-do-	1,171,900	292,975	186,473	(106,502)	Company policy	Maj Gen (Retd) Sayeed ul Hassan Zaidi (Ex- CEO)
-do-	40,600	30,450	50,000	19,550	Company policy	Lt Col (Retd) Tahir Bin Yousaf (Ex- Executive)
-do-	69,700	43,562	50,000	6,438	Company policy	Brig (Retd) Moen ud Din Chughtai (Ex- Company Secretary)
-do-	967,390	846,466	638,901	(207,565)	Company policy	Ahmed Hasan Butt (Ex- CFO)
-do-	560,550	490,481	555,000	64,519	Insurance claim	Habib Insurance Company Limited
-do-	932,620	351,851	889,000	537,149	Insurance claim	Habib Insurance Company Limited
2003	5,342,337	2,055,787	3,314,374	1,258,587		
2002	45,246,867	35,895,205	35,458,948	(436,257)		

	2003 Rupees	2002 Rupees
10 CAPITAL WORK IN PROGRESS		
Plant conversion (10.1)	2,193,500	1,210,392
Stores and spares held for capital expenditure	76,201,837	77,459,056
	78,395,337	78,669,448

10.1 This represents the cost incurred so far on the coal conversion project.

11 DEFERRED COST

Balance as at 01 July	953,213,359	-
Add: Discount allowed on issue of shares	-	955,307,183
	953,213,359	955,307,183
Less: Amortized during the year	191,061,437	2,093,824
	762,151,922	953,213,359

12 LONG TERMS DEPOSIT

This represents security deposit of Rs. 21,600,000, paid to Islamabad Electric Supply Company Limited for supply of electricity to the plant. This is an interest free deposit and is repayable on disconnection of electricity supply.

13 LONG TERM ADVANCE

This represents long term advance to Sui Northern Gas Pipe Lines Limited for the supply of gas. It is repayable in 12 years and carries mark-up @4% per annum.

	2003 Rupees	2002 Rupees
14 FOREIGN EXCHANGE RISK INSURANCE CONTRACT (FERI)		
Fair value (4.8)	329,493,810	475,054,054
Less: Current portion	(184,776,841)	(166,637,463)
	144,716,969	308,416,591

Under the FERI contract with SBP the Company is allowed to buy foreign exchange from SBP for repayment of its foreign currency loans and interest thereon at contracted rates. The fair value of the above contract has been recognized in accordance with the provisions of the IAS-39, as referred to in note 2.13 above. In accordance with the terms of the MOU as discussed in note 4.11, the entire outstanding balance of Foreign Exchange Risk Insurance Contract (FERI) will be realized on prepayment of foreign currency loans.

	2003 Rupees	2002 Rupees
15 STORE AND SPARES		
Stores and spares (Including items in transit Rs. 5.827 million (2002 Rs 13.329 million)	182,671,778	116,762,622
Loose tools	5,968,416	4,937,982
	188,640,194	121,700,604
16 STOCK IN TRADE		
Raw and packing material	10,149,401	7,760,451
Work in process	5,816,672	43,417,738
Finished goods	31,996,253	29,892,379
	47,962,326	81,070,568
17 TRADE DEBTS - Unsecured		
Considered good	45,244,848	42,656,455
Considered doubtful	34,247,127	34,247,127
	79,491,975	76,903,582
Less: Provision for doubtful debts	(34,247,127)	(34,247,127)
	45,244,848	42,656,455
18 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Advances-considered good		
-to suppliers	40,151,745	17,967,266
-to employees (18.1)	130,970	225,853
Due from associated undertaking (18.2)	39,298	5,205,365
Balances with statutory authorities		
-Excise duty	4,535,292	7,866,267
-Sales tax	3,773,697	11,295,305
Octroi recoverable from Government	106,657	106,657
Deposits	825,942	1,086,542
Taxation	5,788,961	9,090,186
Prepayments	4,033,874	978,216
Profit receivable on bank deposits	679,434	627,600
Other receivables	656,055	3,301,227
	60,721,925	57,750,484

18.1 Included in advances to employees are amounts due from executives of Rs. 42,571 (2002: Rs. 225,853). The maximum aggregate amount due from executives at the end of any month during the year was Rs. 774,487 (2002: Rs. 519,656)

18.2 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. 3,125,338(2002: Rs. 5,205,365)

	2003 Rupees	2002 Rupees
19 CASH AND BANK BALANCE		
At banks on:		
Deposit accounts	168,520,222	275,140,263
Collection accounts	25,025,370	12,681,700
	193,545,592	287,821,963
Cash in hand:	446,639	1,315,731
	193,992,231	289,137,694

Balance with banks include Rs.24.827 million(2002: Rs 25.147 million) in respect of security deposits received.

Deposits of Rs 8.02 million (2002: Rs 8.186 million) with banks were under lien to secure letter of guarantees.

		2003 Rupees	2002 Rupees
20	**COST OF SALES**		
	Raw material consumed:		
	Opening stock	2,798,731	5,643,827
	Purchases	76,968,030	71,837,728
	Closing stock	(4,042,189)	(2,798,731)
		75,724,572	74,682,824
	Packing material consumed	129,984,000	112,292,908
	Stores and spares consumed	3,360,937	4,038,629
	Salaries, wages and benefits	65,299,323	74,176,518
	(including retirement benefits of Rs. 4,991,825; 2002 Rs. 5,916,065)		
	Rent, rates and taxes	881,850	519,260
	Insurance	18,895,930	9,480,202
	Fuel consumed	472,772,452	442,155,535
	Power consumed	246,489,345	224,649,993
	Depreciation	245,737,339	238,885,399
	Repairs and maintenance	31,848,370	28,495,708
	Printing and stationery	498,200	556,649
	Traveling and conveyance	3,483,319	2,463,945
	Royalty and technical assistance	20,573	1,174,695
	Communication, establishment and other expenses	4,639,382	4,141,407
		1,299,635,592	1,217,713,672
	Add: Opening work-in-process	43,417,738	28,749,625
	Less: Closing work-in-process	(5,816,672)	(43,417,738)
	Cost of goods manufactured	1,337,236,658	1,203,045,559
	Add: Opening finished goods	29,892,379	14,745,513
	Less: Closing finished goods	(31,996,253)	(29,892,379)
		1,335,132,784	1,187,898,693
21	**GENERAL AND ADMINISTRATION EXPENSES**		
	Salaries, wages and benefits	15,407,949	17,673,684
	(including retirement benefits of Rs. 1,600,901; 2002 Rs. 1,754,379)		
	Traveling and entertainment	2,932,603	4,069,355
	Insurance	394,101	395,155
	Rent, rates and taxes	788,929	614,503
	Repairs and maintenance	1,112,184	662,409
	Printing and stationery	1,180,308	901,711
	Communication and establishment	1,514,334	1,487,809
	Auditor's remuneration (21.1)	511,100	1,283,590
	Legal and professional charges	12,116,803	25,318,174
	Fee and subscriptions	945,792	11,836,224
	Depreciation	1,471,488	1,445,073
	Donation (21.2)	-	22,000
		38,375,591	65,709,687
21.1	This is made up as follows:		
	Annual audit	325,000	325,000
	Half yearly review	100,000	-
	Tax consultancy and other certification services	-	881,590
	Out of pocket expenses	50,000	50,000
		475,000	1,256,590
	Cost audit - Ijaz Tabassum & Co. Chartered Accountants		
	Audit fee	15,000	15,000
	Out of pocket expenses	21,100	12,000
		36,100	27,000
		511,100	1,283,590
21.2	No director or his spouse had any interest in the donee institution.		
22	**SELLING AND DISTRIBUTION EXPENSES**		
	Salaries, wages and benefits	7,991,659	10,522,709
	(including retirement benefits of Rs. 635,472; 2002 Rs. 1,043,606)		
	Traveling and entertainment	911,256	750,775
	Rent, rates and taxes	1,209,266	754,587
	Repairs and maintenance	313,603	389,960
	Printing and stationery	575,380	677,582
	Depreciation	809,640	404,336
	Communication, establishment and other expenses	1,149,308	1,365,412
	Advertisement and sale promotion expenses	1,736,942	959,030
	Insurance	319,790	149,568
		15,016,844	15,973,959
23	**OTHER INCOME**		
	Interest on bank accounts	6,795,471	9,104,306
	Interest on long term advance	78,904	-
	Gain/(loss) on disposal of fixed assets (9.3)	1,258,587	(436,257)
	Others	393,804	187,590
		8,526,766	8,855,639

	2003 Rupees	2002 Rupees

24 FINANCIAL CHARGES

	2003 Rupees	2002 Rupees
Fee and charges on loans	3,347,708	24,316,993
Interest/mark-up on long term loans (24.1)	307,050,857	409,084,228
Mark up on short term loan from an associated undertaking	-	11,071,675
Interest on short term loans	4,246,396	126,420
Unrealized gain on re-measurement of long term loans and interest	(37,400,399)	(21,638,058)
Unrealized loss on re-measurement of (FERI) contract	37,400,399	21,638,058
	-	-
Guarantee commission	91,274,064	31,133,901
Foreign exchange risk insurance fee (24.2)	55,330,941	(63,406,466)
Bank charges and commission	2,159,148	4,405,083
	463,409,114	416,731,834

24.1 Interest on long term loans is net of reversal of penal interest relating to prior years Rs. Nil (2002: Rs. 73,902,447) waived by foreign lenders

24.2 Exchange risk cover fee is net of reversal of late payment penalty related to prior years Rs. Nil (2002: Rs. 198,782,783) as a result of revision in the basis of penalty.

25 TAXATION

	2003 Rupees	2002 Rupees
Current	7,650,000	8,200,000
Prior years'	-	9,333,350
	7,650,000	17,533,350

25.1 The charge for current taxation is worked out based on the minimum tax at the rate of 0.5 percent of turnover less Government levies under section 113 of the Income Tax Ordinance, 2001.

25.2 The income tax assessments of the Company have been finalized upto and including assessment year 2000-2001 out of which the Company has filed appeals before CIT(A) for the assessment years 1999-2000 and 2000-2001 which are pending for hearing.

25.3 During the year, the assessing officer rectified the earlier assessment order for the assessment year 1998-99 under section 156 of Income Tax Ordinance, 1979 by restricting the depreciation allowance on "Plant & Machinery" and Building" to the extent of original/purchase value as against the capitalized value of the assets which resulted in reduction of unabsorbed depreciation loss amounting to Rs. 419,726,840/- available for carry forward to succeeding assessment year. The Company has filed appeal before CIT (A) which is pending for hearing. The Company is confident that this issue will be decided in its favour.

25.4 In view of uncertainty about taxable profits in the foreseeable future against which the losses could be utilized, the Company has not recognized the deferred tax asset and therefore has created an equivalent amount of valuation reserve against deferred tax asset amounting to Rs. 789.3 million (2002: Rs. 666.7 million)

25.5 Numeric tax rate reconciliation has not been given as the Company is liable to minimum tax only.

26 LOSS PER SHARE

	2003 Rupees	2002 Rupees
Loss per share - Basic		
Loss after taxation (Rupees)	(531,380,995)	(110,479,980)
Weighted average number of ordinary shares (Numbers)	370,743,048	173,496,061
Loss per share (Rupees)	(1.43)	(0.64)
Loss per share - Diluted		
Loss after taxation (Rupees)	(531,380,995)	(110,479,980)
Weighted average number of ordinary and preference shares (Numbers)	419,442,235	174,029,751
Loss per share (Rupees)	(1.27)	(0.63)

27 REMUNERATION OF DIRECTORS AND EXECUTIVES

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

	Managing Director		Executives	
	2003 Rupees	2002 Rupees	2003 Rupees	2002 Rupees
Managerial remuneration	2,312,258	1,480,461	16,034,923	17,842,054
Provident fund	97,044	72,454	729,400	805,456
Gratuity	223,862	440,497	1,345,850	1,576,197
Compensated absences	121,685	674,014	1,122,151	6,816,651
Utilities and upkeep	320,958	262,351	1,953,199	2,121,232
	3,075,807	2,929,777	21,185,523	29,161,590
No of persons	1	1	43	48

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

The other directors of the Company were paid meeting fees of Rs. 31,000 (2002: Rs. 3,000).

28 Financial Instruments - risk management

28.1 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:

	2003			2002		
	Maturity upto one Year	Maturity after one Year	Total	Maturity upto one Year	Maturity after one Year	Total
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Financial assets						
Non-interest/mark-up bearing						
Foreign Exchange Risk Insurance Contract	184,776,841	144,716,969	329,493,810	166,637,463	308,416,591	475,054,054
Trade debts	45,244,848	-	45,244,848	42,656,455	-	42,656,455
Advances, deposits, prepayments and other receivables	1,505,757	-	1,505,757	2,273,361	-	2,273,361
Cash and bank balances	2,038,069	-	2,038,069	13,997,431	-	13,997,431
Long term deposit	-	21,600,000	21,600,000	-	21,600,000	21,600,000
Interest/mark-up bearing						
Long term advance	-	4,000,000	4,000,000	-	-	-
Cash and bank balances	191,954,162	-	191,954,162	275,140,263	-	275,140,263
	425,519,677	170,316,969	595,836,646	500,704,973	330,016,591	830,721,564
Financial liabilities						
Interest/mark-up bearing						
Long term loans	137,390,439	4,065,631,452	4,203,021,891	232,486,746	4,065,751,886	4,298,238,632
Short term loans	15,914,497		15,914,497	76,905,681	-	76,905,681
Non-Interest/mark-up bearing						
Long term loans	-	172,335,781	172,335,781	-	114,343,148	114,343,148
Creditors, accrued and other liabilities	307,879,859	-	307,879,859	206,329,455	-	206,329,455
Provision for staff retirement benefits	-	27,450,649	27,450,649	-	24,619,442	24,619,442
	461,184,795	4,265,417,882	4,726,602,677	515,721,882	4,204,714,476	4,720,436,358
Off balance sheet items						
Commitments	61,625,000	-	61,625,000	-	-	-
Guarantees	42,256,159	9,272,220	51,528,379	912,921,042	38,506,771	951,427,813
Letter of credit	186,194,458		186,194,458	8,240,000		8,240,000
	290,075,617	9,272,220	299,347,837	921,161,042	38,506,771	959,667,813

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

	2003	2002
	Effective interest rate %	
Assets		
Long term advance	4	-
Cash and bank balances	1.6 - 4.5	5 - 10
Liabilities		
Long term loans	2.67 - 16	9.25 - 17
Short term loans	12 - 13	12

28.3 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 deals with variety of major banks and financial institutions.

28.4 Foreign exchange risk

This exists due to the Company's exposure resulting from outstanding import payments and foreign currency loans. Long term loans exposed to foreign currency risk are covered through foreign exchange risk cover as stated in note 2.13.

28.5 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.

29 RELATED PARTY TRANSACTIONS

The Company is a subsidiary of Fauji Foundation which owns 52% of the Company's shares, therefore all subsidiaries and associated undertakings of Fauji Foundation are related parties of the Company. The related parties comprise directors, key management personnel, entities over which the directors are able to exercise influence and employees' fund. The Company has a policy whereby all transactions with related parties are entered into at arm's length prices determined in accordance with "Comparable Uncontrolled Price Method". Transactions with related parties other than remuneration and benefits to key management personnel under the terms of their employment are as follows:

	2003 Rupees	2002 Rupees
Fauji Foundation		
- Sale of Cement	653,000	764,000
- Interest paid on short term loan	-	11,071,675
- Payment for use of medical facilities	103,667	203,396
FCCL Employees Provident Fund		
- Contributions made by the Company	2,424,370	2,366,174

30 Plant capacity and actual production

	2003 Metric Tons	2002 Metric Tons
Installed capacity	945,000	945,000
Actual production of cement	643,218	606,607

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

31 GENERAL

31.1 **Number of employees**
Total number of employees at the year end was 477 (2002: 490)

31.2 Figures have been rounded off to the nearest rupee.

31.3 Corresponding figures have been rearranged and restated, wherever necessary, for the purpose of comparison. Restatements made are as follows:

	2002 Rupees Restated	2002 Rupees As previously reported
- Long term loans	4,180,095,034	3,710,574,716
- Creditors, accrued and other liabilities		
Accrued interest/mark-up on loans	77,648,666	72,114,930
- Foreign Exchange Risk Insurance Contract (FERI)	308,416,591	-
- Current portion of Foreign Exchange Risk Insurance Contract (FERI)	166,637,463	-
- Financial charges		
Unrealized gain on re-measurement of long term loans and accrued interest.	(37,400,399)	-
Unrealized loss on re-measurement of (FERI) contract	37,400,399	-

Chairman Chief Executive Director