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Company Information

Board of Directors

Lt Gen Syed Arif Hasan, HI (M) (Retired)	Chairman
Maj Gen Malik Iftikhar Khan, HI (M) (Retired)	Chief Executive / MD
Mr. Qaiser Javed	Director
Mr. Riyaz H. Bokhari, IFU	Director
Brig Munawar Ahmed Rana, SI(M) (Retired)	Director
Ms Tine Bremholm Kokfelt, FLS	Director
Brig Arif Rasul Qureshi, SI (M) (Retired)	Director
Brig Rahat Khan, SI (M) (Retired)	Director
Dr. Nadeem Inayat	Director

Company Secretary

Brig Shabbir Ahmed (Retired)

House No. 62, Khayaban-e-Iqbal
(Margalla Road), F-7/2,
Islamabad - Pakistan
Tel: (051) 9221690
Fax: (051) 9221693
E-mail: secretary@fccl.com.pk
Web Site: http: //www.fccl.com.pk

Chief Financial Officer

Mr. Omer Ashraf

Tel: (051) 2651762

Registered Office and Marketing/Sales Department

Ist Floor, Aslam Plaza,
60 Adam Jee Road, Sadar, Rawalpindi Pakistan
Tel: (051) 5523836, 5528042, 5528960, 5528963-64
Fax: (051) 5528965-66

Company Information

Factory

Near Village Jhang, Tehsil Fateh Jang
District: Attock
Tel: 057-2538047-48, 2538138, 2538148 49
Fax: 057-2538025

Auditors

M/s KPMG Taseer Hadi & Co,
Chartered Accountants

Fax No: (051) 2822671

Legal Advisors

M/s Orr Dignam & Co, Advocates

Fax No: (051) 2260653

Farooq Law Associates,
Advocates & Attorneys

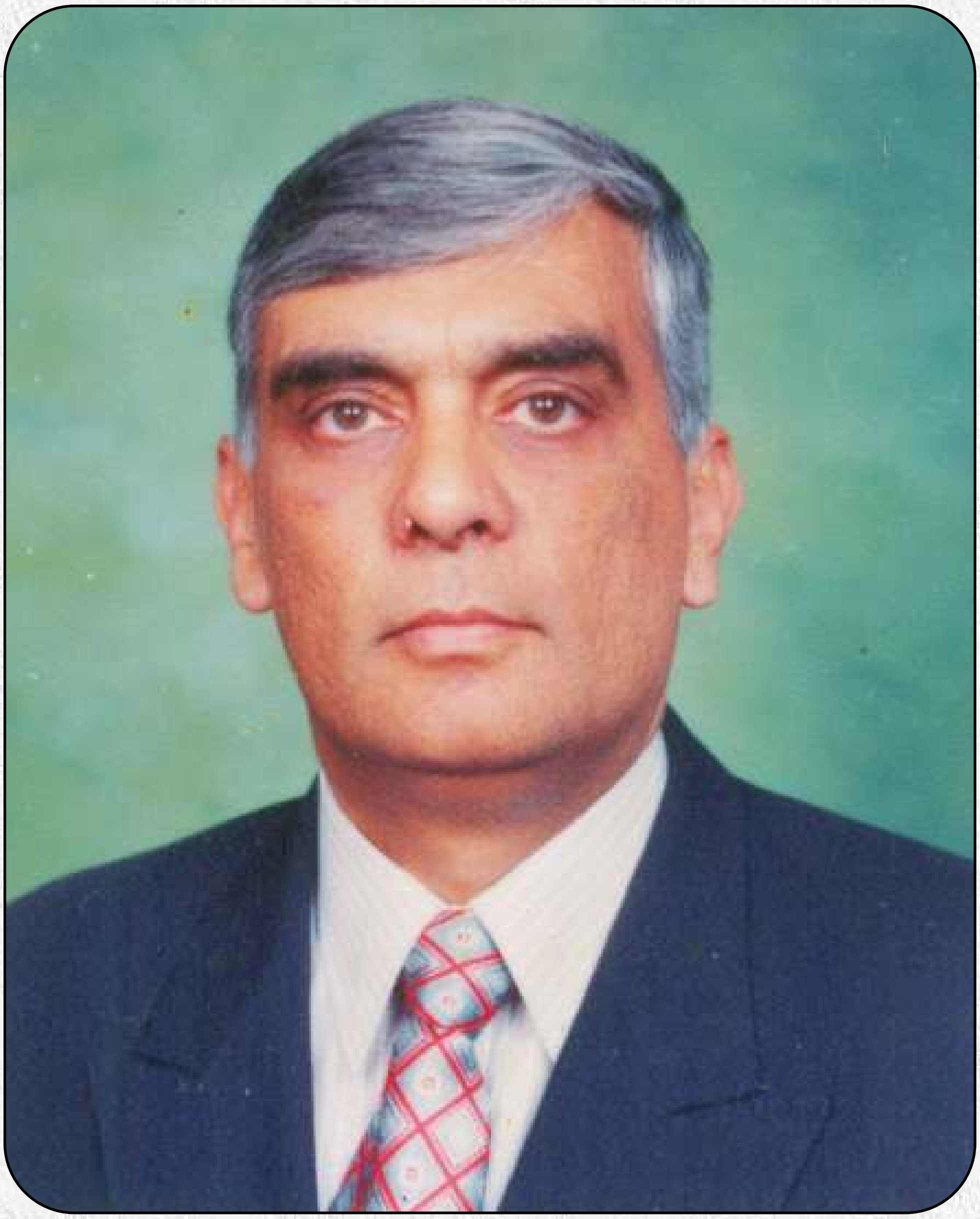
Fax No: (051) 2272643

Registration & Shares Transfer Officer

Mr. Aftab Muhammad Hafeez,
Manager (Shares)

House No. 62, Khayaban-e-Iqbal
(Margalla Road), F-7/2, Islamabad
Tel: (051) 9221694
(051) 9221695

Chairman



Lt Gen Syed Arif Hasan
HI (M) (Retired)

Annual Report 2006

Chief Executive & Managing Director

Maj Gen Malik Iftikhar Khan
HI (M) (Retired)

Board of Directors

Mr. Qaiser Javed

Mr. Riyaz H. Bokhari, IFU

Brig Munawar Ahmed Rana
SI (M) (Retired)

Ms Tine Bremholm Kokfelt,
FLS

Brig Arif Rasul Qureshi
SI (M) (Retired)

Brig Rahat Khan
SI (M) (Retired)

Dr. Nadeem Inayat

Brig Shabbir Ahmed (Retired)
Company Secretary

Committees of The Board of Directors

Human Resources Development Committee

Dr. Nadeem Inayat	-	President
Mr. Qaiser Javed	-	Member
Brig Munawar Ahmed Rana (Retd)	-	Member
Brig Shabbir Ahmed (Retd), Company Secretary	-	Secretary

Audit Committee

Mr. Qaiser Javed	-	President
Mr. Riyaz H. Bokhari	-	Member
Brig Rahat Khan (Retd)	-	Member
Dr. Nadeem Inayat	-	Member
Brig Shabbir Ahmed (Retd), Company Secretary	-	Secretary

Technical Committee

Brig Rahat Khan (Retd)	-	President
Brig Munawar Ahmed Rana (Retd)	-	Member
Brig Arif Rasul Qureshi (Retd)	-	Member
Mir Khawar Saleem, GM (Project)	-	Secretary

Vision & Mission

Vision & Mission

Vision

"To transform FCCL *into a model cement manufacturing Company engaged in nation building through most efficient utilisation of resources and optimally benefiting all stake holders while enjoying public respect and goodwill".*

Mission

*"*FCCL *while maintaining its leading position in quality of cement will build up on its present state of profitability with a view to ensuring optimum returns to the shareholders".*

Operating Highlights

Key Indicators		2000	2001	2002	2003	2004	2005	2006
Operating								
Gross Profit Margin	%	30.82	19.50	25.13	11.62	32.26	38.01	51.12
Operating Profit Margin	%	28.41	15.08	19.98	8.09	(1.70)	34.75	47.64
Pre Tax Margin	%	(16.15)	(35.70)	(5.86)	(34.67)	(10.60)	26.68	41.48
After Tax Margin(%)	%	(16.68)	(36.21)	(6.96)	(35.17)	13.68	17.94	28.08
Performance								
Return on total assets	%	(5.10)	(10.14)	(1.60)	(8.42)	5.32	8.20	19.42
Total Assets turnover	Times	0.31	0.28	0.23	0.24	0.39	0.46	0.69
Fixed Assets turnover	Times	0.34	0.31	0.33	0.33	0.52	0.63	0.97
Return on Paid up Share Capital	%	(16.52)	(33.30)	(2.63)	(12.67)	7.49	12.17	28.70
Leverage								
Debt Equity Ratio	Times	5.07	20.06	2.05	2.66	1.88	1.26	0.60
Current Ratio	Times	0.13	0.11	1.42	1.53	1.54	0.92	1.25
Quick Ratio	Times	0.10	0.09	1.27	1.43	1.38	0.88	1.13
Valuation								
Earnings per share(basic)	Rs	(1.65)	(3.33)	(0.64)	(1.43)	0.85	1.38	3.25
Breakup Value per share(basic)	Rs	4.66	1.33	12.43	4.38	5.23	6.61	8.85
Breakup Value per share(diluted)	Rs	4.66	1.33	12.39	3.87	4.62	5.84	7.83
Dividend per share	Rs	Nil	Nil	Nil	Nil	Nil	Nil	1.00
Dividend payout Ratio	%	N/A	N/A	N/A	N/A	N/A	N/A	31%
Market Price per share (average)	Rs	3.74	2.42	3.40	7.23	14.15	12.76	19.38
Historical Trends								
Trading Results								
Sales-net	Rs in 000	1,696,581	1,575,604	1,586,606	1,510,738	2,296,231	2,845,143	4,286,138
Gross Profit	Rs in 000	522,887	307,202	398,707	175,605	740,824	1,081,576	2,191,111
Operating Profit/(loss)	Rs in 000	482,081	237,677	317,023	122,213	(39,068)	988,673	2,041,984
Profit/ (loss) before tax	Rs in 000	(273,974)	(562,455)	(92,947)	(523,731)	(243,291)	759,039	1,777,687
Profit/ (loss) after tax	Rs in 000	(282,974)	(570,455)	(110,480)	(531,381)	314,148	510,490	1,203,735
Financial Position								
Shareholders Equity	Rs in 000	799,129	228,674	2,156,367	1,624,986	1,939,134	2,449,624	3,282,617
Property plant & Equipment	Rs in 000	5,139,740	5,210,007	4,854,117	4,659,449	4,729,254	4,658.272	4,563.115
Working Capital	Rs in 000	(2,646,994)	(3,342,227)	223,735	249,006	202,345	(90.112)	312.183
Non current liabilities	Rs in 000	1,715,216	1,660,706	4,204,714	4,215,938	3,599,103	2,567,218	1,648,292

Notice of 14th Annual General Meeting

Notice is hereby given that the 14th Annual General Meeting of the Company will be held at 1000 hours 31 October 2006 (Tuesday) at Hotel Pearl Continental Rawalpindi, to transact the following business:-

1. To confirm the Minutes of 13th Annual General Meeting held on 27 October 2005.

2. To receive, consider and adopt the Audited Accounts of the Company together with the Directors' and the Auditors' Reports for the Year ended 30 June 2006.

3. To appoint Statutory Auditors of the Company and fix their remuneration.

4. To approve payment of final dividend for the year ended 30 June 2006 as recommended by the Board of Directors.

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

By order of the Board

Place: Rawalpindi
Date: 09 October 2006

Brig Shabbir Ahmed (Retd)
Company Secretary

NOTES

(1) The Share Transfer Books of the Company will remain closed from 25 October 2006 to 2 November 2006 (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, Sadar, 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. A copy of shareholder’s attested NIC must be attached with the proxy form.

(3) CDC Account Holders are required to follow the under mentioned guidelines as laid down by the Securities & Exchange Commission of Pakistan:-

(a) For Attending the Meeting

i. In case of individuals, the account holder or sub-account holder shall authenticate his/her identity by showing his/her original national identity card or original passport at the time of attending the Meeting.

ii. 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

i. In case of individuals, the account holder or sub-account holder shall submit the proxy form as per the above requirement.

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

iii. Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the Proxy Form.

iv. The Proxy shall produce his/her original NIC or original passport at the time of the Meeting.

v. 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, please contact Ph: 051-9221690, Fax No: 051-9221693, E-mail: **secretary@fccl.com.pk** and Web Site: **www.fccl.com.pk**

Directors' Report - 2006

General

1. The Directors of Fauji Cement Company Limited (FCCL) are pleased to present the 14th Annual Report together with audited financial statements of the Company for the year ended 30 June 2006 and the Auditors' Report. With the kind blessings of Almighty Allah, the Company has successfully passed through its consolidation phase and is on its way to further expansion.

Market Overview

2. The Cement Industry in Pakistan has undergone major changes since 2002. Owing to phenomenal growth in demand, originating from domestic as well as international sources, Cement Sector is operating at high capacity utilization levels for the last three years. As a result of increase in sales volume, higher average retention price and new technological advancement in terms of fuel efficiency, profitability in Cement Sector has substantially increased.

3. The trend of increasing demand continued in FY 2005-06 as well. Total cement sales during FY 2005-06 stood at 18.4 Million tons, which is the highest ever achieved by the Cement Industry. It reflected a growth of 12.6 percent over 16.4 Million tons of sales during last fiscal year. Local demand grew by 14.3 percent over last year while exports portrayed a marginal slip from 1.57 Million tons in FY05 to 1.51 Million tons, showing a decline of 4 percent, which was mainly due to voluntary restraint on export of cement by the producers to assist Government of Pakistan in its efforts of stabilizing the prices.

4. During the year under review, the capacity utilization stood at 88 percent. The increase in local demand was on the back of rising construction activities in the Country and Government's focus towards infrastructure development. At the end of FY 06, per capita cement consumption in Pakistan increased by 11% to 117 kg as compared to 106 kg in FY 05. Similarly, production capacity of the Industry increased by 20.1% to 20.94 million tons per annum as against the preceding year of 17.44 million tons.

5. Comparing with previous year, FCCL performed extremely well. Besides, maintaining its position well above the Industry average it also earned record profit reflecting YOY increase of 105.59%. Salient aspects of Company's performance vis-a-vis the Industry are

given below:-

a. **FCCL Comparison**

		2005-06	2004-05	Difference (%)
(1)	Domestic Despatches (tons)	952,771	798,472	19.32%
(2)	Exports (tons)	113,410	110,210	2.90%
(3)	Total Despatches (tons)	1,066,181	908,682	17.33%
(4)	Capacity Utilization (%)	91.48%	96.16 %	-4.55%
		(of 3885 tpd)	(of 3150 tpd)	
(5)	Market Share (North Zone)	7.22%	6.65%	8.57%
(6)	Exports Share (%)	7.53%	7.04%	6.96%
(7)	Clinker Production (tons)	1,058,368	851,000	24.37%
(8)	Cement Production (tons)	1,064,649	912,195	16.71%
(9)	Sales (tons)	1,066,181	908,682	17.33%

b. **Industry Comparison**

		2005-06	2004-05	Difference (%)
(1)	Domestic Despatches (tons)	16,907,138	14,788,175	14.33%
(2)	Exports (tons)	1,505,159	1,595,170	5.64%
(3)	Total Despatches (tons)	18,412,297	16,353,345	12.59%
(4)	Capacity Utilization	87.93%	91.32%	-3.71%

Production Review

6. Performance of the Plant remained highly satisfactory with overall efficiency exceeding 91.5%. Efficiency in terms of fuel, power and raw material consumption at the Plant is among the best, while the labour cost is also one of the lowest in the Cement Industry.

7. The Plant was upgraded from 3000 tpd Clinker to 3700 tpd Clinker in July 2005 for which a stoppage of 20 days was needed. Similarly, FCCL has signed a contract with M/s F.L. Smidth, Denmark for enhancing the capacity of limestone stock yard to meet the requirement of upgraded kiln production. The same is expected to be completed in November 2006.

8. FCCL has also enhanced its Raw Mill production from 260 tons per hour to 300 tons per hour for meeting the requirement of up-graded kiln production. Whereas, the erection and commissioning has been completed, the guarantee test will be performed in near future.

Financial Performance

9. **Increase in Profitability.** The Company earned a Profit After Tax of Rs. 1,203.735 Million as compared to last year's profit of Rs. 510.490 Million. The profit from operations increased from Rs. 988.673 Million to Rs. 2,041.984 Million depicting an increase of 105.59%. This achievement is mainly attributed to stable market environment and reduction in operating costs resulting from conversion to coal firing system.

10. **Pre-Payment of Long Term Loans.** Despite investment in capacity enhancement, Power Plant and Raw Mill Up-gradation, the Company has reduced its long term debt by Rs. 1,100 Million due to timely loan payments and pre-payment of Rs. 500 Million in January 2006, which has substantially reduced the effects of rising interest rates.

11. **Contribution to National Exchequer.** The Company has contributed a sum of Rs. 1,486.093 Million to the national exchequer in the form of taxes and duties as compared to Rs.1,135.111 Million during last year. Concurrently, Fauji Cement earned USD 8.255 Million through export of cement, providing valuable foreign exchange to the Government of Pakistan.

12. **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 in a fair and accurate manner.

13. **Books of Account.** Proper books of account have been maintained.

14. **Accounting Policies.** Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.

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

16. **Internal Control System.** The system of internal control is sound in design and has been effectively implemented and monitored.

17. **Going Concern.** There is no doubt that the Company has the ability and strength to operate as a going concern.

18. **Best Practices of Corporate Governance.** There has been no material departure from the best practices of corporate governance, as given in the listing regulations.

19. **Deviation from Last Year's Operating Results.** The Company has done better owing to stable market environment, enhanced efficiency and timely loan payments.

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

Description	2006	2005	2004	2003	2002	2001
Operating Results						
(Rs. in Million)						
Net Sales	4,286.138	2,845.143	2,296.231	1,510.738	1,586.606	1,575.604
Gross Profit	2,191.111	1,081.576	740.824	175.605	398.707	307.202
Operating Profit	2,041.984	988.673	723.084	122.213	317,.023	237.677
Financial Charges	264.297	229.634	204.223	463.409	416.732	807.856
Profit/(Loss) after taxation	1,203.735	510.490	314.148	(531.381)	(110.480)	(570.455)
Balance Sheet						
Shareholder's Equity	3,282.617	2,449.624	1,939.134	1,624.986	2,156.367	228.674
Fixed Assets	4,563.115	4,658.272	4,729.254	4,659.449	4,854.117	5,210.007
Long Term Loans including Current portion	1,975.000	3,075.000	3,645.347	4,325.878	4,412.582	4,588.028
EPS (Rs)						
Basic	3.25	1.38	0.85	(1.43)	(0.64)	(3.33)
Diluted	2.87	1.22	0.75	(1.27)	(0.63)	-

21. **Dividend.** The Board is pleased to recommend final cash dividend of Rs. 0.50 per ordinary share in addition to the interim dividend of Rs. 1.00 per ordinary share during the year 2005-2006.

22. **Outstanding Statutory Dues.** The Company does not have any outstanding statutory dues except the ones appearing in Note No 6 to Annual Accounts 2005-2006. The same were subsequently deposited within the stipulated period as allowed by statutory provisions.

23. **Value of Investment of Employees.** Value as on 30 June 2006 is given below:-

			Management Staff	Non-Management Staff
a.	Provident Fund	:	Rs. 33,469.358	Rs. 23,184,004
b.	Gratuity Fund	:	Rs. 26,097.924	Rs. 13,856.162

24. **Salient Aspects of Company's Control and Reporting Systems.** The Company complies with all the requirements of the Code of Corporate Governance as contained in the listing regulations of the Stock Exchanges. The Board's primary role is the protection and enhancement of long term shareholders' value. To fulfil this role, the Board is responsible to implement overall corporate governance in the Company including approval of the strategic direction as recommended by the Management, approving and monitoring capital expenditure, appointing, removing and creating succession policies for the Directors and Senior Management, establishing and monitoring the achievement of Management's goals and ensuring the integrity of internal control and Management Information Systems. It is also responsible for approving and monitoring financial and other reporting.

The Board has delegated responsibility for operation and administration of the Company to the Chief Executive / Managing Director. Responsibilities are delineated by formal authority delegations. The Board has constituted the following committees which work under the guidance of Board of Directors:-

a. Audit Committee.
b. Technical Committee.
c. Human Resources Development Committee.

Attendance of Meetings

25. During the year under review, the Board of Directors and Audit Committee held five meetings each. Attendance by each director is as follows:-

a. **Board of Directors**

			No of Meetings Attended
(1)	Lt Gen Syed Muhammad Amjad, HI, HI (M) (Retired)	-	2
(2)	Lt Gen Syed Arif Hasan, HI (M), (Retired)	-	3
(3)	Maj Gen Malik Iftikhar Khan, HI (M) (Retired)	-	5
(4)	Mr. Qaiser Javed	-	5
(5)	Mr. Riyaz H. Bokhari, IFU	-	4
(6)	Brig Aftab Ahmad, SI (M) (Retired)	-	4
(7)	Brig Ghazanfar Ali, SI (M) (Retired)	-	4
(8)	Mr. Azhar Iqbal Hussain	-	2
(9)	Brig Munawar Ahmed Rana, SI (M) (Retired)	-	3
(10)	Brig Arshad Shah, SI (M) (Retired)	-	3
(11)	Brig Arif Rasul Qureshi, SI (M) (Retired)	-	1
(12)	Ms Tine Bremholm Kokfelt, FLS	-	Nil

b. **Audit Committee**

			No of Meetings Attended
(1)	Mr. Qaiser Javed	-	5
(2)	Mr. Riyaz H. Bokhari, IFU	-	5
(3)	Brig Aftab Ahmad, SI (M) (Retired)	-	4
(4)	Mr. Azhar Iqbal Hussain	-	2
(5)	Brig Arshad Shah, SI (M) (Retired)	-	1

Note: The Acting Chief Financial Officer (A/CFO) and Internal Auditor were invariably invited to attend the meetings of Audit Committee. External Auditors were also invited to attend two meetings of Audit Committee, wherein, issues related to annual and half year's financial statements were discussed.

Disclosures

26. To the best of our knowledge, the Directors, CEO, A/CFO, Company Secretary, Company Auditors, their spouses and their minor children have not undertaken any trading in Company's Shares during the FY 2005-06.

Pattern of Share-holding

27. Pattern of share-holding as on 30 June 2006 is attached.

Relations With Personnel and Locals

28. Relations between the Management and the Workers continued to be extremely cordial based on mutual respect and confidence contributing to the optimal efficiency. The Company has allocated funds for Gratuity, Provident Fund and Profit Participation Fund for its employees.

29. Concurrently, the Company continues to enjoy a high degree of goodwill and cooperation from locals as it respects their environment through responsible business practices. The Company runs a free dispensary for the locals and also provides good education facilities up to secondary school level at reasonable fee structure.

Change of Chairman

30. Lt Gen Syed Arif Hasan, HI (M) (Retired), has replaced Lt Gen Syed Muhammad Amjad, HI, HI (M) (Retired) as Chairman of the Company with effect from 28 December 2005. The Board welcomes the new Chairman and records its appreciation for the valuable services rendered by Lt Gen Syed Muhammad Amjad, HI, HI (M) (Retired).

Change of Directors

31. Following changes have taken place:-

a. On resignation of Mr. Azhar Iqbal Hussain, Brig Arshad Shah, SI(M) (Retired), had been appointed as Director of the Company on 6 January 2006. However, subsequent to his resignation, Dr. Nadeem Inayat, has been appointed as Director of the Company with effect from 3 August 2006.

b. On resignation of Brig Ghazanfar Ali, SI (M) (Retired), Brig Arif Rasul Qureshi, SI (M) (Retired), has been appointed as Director of the Company with effect from 24 May 2006.

c. On resignation of Brig Aftab Ahmad, SI (M) (Retired), Brig Rahat Khan, SI (M) (Retired), has been appointed as Director of the Company with effect from 07 July 2006.

32. The Board expresses its appreciation for the valuable advice and services rendered by the outgoing Directors and welcomes the new Directors on the Board.

Change of Company Secretary

33. On retirement of Brig Allah Ditta, SI (M) (Retired), Brig Shabbir Ahmed, (Retired), has been appointed as Company Secretary with effect from 17 April 2006.

Auditors

34. The present Auditors M/s KPMG Taseer Hadi & Co, Chartered Accountants will stand retired at the conclusion of the 14th Annual General Meeting. However, being eligible, they have expressed their willingness for re-appointment. They have also been recommended by the Audit Committee.

Product Quality

35. FCCL has always endeavoured to produce the best quality cement in Pakistan, which is amply reflected in its high demand, both inside and outside the Country. As a company, FCCL is focused on customers' satisfaction, employees' morale and fair deal to its partners in the business. It strictly adheres to the following:-

a. **Quality Policy.** Customers' satisfaction through quality assurance.

b. **Objectives**

(1) To be a cost effective and efficient organisation.

(2) Continuous improvement through well planned training.

(3) Commitment to leadership and team-work.

(4) To maintain quality culture within FCCL.

(5) To remain a leading manufacturer of high quality Portland Cement in Pakistan.

36. The Company, by grace of Almighty ALLAH, is an ISO 9001-2000 Certified Company.

Future Outlook

37. The outlook for the Cement Sector is positive, given the fact that the Country was facing shortage of 500,000 to 600,000 houses per year apart from requirement of concrete for reconstruction of earthquake hit areas. The Governments' focus on building mega dams, allocation of Rs. 435 billion under PSDP and planned coal, clinker and cement terminal facility for local cement manufacturers at Port Qasim Karachi (to cater for exportable surplus of around 10 million tons expected to be accumulated by end 2007) will add to demand growth.

38. FCCL has planned to install a new line of production with an installed capacity of over 6000 tons per day in parallel with the existing line. The future expansion will not only ensure retention of present market share of the Company but will also assist Government of Pakistan in its efforts of stabilizing the cement prices.

Acknowledgement

39. The Directors express their deep appreciation of our valued customers, the dedication of Company's employees to their professional obligations and the cooperation extended by financial institutions / government agencies, which have enabled the Company to display excellent performance both in operational and financial fields.

Conclusion

40. With profound gratitude to the blessings of Allah Almighty, the Board is of the opinion that the Company is now well on its way to remarkable success.

For and on behalf of the Board

Rawalpindi
5 October 2006

Lt Gen Syed Arif Hasan, HI(M) (Retd)
Chairman

Statement of Compliance with the Code of Corporate Governance For the Year Ended 30 June 2006

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 nine directors, out of whom only one is an executive director. Remaining eight (including the Chairman) are non-executive directors.

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 expeditiously as per Clause (vi) of Code of Corporate Governance.

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 and mission statement, overall corporate strategy and significant policy guidelines for the Company. The Management has further elaborated these guidelines into detailed control systems. 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. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. 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 course for Directors and officials of the Company was conducted during the last fiscal year.

10. The Board has approved the appointment of Acting CFO and Company Secretary including their remuneration and terms and conditions of employment as determined by the CEO. The Head of Internal Audit has the access to the chair of Audit Committee, whenever necessary.

11. The Directors' Report for FY 2005-2006 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 duly endorsed by CEO and Acting CFO before approval by the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company, other than that disclosed in pattern of share-holding.

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 four members and all of them are non-executive directors including the President of the Committee.

16. The meetings of the Audit Committee were held at least once a quarter 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 as given in the Code of Corporate Governance.

17. The Board has set up an effective internal audit function. The officials conducting internal audit are considered suitably qualified and experienced for the purpose; and are conversant with the policies and procedures of the Company and they are involved in internal audit function on full time basis.

18. 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.

19. 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.

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

Rawalpindi
5 October 2006

Lt Gen Syed Arif Hasan, HI (M) (Retired)
Chairman
NIC No 37405-6648041-1

Review Report to the Members on Statement of Compliance with the 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 as applicable to the Company for the year ended June 30, 2006.

Islamabad

KPMG Taseer Hadi & Co.
Chartered Accountants

Auditors' Report to the Members

We have audited the annexed balance sheet of Fauji Cement Company Limited ("the Company") as at June 30, 2006 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 financial 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 account 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 polices consistently applied;

(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 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 Company's affairs as at June 30, 2006 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, Zakat deductible at source under Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Islamabad

KPMG Taseer Hadi & Co.
Chartered Accountants

Balance Sheet as at 30 June 2006

	Note	2006 Rupees	2005 Rupees
SHARE CAPITAL AND RESERVES			
Share capital	3	**4,194,422,350**	4,194,422,350
Accumulated loss		**(911,805,604)**	(1,744,797,889)
		3,282,616,746	2,449,624,461
NON - CURRENT LIABILITIES			
Long term financing	4	**1,425,000,000**	2,522,005,000
Deferred liabilities - staff retirement benefits	5	**7,911,808**	45,212,891
Deferred tax liability-net	12	**215,380,682**	–
CURRENT LIABILITIES			
Trade and other payables	6	**421,074,237**	275,717,716
Markup accrued		**59,771,320**	69,356,833
Short term borrowing	7	**236,353,099**	308,876,433
Current portion of long term financing	4	**550,000,000**	552,995,000
		1,267,198,656	1,206,945,982
		6,198,107,892	6,223,788,334
CONTINGENCIES AND COMMITMENTS	8		

The annexed notes 1 to 34 form an integral part of these financial statements.

These financial statements were authorised for issue by the Board of Directors of the Company in their meeting held on 2 October 2006.

Chief Executive

	Note	2006 Rupees	2005 Rupees
FIXED ASSETS - Tangible			
Property, plant and equipment	9	**4,563,115,282**	4,658,271,541
LONG TERM ADVANCE	10	**9,000,000**	9,000,000
LONG TERM DEPOSITS	11	**46,611,000**	46,611,000
DEFERRED TAX ASSET-Net	12	**-**	337,140,244
CURRENT ASSETS			
Stores, spares and loose tools	13	**490,887,123**	360,453,002
Stock in trade	14	**145,090,210**	55,931,122
Trade debts	15	**25,474,729**	107,231,093
Advances-considered good	16	**36,351,664**	20,055,839
Trade deposits, short term prepayments and balances with statutory authorities	17	**11,801,355**	8,857,380
Interest accrued		**5,475,526**	1,001,662
Other receivables	18	**2,836,409**	8,235,163
Advance tax-net		**13,874,216**	7,890,628
Cash and bank balances	19	**847,590,378**	603,109,660
		1,579,381,610	1,172,765,549
		6,198,107,892	6,223,788,334

Director

Profit and Loss Account
For the Year Ended 30 June 2006

	Note	2006 Rupees	2005 Rupees
SALES	20	**5,683,455,513**	3,921,362,540
Less: Government levies	20	**(1,397,317,143)**	(1,076,219,418)
NET SALES		**4,286,138,370**	2,845,143,122
Less: Cost of sales	21	**(2,095,027,136)**	(1,763,566,940)
GROSS PROFIT		**2,191,111,234**	1,081,576,182
Other operating income	22	**43,323,458**	11,215,734
		2,234,434,692	1,092,791,916
Distribution cost	23	**(31,694,769)**	(21,332,774)
Administrative expenses	24	**(66,628,627)**	(42,293,182)
Other operating expenses	25	**(94,127,471)**	(40,493,110)
PROFIT FROM OPERATIONS		**2,041,983,825**	988,672,850
Finance cost	26	**(264,296,874)**	(229,634,117)
NET PROFIT BEFORE TAXATION		**1,777,686,951**	759,038,733
Taxation			
- Current	27	**(21,430,692)**	(15,650,000)
- Deferred	27	**(552,520,926)**	(232,898,295)
		(573,951,618)	(248,548,295)
NET PROFIT AFTER TAXATION		**1,203,735,333**	510,490,438
Earnings per share - Basic	28.1	**3.25**	1.38
Earnings per share - Diluted	28.2	**2.87**	1.22

The annexed notes 1 to 34 form an integral part of these financial statements.

Chief Executive

Director

Cash Flow Statement
For the Year Ended 30 June 2006

	Note	2006 Rupees	2005 Rupees
Cash flows from operating activities			
Net profit before taxation		**1,777,686,951**	759,038,733
Adjustments for:			
Depreciation		**266,532,356**	256,283,073
Provision for gratuity and compensated absences		**45,811,974**	6,666,759
Spares written off		**18,527,647**	–
Workers' Profit Participation Fund including interest		**96,534,707**	39,949,407
Finance cost		**264,296,874**	229,634,117
Gain on disposal of property, plant and equipment		**(1,301,061)**	(4,749,951)
Interest income		**(34,599,692)**	(3,820,738)
		655,802,805	523,962,667
Operating cash flows before working capital changes		**2,433,489,756**	1,283,001,400
Increase in stores and stocks		**(214,706,109)**	(84,109,164)
Decrease /(increase) in trade debts		**81,756,364**	(62,442,506)
(Increase)/decrease in advances		**(16,295,825)**	12,031,374
(Increase)/decrease in trade deposits and prepayments		**(2,943,975)**	16,747,330
Decrease /(increase) in other receivables		**5,398,754**	(7,623,771)
Increase in trade and other payables		**49,559,953**	39,791,262
		(97,230,838)	(85,605,475)
Cash generated from operations		**2,336,258,918**	1,197,395,925
Staff retirement benefits paid		**(43,094,989)**	(1,717,953)
Payment to Workers' Profit Participation Fund		**(42,921,643)**	–
Taxes paid		**(27,414,280)**	(14,001,844)
Net cash from operating activities		**2,222,828,006**	1,181,676,128
Cash flows from investing activities			
Additions in property, plant and equipment		**(196,256,634)**	(255,908,329)
Claim received on insurance of property, plant and equipment		**1,063,000**	555,000
Proceeds from disposal of property, plant and equipment		**1,703,851**	5,061,294
Long term advance		**–**	(9,000,000)
Long term deposit		**–**	(10,011,000)
Interest received on bank deposits		**30,125,828**	5,027,689
Net cash used in investing activities		**(163,363,955)**	(264,275,346)
Cash flows from financing activities			
Repayment of long term finances		**(1,100,000,000)**	(3,870,347,488)
Proceeds from long term finances		**–**	3,300,000,000
Dividend paid		**(368,577,612)**	–
Finance cost paid		**(273,882,387)**	(249,908,181)
Net cash used in financing activities		**(1,742,459,999)**	(820,255,669)
Increase in cash and cash equivalents		**317,004,052**	97,145,113
Cash and cash equivalents at beginning of the year		**294,233,227**	197,088,114
Cash and cash equivalents at end of the year	29	**611,237,279**	294,233,227

The annexed notes 1 to 34 form an integral part of these financial statements.

Chief Executive

Director

Statement of Changes in Equity
For the Year Ended 30 June 2006

	Ordinary share capital Rupees	Preference share capital Rupees	Accumulated loss Rupees	Total Rupees
Balance as at June 30, 2004	3,707,430,480	486,991,870	(2,255,288,327)	1,939,134,023
Profit for the year	-	-	510,490,438	510,490,438
Balance as at June 30, 2005	3,707,430,480	486,991,870	(1,744,797,889)	2,449,624,461
Profit for the year	-	-	1,203,735,333	1,203,735,333
Interim dividend @ Rupee 1 per share	-	-	(370,743,048)	(370,743,048)
Balance as at June 30, 2006	3,707,430,480	486,991,870	(911,805,604)	3,282,616,746

The annexed notes 1 to 34 form an integral part of these financial statements.

Chief Executive

Director

Notes to the Financial Statements
For the year ended 30 June 2006

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 the Karachi, Islamabad and Lahore Stock Exchanges in Pakistan. The principal activity of the Company is manufacturing and sale of ordinary portland cement. The Company's registered office is situated at Aslam Plaza, Adamjee Road, Rawalpindi. Fauji Foundation holds 45.8% of the Company's ordinary shares.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

These financial statements have been prepared in accordance with the 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.

2.2 Accounting convention and significant estimates

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with International Accounting Standards (IASs) require management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in application of IAS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

2.2.1 Staff retirement gratuity

Defined benefit plan is provided for permanent employees of the Company. The plan is typically structured as separate legal entity managed by trustees. Calculations in this respect require assumptions to be made of future outcomes, the principle ones being in respect of increase in remuneration, the expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

2.2.2 Property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipments with a corresponding effect on the depreciation charge and the impairment.

2.2.3 Taxation

The Company takes into account the current income tax law and decisions taken by the taxation authorities. Instances where the Company's views differ from the views taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

2.3 New accounting standards and IFRIC interpretations that are not yet effective

The following standards amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after 1 July 2006 and are not expected to have a significant effect on company's financial statements or are not relevant to the company:

- Amendments to IAS 1 Presentation of Financial Statements Capital Disclosures
- IAS 19 (Amendment) Employee Benefits contractual agreement between the multi employer plan and defined benefit plans disclosures
- IAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intergroup Transactions
- IAS 39 (Amendment) The Fair Value Option
- IAS 21 (Amendment) The Effects of Changes in Foreign Exchange Rates: net investment in foreign operation
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a specific market - Waste Electrical and Electronic Equipment
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

2.4 Taxation

Current
Provision for current taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any.

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.

2.5 Property, plant and equipment

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and impairment loss if any. Freehold land and capital work in progress are stated at cost less allowance for impairment, if any. Cost of property, plant and equipment includes acquisition cost, borrowing cost during construction phase of relevant asset and exchange differences previously capitalized which related to foreign currency loans obtained for financing of relevant asset.

Depreciation is charged to income on the straight line method so as to write off the depreciable amount of the property, plant and equipment 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 property, plant and equipment. Depreciation on depreciable assets is commenced from the month the asset is available for use up to the date when the asset is disposed off. Previously, full year's depreciation was charged on the additions made in first half of the year and six month's depreciation was charged on additions made in second half of the year while no depreciation was charged on disposals during the year. This change in estimate is accounted for prospectively in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". This change has resulted in decreasing the depreciation charge for the year by Rs. 3.9 million with corresponding increase in the carrying value of property, plant and equipment by the same amount.

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.

2.6 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 for obsolete and slow moving stores, if any. Items in transit are valued at cost comprising invoice value and other cost incurred for bringing the store items at their present location and condition for intended use.

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. Cost comprises invoice value and other cost incurred for bringing the stock at their present location and condition for intended use. Net realizable value represents the estimated selling price less estimated cost of completion and cost necessarily to be incurred for such 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 transaction. All monetary assets and liabilities in foreign currencies are translated at exchange rates prevailing at the balance sheet date. Exchange differences are included in the profit and loss account.

2.10 Revenue recognition

Sales are recorded on dispatch of goods to the customers. Profit on deposits and advances 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 originally recognized amount less repayments, while the difference between the original recognized amounts (as reduced by periodic payments) and redemption value is recognized in the profit and loss account over the period of borrowings on an effective rate basis. The borrowing cost on qualifying asset is included in the cost of related asset as explained in note 2.13.

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. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account currently.

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, whether or not billed to the Company.

Trade debts and other receivables
Trade debts and other receivables are recognized at sales value less allowance for impairment. Known bad debts are written off, when identified.

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 a 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 the profit and loss account.

2.14 Staff retirement benefits

Gratuity
The Company operates a defined benefit plan comprising a funded gratuity scheme. The fund for gratuity is administered by trustees. Annual contributions to the gratuity fund are based on actuarial valuation using Projected Unit Credit Method, related details of which are given in note 6 to the financial statements. All contributions are charged to profit and loss account for the year. Actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees. Unrecognised transitional liability is recognised on a straight line basis over the period of five years.

Provident fund
The Company also operates a defined contribution provident fund scheme for permanent employees. Monthly contributions are made to the fund @ 10% of the basic salary both by the Company and employees. The Company's contribution is charged to the profit and loss account.

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, deposits at banks and short term borrowing.

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 resources embodying in economic benefits will be required to settle the obligation.

3 SHARE CAPITAL

ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2006 Number	2005 Number		2006 Rupees	2005 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	**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 3.1)		
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	**486,991,870**	486,991,870
419,442,235	419,442,235		**4,194,422,350**	4,194,422,350

AUTHORISED SHARE CAPITAL

This represents 551,300,813 ordinary shares of Rs. 10 each and 48,699,187 preference shares of Rs. 10 each.

3.1 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.

3.2 Fauji Foundation holds 169,780,232 (2005: 169,780,232) ordinary shares and 48,699,187 (2005: 48,699,187) preference shares of the Company at the year end.

4 LONG TERM FINANCING	Note	2006 Rupees	2005 Rupees
- Loans from banking companies-Secured	4.1		
Habib Bank Limited		598,484,849	916,666,667
MCB Bank Limited		598,484,849	916,666,667
United Bank Limited		299,242,423	458,333,333
Bank Al Falah Limited		299,242,423	458,333,333
PICIC Commercial Bank Limited		179,545,456	275,000,000
		1,975,000,000	3,025,000,000
- Loan from related party			
Fauji Foundation- unsecured	4.2	–	50,000,000
		1,975,000,000	3,075,000,000
Less: Amount payable within 12 months shown under current liabilities		(550,000,000)	(552,995,000)
		1,425,000,000	2,522,005,000

Maturity dates		2006	2005
Annual maturities of long term financing are as follows:		Rupees	Rupees
	2006	-	552,995,000
	2007	550,000,000	553,830,000
	2008	550,000,000	554,580,000
	2009	550,000,000	555,415,000
	2010	325,000,000	556,750,000
	2011	-	282,750,000
	2012	-	8,000,000
	2013	-	6,665,000
	2014	-	3,340,000
	2015	-	675,000
		1,975,000,000	3,075,000,000

4.1 This represents a syndicated term finance facility obtained from local banks which is secured against mortgage and first charge ranking pari passu on all assets of the Company. This facility carries interest rate of 6 months' KIBOR plus 1.75% per annum and balance amount is to be repaid in half yearly installments in arrears with final installment due on March 15, 2010.

4.2 This represents a loan 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. This loan was prepaid in full during the year.

5 DEFERRED LIABILITIES - Staff retirement benefits	Note	2006 Rupees	2005 Rupees
Compensated absences	5.1	**7,911,808**	28,271,399
Gratuity	5.2	**-**	16,941,492
		7,911,808	45,212,891

5.1 Compensated absences

	2006	2005
Balance at the beginning of the year	**28,271,399**	27,780,603
Add: Charge for the year	**19,109,305**	1,715,572
	47,380,704	29,496,175
Less: Amount transferred to current liabilities	**(33,989,872)**	-
Less: Amount paid during the year	**(5,479,024)**	(1,224,776)
	7,911,808	28,271,399

During the year, the Company has changed its rules for compensated absences and now the unavailed leaves up to 30 days are payable at the time of retirement. Compensated absences over and above the period of 30 days are payable on discretion of the employee and therefore the balance of unavailed compensated absences over that period has been transferred to current liabilities.

5.2 During the year, the Company established a separate fund for its gratuity liability and therefore amount payable to the fund is shown under current liabilities.

		2006 Rupees	2005 Rupees
6	**TRADE AND OTHER PAYABLES**		
	Creditors	**59,762,556**	45,968,679
	Accrued liabilities	**63,469,740**	67,118,873
	Retention money	**12,843,017**	10,533,142
	Security deposits	**37,986,039**	28,982,020
	Advances from customers	**58,744,253**	42,443,520
	Workers' Profit Participation Fund (6.1)	**93,562,471**	39,949,407
	Sales tax payable	**39,235,383**	31,300,220
	Excise duty payable	**10,263,824**	3,536,739
	Other liabilities	**3,023,450**	5,885,116
	Staff gratuity fund (6.2)	**6,028,196**	-
	Compensated absences	**33,989,872**	-
	Unclaimed dividend	**2,165,436**	-
		421,074,237	275,717,716
6.1	**Workers' Profit Participation Fund (WPPF)**		
	Balance at the beginning of the year	**39,949,407**	-
	Interest on funds utilised in Company's business	**2,972,236**	-
	Allocation of the year	**93,562,471**	39,949,407
	Payment to the fund during the year	**(42,921,643)**	-
		93,562,471	39,949,407
	Profit for the year before tax and WPPF	**1,871,249,422**	798,988,140
	Charge for the year at the rate of 5%	**93,562,471**	39,949,407
6.2	**Staff gratuity fund**		
	a) Movement in the liability recognised in the balance sheet		
	Balance at beginning of the year	**16,941,492**	12,483,482
	Expense for the year	**26,702,669**	4,951,187
	Payments to fund/employees during the year	**(37,615,965)**	(493,177)
	Balance at end of the year	**6,028,196**	16,941,492
	b) Reconciliation of liability recognised in the balance sheet:		
	Present value of defined benefit obligation	**42,958,890**	18,932,129
	Fair value of plan assets	**(34,707,094)**	-
	Deficit	**8,251,796**	18,932,129
	Unrecognised actuarial (loss)/gain	**(692,213)**	387,871
	Less: Un-recognised transitional liability	**(1,531,387)**	(2,297,080)
	Less: Non-vested past service cost	**-**	(81,428)
	Net liability	**6,028,196**	16,941,492

c) **The following amounts have been charged to the profit and loss account during the current year in respect of this scheme.**

	2006 Rupees	2005 Rupees
Current service cost	**24,151,656**	2,835,542
Interest cost	**1,703,892**	1,268,523
Transitional liability recognised	**765,693**	765,693
Past service cost	**81,428**	81,429
Expense for the year	**26,702,669**	4,951,187
Actual return on plan assets	**781,203**	-

d) **Actuarial valuation was carried out as at June 30, 2006 using Projected Unit Credit Method. Significant actuarial assumptions used were as follows:**

Average expected remaining working life-time of employees	**13 years**	12 years
Discount rate	**9%**	9%
Rate of increase in salary	**8%**	8%
Expected return on plan assets	**9%**	-

7 SHORT TERM BORROWING - SECURED

The Company has obtained running finance facility of Rs. 500 million (June 2005: Rs. 500 million) from United Bank Limited (banking company). This facility is secured against first charge ranking pari passu by way of hypothecation over the present and future assets of the Company (excluding land and building) and carries mark-up rate of three months KIBOR + 1.00 %.

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. 828.342 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) A demand of Rs. 20.257 has been raised by the Assistant Collector of Customs on September 21, 2004 and the Company has asked for details of this claim.

(vi) 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.

During the year, the Company filed an application before the Central Board of Revenue(CBR) under Section 47A of the Sales Tax Act, 1990 and Section 195C of the Customs Act, 1969 for constitution of an Alternate Dispute Resolution Committee (ADRC) in this matter. The final recommendations of ADRC on this matters are pending. However the management of the Company is confident of a favourable outcome.

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 financial statements. 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) The Company is contesting a claim for damages amounting to EUROS 833,120 equivalent Pak Rs. 64.15 million in a tribunal of Arbitrators filed by a supplier of plant and machinery against which the Company has filed a counter claim of EUROS 410,914 equivalent Pak Rs. 31.64 million and Rs. 11.284 million (less the aggregate sum of equivalent Pak Rs. 21.33 million previously recovered/adjusted by the Company). No liability has been accounted for, as the management is confident that the case will be ultimately be decided in favour of the Company.

d) The Company is contesting a claim of damages amounting to Rs. 19.75 million filed by the supplier of plant and machinery arising from the encashment by the Company of the bank guarantee amounting to Rs. 5.32 million which is appearing under payables. The case is currently in the court of Senior Civil Judge. The Company has filed an application under Arbitration Act to seek stay of the proceedings. No provision has been made against any liability as the mangement is confident that the case will be decided in favour of the company.

e) The Company is contesting a case against the Monopoly Control Authority, which is currently pending before the Honourable Lahore High Courts, Rawalpindi Bench. The management is confident that the Company has reasonable grounds to success and since there is no financial liability involved, no provision has been made in these financial statements.

f) The Company is contingently liable in respect of guarantees amounting to Rs. 172.75 million (June 2005: Rs. 19.79 million) issued by banks and insurance companies 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, spare parts and coal valuing Rs. 148.96 million (June 2005: Rs. 150.70 million).

b) Capital commitments of Rs. 1.614 million (June 2005: 103.440 million) in respect of purchase of power plant.

9. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Building on freehold land	Plant, machinery and equipment	Office equipment	Computers	Electric installation	Electrical equipment	Furniture and fittings	Motor vehicles	Tubwells	Quarry road and development	Personnel lift	Fire fighting instrument	Capital work in progress (note 9.1)	Total
	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)
Cost															
Balance as at 01 July 2004	141,246,104	1,412,509,674	4,476,313,627	3,975,009	4,525,712	30,652,778	25,145,071	6,019,317	34,629,254	3,030,854	27,854,507	3,850,985	758,656	269,033,596	6,439,545,144
Additions during the year	-	51,102,069	295,523,567	488,415	1,203,000	-	1,675,971	190,629	11,276,269	-	-	-	97,152	244,510,393	606,067,465
Disposals	-	(225,000)	-	-	-	-	-	-	(7,052,440)	-	-	-	-	-	(7,277,440)
Transfers	-		-	-	-	-	-	-	-	-	-	-	-	(346,625,636)	(346,625,636)
Balance as at 30 June 2005	141,246,104	1,463,386,743	4,771,837,194	4,463,424	5,728,712	30,652,778	26,821,042	6,209,946	38,853,083	3,030,854	27,854,507	3,850,985	855,808	166,918,353	6,691,709,533
Balance as at 01 July 2005	141,246,104	1,463,386,743	4,771,837,194	4,463,424	5,728,712	30,652,778	26,821,042	6,209,946	38,853,083	3,030,854	27,854,507	3,850,985	855,808	166,918,353	6,691,709,533
Additions during the year	-	-	205,849,648	1,144,042	3,055,609	-	876,871	820,517	10,818,256	-	-	-	536,410	162,443,516	385,544,869
Disposals	-	-	-	-	(64,000)	-	-	-	(4,354,838)	-	-	-	-	-	(4,418,838)
Transfers	-	-	(35,024,595)	-	-	-	-	-	-	-	-	-	-	(189,288,235)	(224,312,830)
Balance as at 30 June 2006	141,246,104	1,463,386,743	4,942,662,247	5,607,466	8,720,321	30,652,778	27,697,913	7,030,463	45,316,501	3,030,854	27,854,507	3,850,985	1,392,218	140,073,634	6,848,522,734
Depreciation															
Balance as at 01 July 2004	-	408,436,203	1,271,327,715	2,985,858	2,841,898	30,299,220	19,457,774	5,389,777	20,789,754	1,212,340	18,445,027	2,239,324	141,126	-	1,783,566,016
Depreciation charge for the year	-	55,670,536	185,927,086	296,489	1,223,518	311,038	1,714,799	180,994	7,369,789	303,085	2,785,451	385,099	115,189	-	256,283,073
Disposals	-	(65,927)	-	-	-	-	-	-	(6,345,170)	-	-	-	-	-	(6,411,097)
Balance as at 30 June 2005	-	464,040,812	1,457,254,801	3,282,347	4,065,416	30,610,258	21,172,573	5,570,771	21,814,373	1,515,425	21,230,478	2,624,423	256,315	-	2,033,437,992
Balance as at 01 July 2005	-	464,040,812	1,457,254,801	3,282,347	4,065,416	30,610,258	21,172,573	5,570,771	21,814,373	1,515,425	21,230,478	2,624,423	256,315	-	2,033,437,992
Depreciation charge for the year	-	56,350,921	194,877,184	380,446	1,638,078	42,516	1,672,429	227,221	7,722,864	303,085	2,785,451	385,099	147,062	-	266,532,356
Disposals	-	-	-	-	(40,352)	-	-	-	(2,912,696)	-	-	-	-	-	(2,953,048)
Transfers			(11,609,848)												(11,609,848)
Balance as at 30 June 2006	-	520,391,733	1,640,522,137	3,662,793	5,663,142	30,652,774	22,845,002	5,797,992	26,624,541	1,818,510	24,015,929	3,009,522	403,377	-	2,285,407,452
Carrying amounts - 2005	141,246,104	999,345,931	3,314,582,393	1,181,077	1,663,296	42,520	5,648,469	639,175	17,038,710	1,515,429	6,624,029	1,226,562	599,493	166,918,353	4,658,271,541
Carrying amounts - 2006	141,246,104	942,995,010	3,302,140,110	1,944,673	3,057,179	4	4,852,911	1,232,471	18,691,960	1,212,344	3,838,578	841,463	988,841	140,073,634	4,563,115,282
Rates of depreciation	-	4%	4%	15%	33.33%	15%	15%	15%	25%	10%	10%	10%	15%		

9.1 Capital work in progress represents cost incurred for setting up captive power plant and improvements in the raw mill.

9.2 Depreciation charge for the year has been allocated as follows:

	2006 Rupees	2005 Rupees
Cost of sales	**261,565,978**	251,980,898
Distribution cost	**1,082,955**	734,510
Administrative expenses	**3,883,423**	3,567,665
	266,532,356	256,283,073

9.3 Detail of property, plant and equipment disposed off during the year:

	Original cost (Rupees)	Book value (Rupees)	Sale proceeds (Rupees)	Gain/ (loss) (Rupees)	Mode of disposal
Motor vehicle	1,200,380	300,095	237,012	(63,083)	As per Company policy to Chief Executive
Motor vehicle	956,390	358,646	131,023	(227,623)	As per Company policy to Company Executive
Motor vehicle	1,026,980	641,862	999,000	357,138	Insurance claim
Motor vehicle	1,171,088	141,539	1,335,816	1,194,277	Auction
Computer	64,000	23,648	64,000	40,352	Insurance claim
2006	**4,418,838**	**1,465,790**	**2,766,851**	**1,301,061**	
2005	7,277,440	866,343	5,616,294	4,749,951	

10 LONG TERM ADVANCE - Considered good

This represents long term advance to Sui Northern Gas Pipelines Limited for construction of gas pipeline. It is repayable annually in equal amount installments over 12 years including grace period of 2 years and carries mark-up @ 1.5% per annum.

11 LONG TERM DEPOSITS

	2006 Rupees	2005 Rupees
Islamabad Electric Supply Company Limited	**21,600,000**	21,600,000
Sui Northern Gas Pipelines Limited	**25,011,000**	25,011,000
	46,611,000	46,611,000

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

12 DEFERRED TAX (LIABILITY)/ ASSET - Net

	2006 Rupees	2005 Rupees
Deductible temporary differences		
Unused tax losses	**721,319,397**	1,249,440,669
Provision for doubtful debts	**548,464**	548,464
Taxable temporary difference		
Excess of accounting book value of fixed assets over the tax base	**(937,248,543)**	(912,848,889)
	(215,380,682)	337,140,244

	2006 Rupees	2005 Rupees
13 STORES, SPARES AND LOOSE TOOLS		
Stores (Including items in transit Rs. 72.95 million ; 2005: Rs.48.18 million)	**198,485,093**	107,633,143
Spares (Including items in transit Rs. 49.04 million; 2005: Rs. 54.383 million)	**280,183,122**	244,514,431
Loose tools	**12,218,908**	8,305,428
	490,887,123	360,453,002

13.1 This includes spares stated at net realizable value of Rs. 4,887,100.

13.2 This also includes stores amounting to Rs. 62,152,204 (2005: Rs. 62,577,446) which were previously classified as stores held for capital expenditure. The reclassification was made for better presentation.

	2006 Rupees	2005 Rupees
14 STOCK IN TRADE		
Raw and packing material	**28,011,800**	18,468,968
Work in process	**93,670,852**	11,624,101
Finished goods	**23,407,558**	25,838,053
	145,090,210	55,931,122
15 TRADE DEBTS		
Secured- considered good	**-**	83,776,743
Unsecured		
Considered good	**25,474,729**	23,454,350
Considered doubtful	**1,567,041**	1,567,041
	27,041,770	25,021,391
Less: Provision for doubtful debts	**(1,567,041)**	(1,567,041)
	25,474,729	107,231,093
16 ADVANCES - CONSIDERED GOOD		
To suppliers	**31,523,098**	18,148,311
To employees	**1,638,845**	782,922
Due from associated undertaking -unsecured (16.1)	**3,189,721**	1,124,606
	36,351,664	20,055,839

16.1 This represents amount due from Fauji Foundation Resident Director Office, Karachi. This relates to normal business operations of the Company and is interest free.

17 TRADE DEPOSITS, SHORT TERM PREPAYMENTS AND BALANCES WITH STATUTORY AUTHORITIES

	2006 Rupees	2005 Rupees
Deposits	**1,864,824**	1,486,464
Prepayments	**9,936,531**	4,313,726
Balances with statutory authorities:		
Excise duty	**–**	3,057,190
	11,801,355	8,857,380

18 OTHER RECEIVABLES - CONSIDERED GOOD

	2006 Rupees	2005 Rupees
From insurance company - EFU Insurance Company Limited	**–**	7,500,000
Others	**2,836,409**	735,163
	2,836,409	8,235,163

19 CASH AND BANK BALANCES

	2006 Rupees	2005 Rupees
Cash at banks in:		
Deposit accounts	**798,121,911**	560,176,720
Current accounts	**49,253,499**	25,840,409
Collection accounts	**–**	16,830,905
	847,375,410	602,848,034
Cash in hand	**214,968**	261,626
	847,590,378	603,109,660

19.1 Balances with banks include Rs. 38,757,571 (2005: Rs 27,177,720) in respect of security deposits received.

19.2 Deposits of Rs 4,000,000 (2005: Rs 8,021,608) with banks are under lien for letters of guarantee issued on behalf of the Company.

20 SALES - Net

		2006 Rupees	2005 Rupees
Sales	- Local	**5,194,641,349**	3,627,833,262
	- Export	**488,814,164**	293,529,278
		5,683,455,513	3,921,362,540
Less:	Sales tax	**681,518,403**	476,668,707
	Excise duty	**714,580,762**	598,854,300
	Export development surcharge	**1,217,978**	696,411
		1,397,317,143	1,076,219,418
		4,286,138,370	2,845,143,122

		2006 Rupees	2005 Rupees
21	**COST OF SALES**		
	Raw materials consumed:		
	Opening stock	**10,183,906**	4,838,359
	Purchases	**204,521,452**	142,164,485
	Closing stock	**(8,954,630)**	(10,183,906)
		205,750,728	136,818,938
	Packing material consumed	**182,873,057**	147,993,766
	Stores and spares consumed	**6,052,337**	6,573,152
	Spares written off	**18,527,647**	–
	Salaries, wages and benefits (including retirement benefits of Rs. 23,991,535 ; 2005: Rs. 5,861,454)	**142,070,267**	87,091,286
	Rent, rates and taxes	**2,561,899**	1,377,677
	Insurance	**12,688,746**	18,077,626
	Fuel consumed	**843,908,798**	699,818,055
	Power consumed	**393,784,896**	332,383,435
	Depreciation	**261,565,978**	251,980,898
	Repairs and maintenance	**88,214,535**	56,416,637
	Printing and stationery	**1,008,764**	612,415
	Traveling and conveyance	**6,627,439**	6,662,206
	Technical assistance	**-**	674,699
	Communication, establishment and other expenses	**9,008,301**	8,172,417
		2,174,643,392	1,754,653,207
	Add: Opening work-in-process	**11,624,101**	27,760,995
	Less: Closing work-in-process	**(93,670,852)**	(11,624,101)
	Cost of goods manufactured	**2,092,596,641**	1,770,790,101
	Add: Opening finished goods	**25,838,053**	18,614,892
	Less: Closing finished goods	**(23,407,558)**	(25,838,053)
		2,095,027,136	1,763,566,940
22	**OTHER OPERATING INCOME**		
	Income from financial assets		
	Profit on bank deposits	**34,599,692**	3,820,738
	Interest on long term advance	**135,000**	33,658
		34,734,692	3,854,396
	Income from assets other than financial assets		
	Gain on disposal of property, plant and equipment	**1,301,061**	4,749,951
	Others	**7,287,705**	2,611,387
		43,323,458	11,215,734

23 DISTRIBUTION COST

	2006 Rupees	2005 Rupees
Salaries, wages and benefits (including retirement benefits of Rs. 3,517,355; 2005: Rs. 675,193)	**21,388,325**	11,085,015
Traveling and entertainment	**1,487,700**	1,856,899
Rent, rates and taxes	**1,112,144**	1,171,663
Repairs and maintenance	**625,119**	872,199
Printing and stationery	**403,038**	639,741
Depreciation	**1,082,955**	734,510
Communication, establishment and other expenses	**2,375,830**	2,589,684
Advertisement and sale promotion expenses	**2,866,154**	2,101,216
Insurance	**353,504**	281,847
	31,694,769	21,332,774

24 ADMINISTRATIVE EXPENSES

	2006 Rupees	2005 Rupees
Salaries, wages and benefits (including retirement benefits Rs. 4,898,052; 2005: Rs. 1,273,592)	**35,663,024**	21,835,136
Traveling and entertainment	**4,769,038**	3,319,504
Insurance	**531,724**	356,570
Rent, rates and taxes	**4,302,297**	1,250,190
Repairs and maintenance	**2,304,326**	1,109,895
Printing and stationery	**1,463,372**	867,905
Communication, establishment and other expenses	**4,883,678**	4,392,315
Legal and professional charges	**3,490,141**	3,147,866
Depreciation	**3,883,423**	3,567,665
Donation (24.1)	**5,337,604**	-
Restructuring expenses	**-**	2,446,136
	66,628,627	42,293,182

24.1 Directors or their spouses do not have any interest in the donee agency.

25 OTHER OPERATING EXPENSES

	2006 Rupees	2005 Rupees
Auditors' remuneration:		
Annual audit	**325,000**	325,000
Half yearly review	**100,000**	100,000
Out of pocket expenses	**50,000**	50,000
Other certifications	**85,000**	68,703
Out of pocket expenses - other certifications	**5,000**	-
	565,000	543,703
Workers' Profit Participation Fund (note 6.1)	**93,562,471**	39,949,407
	94,127,471	40,493,110

		2006 Rupees	2005 Rupees
26	**FINANCE COST**		
	Fee and charges on loans	**500,000**	10,564,449
	Interest/mark-up on long term finance	**254,029,899**	175,784,037
	Interest/mark-up on long term loan from related party	**456,180**	3,184,919
	Interest on short term borrowing	**1,095,297**	4,352,508
	Interest on Workers' Profit Participation Fund	**2,972,236**	-
	Guarantee commission	**483,288**	32,201,176
	Bank charges and commission	**4,759,974**	3,547,028
		264,296,874	229,634,117
27	**TAXATION**		
	Current	**21,430,692**	15,650,000
	Deferred	**552,520,926**	232,898,295
		573,951,618	248,548,295

27.1 The charge for current taxation is worked out based on the minimum tax at the rate of 0.5 percent on sales 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.

Accounting profit for the year	**1,777,686,951**	759,038,733
Applicable tax rate	**35%**	35%
Income tax at applicable rate	**622,190,433**	265,663,557
Tax effect of temporary differences	**(5,283,235)**	(18,144,670)
Tax effect of permanent differences	**4,025,000**	3,957,444
Tax effect of low rates on certain income	**(68,411,272)**	(18,578,036)
Minimum tax required at applicable rates	**21,430,692**	15,650,000
	573,951,618	248,548,295

27.2 Income tax assessments of the company have been finalized up to and including the Assessment Year 2002-2003 (year ended 30 June 2002). Tax returns filed by the company for Tax Years 2003 to 2005 (years ended 30 June 2003 to 2005) stand assessed in terms of section 120 of the Income Tax Ordinance 2001.

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. Up to and including assessment Year 2001-2002, the appeals filed by the company were decided by the Commissioner (Appeals) for the most part in the company's favour. However, appeal filed for Assessment Year 2002-2003 was decided against the company. The tax department and the company are contesting the Appellate Orders of the Commissioner (Appeals) before the Income Tax Appellate Tribunal for issues not decided in their favour in Assessment Years 1998-99 to 2002-2003. The appeals are pending disposal by the ITAT.

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

28 EARNINGS PER SHARE

		2006 Rupees	2005 Rupees
	Basic		
28.1	Profit after taxation (Rupees)	**1,203,735,333**	510,490,438
	Weighted average number of ordinary shares outstanding during the year (Numbers)	**370,743,048**	370,743,048
	Earnings per share -basic (Rupees)	**3.25**	1.38
	Diluted		
28.2	Profit after taxation (Rupees)	**1,203,735,333**	510,490,438
	Weighted average number of ordinary shares and convertible preference shares outstanding during the year (Numbers)	**419,442,235**	419,442,235
	Earnings per share -diluted (Rupees)	**2.87**	1.22

29 CASH AND CASH EQUIVALENTS

	2006 Rupees	2005 Rupees
Cash and bank balances	**847,590,378**	603,109,660
Short term borrowing	**(236,353,099)**	(308,876,433)
	611,237,279	294,233,227

30 REMUNERATION OF DIRECTORS AND EXECUTIVES

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

	Managing Director		Executives	
	2006 Rupees	2005 Rupees	**2006 Rupees**	2005 Rupees
Managerial remuneration	**2,956,176**	2,824,371	**8,240,492**	5,481,419
Provident fund	**135,702**	145,151	**344,879**	196,533
Gratuity	**103,521**	518,730	**2,375,630**	453,452
Compensated absences	**298,720**	448,141	**1,389,498**	297,565
Utilities and upkeep	**802,051**	605,850	**828,973**	514,773
	4,296,170	4,542,243	**13,179,472**	6,943,742
No of persons	**2**	1	**10**	5

30.1 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 equipments in accordance with the Company's policy.

30.2 Meeting fee of directors charged during the year was Rs. 16,000, Number of directors: 9 (2005: Rs. 33,000, Number of directors: 9).

31 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

31.1 Financial assets and liabilities

	2006					2005				
	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	-	-	-	46,611,000	46,611,000	-	-	-	46,611,000	46,611,000
Long term advance	-	-	9,000,000	-	9,000,000	-	-	9,000,000	-	9,000,000
Trade debts	-	-	-	25,474,729	25,474,729	-	-	-	107,231,093	107,231,093
Advances	-	-	-	23,589,339	23,589,339	-	-	-	23,589,339	23,589,339
Trade deposits	-	-	-	1,864,824	1,864,824	-	-	-	1,486,464	1,486,464
Interest accrued	-	-	-	5,475,526	5,475,526		-	-	1,001,662	1,001,662
Other receivables	-	-	-	2,836,409	2,836,409	-	-	-	8,235,163	8,235,163
Cash and bank balances	798,121,911	-	-	49,468,467	847,590,378	560,176,720	-	-	42,932,940	603,109,660
	798,121,911	-	9,000,000	131,730,955	938,852,866	560,176,720	-	9,000,000	207,498,322	776,675,042
Financial liabilities										
Long term financing	550,000,000	1,425,000,000		-	1,975,000,000	552,995,000	2,210,825,000	311,180,000	-	3,075,000,000
Short term borrowing	236,353,099	-	-	-	236,353,099	308,876,433	-	-	-	308,876,433
Trade and other payables	-	-	-	312,830,777	312,830,777	-	-	-	198,437,237	198,437,237
Markup accrued	-	-	-	59,771,320	59,771,320	-	-	-	69,356,833	69,356,833
	786,353,099	1,425,000,000	-	372,602,097	2,583,955,196	861,871,433	2,210,825,000	311,180,000	267,794,070	3,651,670,503

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

	2006	2005
	Interest rates %	
Assets		
Long term advance	1.50	1.50
Cash and bank balances	1.50-10.10	1.50 - 9
Liabilities		
Long term financing	10.13	5.33
Short term borrowing	9.65	2.82

31.3 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in these financial statements approximate their fair values.

31.4 Concentration of credit risk

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.

31.5 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. In case of the Company this risk results from outstanding import payments. These transactions are not covered through foreign exchange risk cover as exchange risk is not considered material.

31.6 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.

32 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 of directors, key management personnel, entities over which the directors are able to exercise influence and employees' funds. Amount due from the related party is shown under receivables and the remuneration of the Chief Executive and executives is disclosed in note 30 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:

	2006 Rupees	2005 Rupees
Fauji Foundation (parent)		
- Sale of cement	**13,129,095**	7,470,942
- Dividends paid	**169,780,232**	-
- Interest paid on long term financing	**456,180**	3,184,919
- Payment for use of medical facilities	**38,440**	7,280
- Payment on account of clearance of shipments	**24,665,000**	30,085,000
F.L. Smidth & Co. A/S (associated undertaking)		
- Supply of equipment and spares	**49,449,882**	114,493,513
- Dividends paid	**7,289,700**	-
Employees Funds		
- Contributions made by the Company	**39,630,154**	2,859,053

33	PLANT CAPACITY AND ACTUAL PRODUCTION	2006	2005
		Metric Tons	Metric Tons
	Installed capacity	**1,165,500**	945,000
	Actual production of cement	**1,064,649**	912,195

The shortfall in actual production against the installed capacity was due to the capacity enhancement during the year against which production will be achieved in next year.

34 GENERAL

34.1. The Board of Directors in their meeting held on October 2, 2006 have proposed a final dividend of Rs. 0.50 per share.

34.2. Figures have been rounded off to the nearest Rupee.

Chief Executive

Director

Pattern of Share-holding
as on 30 June 2006

No. of Share Holders	Shareholding From	Shareholding To	Total Shares Held Ordinary Shares of Rs. 10/- Each
15	1	100	293
1,438	101	500	717,183
2,180	501	1,000	2,179,500
3,564	1,001	5,000	10,715,376
983	5,001	10,000	8,369,000
314	10,001	15,000	4,219,700
228	15,001	20,000	4,342,600
156	20,001	25,000	3,781,300
104	25,001	30,000	3,013,000
45	30,001	35,000	1,520,000
39	35,001	40,000	1,525,500
39	40,001	45,000	1,694,000
58	45,001	50,000	2,872,500
15	50,001	55,000	806,100
24	55,001	60,000	1,419,000
10	60,001	65,000	637,500
12	65,001	70,000	831,500
22	70,001	75,000	1,630,000
12	75,001	80,000	933,000
10	80,001	85,000	835,000
12	85,001	90,000	1,060,000
7	90,001	95,000	647,338
45	95,001	100,000	4,483,000
4	100,001	105,000	417,000
13	105,001	110,000	1,413,500
7	110,001	115,000	796,500
5	115,001	120,000	595,000
5	120,001	125,000	622,500
5	125,001	130,000	648,500
5	130,001	135,000	662,000
4	135,001	140,000	556,500
3	140,001	145,000	432,500
3	145,001	150,000	450,000
3	150,001	155,000	460,500
1	155,001	160,000	160,000

No. of Share Holders	Shareholding From	To	Total Shares Held Ordinary Shares of Rs. 10/- Each
3	160,001	165,000	487,000
4	165,001	170,000	675,000
4	170,001	175,000	691,500
2	175,001	180,000	360,000
4	180,001	185,000	735,500
3	185,001	190,000	565,000
2	190,001	195,000	389,000
15	195,001	200,000	2,998,000
4	200,001	205,000	805,000
1	205,001	210,000	209,500
2	210,001	215,000	424,000
5	220,001	225,000	1,122,000
2	230,001	235,000	457,000
2	235,001	240,000	479,833
2	240,001	245,000	490,000
5	245,001	250,000	1,249,200
1	255,001	260,000	260,000
2	260,001	265,000	525,500
5	295,001	300,000	1,498,000
2	315,001	320,000	637,000
2	320,001	325,000	646,000
1	325,001	330,000	330,000
3	355,001	360,000	1,073,500
1	360,000	365,000	362,500
1	365,001	370,000	369,000
2	380,001	385,000	767,000
1	390,001	395,000	395,000
3	395,001	400,000	1,200,000
1	415,001	420,000	417,000
1	420,001	425,000	425,000
1	425,001	430,000	428,500
1	430,001	435,000	432,500
1	435,001	440,000	439,500
3	445,001	450,000	1,350,000
1	465,001	470,000	470,000
9	495,001	500,000	4,498,000
1	520,001	525,000	525,000
1	545,001	550,000	547,000

No. of Share Holders	Shareholding From	To	Total Shares Held Ordinary Shares of Rs. 10/- Each
1	570,001	570,000	575,000
1	575,001	580,000	575,500
1	590,001	595,000	593,000
1	595,001	600,000	600,000
1	620,001	625,000	623,000
1	625,001	630,000	627,500
1	680,001	685,000	684,500
3	695,001	700,000	2,100,000
1	810,005	815,000	814,500
1	840,001	845,000	844,500
1	875,001	880,000	878,000
1	885,001	890,000	887,000
1	945,001	950,000	950,000
1	950,001	955,000	950,500
1	990,001	995,000	994,000
4	995,001	1,000,000	4,000,000
1	1,130,001	1,135,000	1,132,000
1	1,150,001	1,155,000	1,150,500
1	1,155,001	1,160,000	1,160,000
1	1,195,001	1,200,000	1,200,000
1	2,025,001	2,030,000	2,027,000
1	2,185,001	2,190,000	2,190,000
1	2,460,001	2,465,000	2,460,500
1	2,495,001	2,500,000	2,500,000
1	2,590,001	2,595,000	2,590,500
1	2,935,001	2,940,000	2,936,000
1	3,815,001	3,820,000	3,816,000
1	4,075,001	4,080,000	4,079,500
1	4,525,001	4,530,000	4,529,000
1	5,210,001	5,215,000	5,212,500
1	5,240,001	5,245,000	5,244,000
2	7,285,001	7,290,000	14,579,400
1	32,275,001	32,280,000	32,278,500
1	48,650,001	48,700,000	48,699,187
1	169,780,001	169,785,000	169,780,225
9,535			**419,442,235**

Categories of Shareholders as on 30 June 2006	Shares held	Percentage
Directors		
Lt Gen Syed Arif Hasan, HI(M) (Retd)	1	
Maj Gen Malik Iftikhar Khan, HI(M) (Retd)	1	
Mr. Qaiser Javed	1	
Brig Aftab Ahmad (Retd)	1	
Brig Ghazanfar Ali (Retd)	1	
Brig Munawar Ahmed Rana (Retd)	1	
Brig Arshad Shah, SI(M) (Retd)	1	
Spouses and minor children of Directors/CEO	NIL	
Executives	NIL	
Associated companies, undertaking and related parties	NIL	
NIT and ICP	209,500	0.05
Banks, Development Finance Institutions and Non Banking Finance Institutions	13,520,600	3.21
Insurance Companies	906,000	0.22
Leasing Companies	1,086,000	0.26
Mudarabas and Mutual Funds	3,723,000	0.89
Shareholders holding 10% or above		
Fauji Foundation	218,479,412	52.09
General Public		
a. Local	166,938,316	39.8
b. Foreign	NIL	
Others (Foreign Investors)		
Industrialization Fund for Developing Countries (IFU)	7,289,700	1.74
F.L. Smidth & Co. A/S (FLS)	7,289,700	1.74
Total Shares Held	**419,442,235**	**100**

Form of Proxy - 14th Annual General Meeting

I/We____

of____

being Member (s) of **Fauji Cement Company Limited** hold ________________________

Ordinary Shares hereby appoint Mr./Mrs./Miss of ________________________________

________________ or failing him/her _____________________________________

of ____________________ as my / our proxy in my / our absence to attend and vote for me/us and on my/our behalf at the 14th Annual General Meeting of the Company to be held on Tuesday, 31 October 2006 and at any adjournment thereof.

As witness my/our hand/seal this ____________________ day of ____________________2006.

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, Sadar, 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