# FECTO CEMENT LIMITED

## ANNUAL REPORT 2011

# CONTENTS

# CORPORATE INFORMATION

| | |
|---|---|
| **BOARD OF DIRECTORS** | **CHAIRMAN**<br>Mr. Mohammed Asad Fecto<br>**CHIEF EXECUTIVE**<br>Mr. Mohammed Yasin Fecto<br>**DIRECTORS**<br>Mrs. Zubeda Bai<br>Mr. Ijaz Ali<br>Mr. Altaf A Hussain<br>Mr. Safdar Abbas Morawala<br>Mr. Aamir Ghani<br>Mr. Muhammad Anwar Habib<br>Mr. Rohail Ajmal { Nominee of Saudi Pak Industrial & Agricultural Investment Co. Ltd.} |
| **AUDIT COMMITTEE** | **Chairman:** Mr. Mohammed Asad Fecto<br>**Members:** Mr. Muhammad Anwar Habib<br>Mr. Safdar Abbas Morawala |
| **SECRETARY** | Mr. Abdul Samad, FCA |
| **AUDITORS** | KPMG Taseer Hadi & Co.<br>Chartered Accountants |
| **LEGAL ADVISOR** | Nisar Law Associates<br>51, Mozang Road<br>Lahore |
| **REGISTERED OFFICE** | 35-Darulaman Housing Society<br>Block 7/8, Shahra-e-Faisal<br>Karachi<br>Website http://www.fectogroup.com |
| **FACTORY** | Sangjani, Islamabad |
| **MARKETING OFFICE** | 2nd Floor, Majeed Plaza<br>Bank Road, Saddar<br>Rawalpindi |
| **SHARES REGISTRAR** | Technology Trade (Private) Limited<br>241-C, Block 2, P.E.C.H.S.<br>Karachi |

## Mission Statement

To manage and operate the company in a manner that allows growth and profitability without high risk for stakeholders and the company by offering quality product to our customers, while striving to improve our product to meet our customers needs.

## Vision Statement

To compete in tough and competitive market, focusing on “Satisfaction” of customers, and stakeholders with challenging spirit and flexibility, striving hard to make profit, creating value for our customers and to continue as a successful Company.

## Corporate Strategy

Our Corporate Strategy and objectives for the future are to find new and improved means of cost reduction, fuel economy and to acquire advanced manufacturing capabilities to support our product development efforts and product line expansion and stand ready to leverage our debts and be responsive to the changing economic scenario. We believe in harnessing the inherent strengths of available human resource and materials to the utmost and a commitment for building a solid foundation poised for sustainable growth for the long-term benefit of our shareholders and our employees.

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 30th Annual General Meeting of the Members of the Company will be held at Registered Office, 35-Darulaman Housing Society, Block 7/8, Shahra-e-Faisal, Karachi on Wednesday, October 26, 2011 at 12.00 noon to transact the following businesses:

1. To receive, consider and adopt the Annual Audited Accounts for the year ended June 30, 2011 together with the Directors' and Auditors' Reports thereon.

2. To appoint auditors for the year ending June 30, 2012 and fix their remuneration. Present auditors Messrs KPMG Taseer Hadi & Co., Chartered Accountants being eligible have offered themselves for the re-appointment. Audit Committee of the Board has also recommended the appointment of M/s. KPMG Taseer Hadi & Co., Chartered Accountants as auditors of the Company for the year ending June 30, 2012.

3. To transact any other business with the permission of the Chair.

By Order of the Board

**(ABDUL SAMAD)**
COMPANY SECRETARY

Karachi: September 30, 2011

**Notes:**

1. The Share Transfer Books of the Company will remain closed from Wednesday, October 19, 2011 to Wednesday, October 26, 2011 (both days inclusive). Transfers received in order by our Shares Registrar at the close of business on Tuesday October 18, 2011 will be considered in time to attend and vote at the meeting.

2. A member of the Company entitled to attend and vote at this meeting may appoint another member as a proxy to attend, speak and vote instead of him/her. An instrument appointing a proxy must be received at the Registered Office of the Company not later than forty eight hours before the time of holding the Meeting. The proxy shall produce his/her original Computerized National Identity Card or passport to prove his/her identity.

3. Members are requested to notify any change in their address immediately.

4. Members who have not yet submitted photocopy of their Computerized National Identity Cards to the Company are requested to send the same at the earliest to enable the Company to comply with relevant laws.

5. CDC Account Holders will have to further follow the guidelines as laid down in Circular No. 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

# DIRECTORS' REPORT TO THE MEMBERS

**Dear Members**

The Board of Directors has pleasure in presenting the annual report together with Audited Financial Statements of the Company for the year ended June 30, 2011.

**OVERVIEW**

During the year under review overall dispatches of cement industry witnessed a negative growth of 8.32% with a total sales volume of 31.36 million tons as against the total sales volume of 34.21 million tons of last year. Local sales volume of the industry reduced by 6.69% with dispatches of 21.97 million tons as against the sales volume of 23.55 million tons of last year whereas exports of the industry witnessed negative growth of 11.94% with sales volume of 9.39 million tons as against the exports sales volume of 10.66 million tons of last year. As against the overall negative growth of 6.69% in local sales volume and 11.94% of exports, plants located in northern part of the country witnessed negative growth of 11.12% and 3.93% in local and exports sales volume respectively. Main reason for the reduction in local sales volume was abnormal rains causing floods and reduced public sector development program expenditure by the Government due to budget constraints. Exports were reduced due to capacity expansion in regional markets and delay in renewal of licenses by the Bureau of Indian Standards, however, exports to Afghanistan continued with the same pace but with no improvement in prices.

Local sales volume of the Company during the year under review also reduced in line with the industry; however, exports of the Company witnessed a nominal growth despite suspension of exports to India for more than six months due to the reason given above.

**OPERATING PERFORMANCE**

Production and dispatches of the Company for the year under review were as follows:

| | 2011 | 2010 | CHANGE IN |
|---|---|---|---|
| | TONS | | % |
| Production | | | |
| Clinker | **718,322** | 772,940 | (7.06) |
| Cement | **757,424** | 841,904 | (10.03) |
| Dispatches | | | |
| Local | **463,845** | 551,551 | (15.90) |
| Export | **292,984** | 290,271 | 0.93 |
| Total | **756,829** | 841,822 | (10.09) |

**FINANCIAL PERFORMANCE**

Following is the comparison of financial results of the Company for the year under review with last year.

| | Rupees in 000 | |
|---|---|---|
| | 2011 | 2010 |
| Net sales | **3,304,272** | 2,902,684 |
| Gross Profit | **605,924** | 152,731 |
| Profit / (Loss) before taxation | **91,960** | (291,434) |
| Profit / (Loss) after taxation | **65,433** | (208,258) |
| Earnings / (Loss) Per Share (Rupees) | **1.30** | (4.15) |

During the year under review, overall sale revenue of the Company increased by 13.84% as compared to last year despite negative growth of sales volume of 10.09%. Local sales revenue of the Company increased by 17.15% whereas exports sale were increased by 8.51% because of improved selling prices which were necessitated due to increase in cost of production.

Cost of sales of the Company during the year under review reduced by meager 1.88% whereas cost per ton of cement increased by 9.14%. Fuel and power cost comprising coal and electricity, major component of cost of production remained same despite reduction in production of clinker and cement and commissioning of waste heat recovery power plant mainly because of increase in prices of coal in international market and frequent increase in electricity rates and passing over of fuel price adjustment to end users by the Government in line with the conditions set by the IMF. The raw material cost and packing material cost also increased due to increase in diesel and petroleum prices.

Gross profit rate of the Company was increased to 18.34% of net sale as against the 5.26% of last year.

Overall distribution cost remained almost same; however, commission expenses increased due to higher payment of the same to dealers of Afghanistan market because of increased sales volume whereas export expenses reduced because of lesser exports to India due to the reasons detailed above.

The finance cost of the Company increased to Rs. 149.68 million as against Rs. 83.36 million of last year mainly because of increase in finance cost of long term financing due to loan obtained for waste heat recovery power plant, increased utilization of running finance and increase in lending rates.

The Company earned profit after taxation of Rs. 65.43 million as against the loss after taxation of Rs. 208.26 million of last year.

Earning per share (EPS) of your Company for the year under review was Rs. 1.30 per share as against the loss per share of Rs. 4.15 of last year.

**DEBT OBLIGATION**

By the grace of Almighty Allah the company continues to meet its financial commitments and debt obligations on time.

**WASTE HEAT RECOVERY POWER PLANT**

The Board is pleased to appraise that by the grace of Almighty Allah Waste Heat Recovery Power successfully completed during the year and its performance is quite satisfactory. Completion of this project will reduce the emission of green house gases thus providing a cleaner and better environment to the people and nearby surroundings around the work place and it also qualifies for the carbon credit. Further as detailed above, major cost in cement and clinker production is fuel and power and electricity is a part of it and sustained and reliable availability of electricity at competitive rates is imperative for the survival of any company, accordingly completion of this project has reduced dependency of the Company on WAPDA, however, increase in base tariff and passing over of Fuel price adjustment to the end consumers by the Government has affected the achieving of desired results of this power plant.

**CONTRIBUTION TO NATIONAL EXCHEQURE**

Your company contributed around Rs. 746.38 million in national exchequers as sales tax, excise duty, income tax and other levies as compared to the contribution of Rs 792.24 million of last year. In addition to that Company also brought in foreign exchange of around US$ 16 million in the country by exporting cement.

## PENDING LEGAL PROCEEDINGS

As elaborated in detail in Note No.12 to the attached financial statements, the Competition Commission of Pakistan (CCP) had imposed penalty on all cement manufacturers including All Pakistan Cement Manufacturers Association of Pakistan in prior year. Similar penalties have also been imposed on many other institutions in various identical proceedings. The matter is pending for adjudication before Court of Law.

## FUTURE PROSPECTS

Demand of cement in local market reduced during the year and it is expected that this trend will continue in the current financial year, considering the remote possibility of Government's ability to spend amount allocated for public sector development program in the budget, however, local dispatches may improve if the Government release funds as the present Government is approaching to complete its term and in order to win public support release the allocated funds. The present momentum of export is expected to continue this year as well which will continue providing opportunity to the industry to operate at optimal capacity.

The prevailing pressure on the cost of production because of higher coal prices, electricity rate increase and higher financing cost is expected to continue in the current financial year.

## CORPORATE GOVERNANCE

The Directors are pleased to inform that the company has fully complied with the Code of Corporate Governance as contained in listing regulations of Stock Exchanges.

In compliance with the Code of Corporate Governance, the Directors are pleased to state that:

1. The financial statements, prepared by the company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity;

2. Proper books of account have been maintained by the company;

3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;

4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements;

5. The system of internal control is sound in design and has been effectively implemented and monitored;

6. There are no significant doubts upon the company's ability to continue as a going concern;

7. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

8. The value of Provident Fund Investments as per audited accounts of Provident Fund Trust for the year ended June 30, 2010 was Rs. 70.00 million.

9. There is no outstanding statutory payment due on account of taxes, levies and charges except of a normal and routine nature.

Key operating and financial data for the last six years is annexed.

During the year four (4) meetings of the Board of Directors were held. Attendance by each Director is given below:

| | Attended |
|---|---|
| Mrs. Zubeda Bai | 1 |
| Mr. Mohammed Yasin Fecto | 4 |
| Mr. Mohammed Asad Fecto | 3 |
| Mr. Altaf A Hussain | 4 |
| Mr. Aamir Ghani | 4 |
| Mr. Muhammad Hussain | 3 |
| Mr. Safdar Abbas Morawala | 4 |
| Mr. Ijaz Ali | 3 |
| Mr. Mohammed Anwar Habib | 4 |

Directors who could not attend the meeting due to illness or some other engagements were granted Leave of absence. During the year two casual vacancies occurred in the Board which, were duly filled in by the Board and all required formalities duly complied with.

**AUDITORS**

Present auditors M/s. KPMG Taseer Hadi & Co., Chartered Accountants, retire and being eligible, have offered themselves for re-appointment. The Audit Committee of the Board has also recommended their appointment as Statutory Auditors of the Company for the year ending June 30, 2012.

**PATTERN OF SHAREHOLDING**

Statements showing the pattern of shareholding as at June 30, 2011 required under the Companies Ordinance, 1984 and the Code of Corporate Governance are annexed.

**APPROPRIATION**

The Board of Directors has recommended passing over of dividend and/or bonus for the financial year ended June 30, 2011 due to financial commitments.

**ACKNOWLEDGMENT**

The Directors would like to place on record their appreciation for the strenuous efforts and dedicated work of the staff and workers and for the efforts made by the dealers in giving full support to our marketing policies. We also would like to express our sincere thanks to all the financial institutions and banks for their continued support and co-operation.

On behalf of the Board

**MOHAMMED ASAD FECTO**
CHAIRMAN

Karachi: September 30, 2011

# PATTERN OF SHAREHOLDING
## AS AT JUNE 30, 2011

| No. of Shareholders | Shareholdings | | Total Shares Held |
|---|---|---|---|
| | From | To | |
| 159 | 1 | 100 | 3,743 |
| 332 | 101 | 500 | 71,605 |
| 753 | 501 | 1000 | 430,336 |
| 338 | 1001 | 5000 | 651,154 |
| 77 | 5001 | 10000 | 544,365 |
| 24 | 10001 | 15000 | 287,145 |
| 11 | 15001 | 20000 | 197,318 |
| 4 | 20001 | 25000 | 94,550 |
| 5 | 25001 | 30000 | 138,779 |
| 6 | 30001 | 35000 | 197,368 |
| 1 | 35001 | 40000 | 36,500 |
| 1 | 40001 | 45000 | 44,486 |
| 3 | 45001 | 50000 | 144,640 |
| 1 | 50001 | 55000 | 55,000 |
| 1 | 55001 | 60000 | 57,640 |
| 2 | 60001 | 64000 | 124,814 |
| 3 | 65001 | 70000 | 205,250 |
| 1 | 75001 | 80000 | 78,705 |
| 1 | 80001 | 85000 | 82,555 |
| 1 | 85001 | 90000 | 85,030 |
| 1 | 90001 | 95000 | 91,300 |
| 1 | 100001 | 105000 | 103,770 |
| 1 | 135001 | 140000 | 139,700 |
| 1 | 140001 | 145000 | 143,250 |
| 1 | 145001 | 150000 | 149,600 |
| 1 | 150001 | 155000 | 154,000 |
| 1 | 155001 | 160000 | 155,100 |
| 1 | 160001 | 165000 | 164,450 |
| 1 | 170001 | 175000 | 171,600 |
| 1 | 250001 | 255000 | 250,800 |
| 2 | 270001 | 275000 | 549,670 |
| 2 | 275001 | 280000 | 551,870 |
| 1 | 305001 | 310000 | 308,000 |
| 1 | 310001 | 315000 | 313,500 |
| 1 | 320001 | 325000 | 324,500 |
| 1 | 325001 | 330000 | 330,000 |
| 2 | 355001 | 360000 | 715,000 |
| 1 | 360001 | 365000 | 363,000 |
| 2 | 365001 | 370000 | 738,154 |
| 1 | 370001 | 375000 | 374,000 |
| 2 | 375001 | 380000 | 759,000 |
| 1 | 380001 | 385000 | 385,000 |
| 1 | 400001 | 405000 | 401,500 |
| 4 | 410001 | 415000 | 1,650,000 |
| 1 | 435001 | 440000 | 438,020 |
| 1 | 460001 | 465000 | 462,000 |
| 2 | 710001 | 715000 | 1,426,150 |
| 1 | 880001 | 885000 | 880,337 |
| 1 | 1095001 | 1100000 | 1,099,230 |
| 1 | 142000 | 1425000 | 1,421,970 |
| 1 | 1485001 | 1490001 | 1,485,253 |
| 1 | 1495001 | 1500000 | 1,500,000 |
| 1 | 1725001 | 1730000 | 1,727,655 |
| 2 | 2080001 | 2085000 | 4,169,916 |
| 1 | 4205001 | 4210000 | 4,207,540 |
| 1 | 8370001 | 8375000 | 8,371,146 |
| 1 | 10150001 | 10155000 | 10,153,036 |
| **1,771** | | | **50,160,000** |

| Categories of Shareholders | Number of Shareholders | Total Shares Held | Percentage |
|---|---|---|---|
| Directors, Chief Executive Officer, their spouse and minor children | 8 | 18,543,432 | 36.97 |
| NIT and ICP | 5 | 1,776,301 | 3.45 |
| Banks, Development Financial Institutions, Non Banking Financial Institutions | 11 | 5,806,620 | 11.58 |
| Insurance Companies | 2 | 71,830 | 0.14 |
| Modaraba and Mutual Funds | 1 | 880 | 0.00 |
| General Public | 1,720 | 23,806,885 | 47.46 |
| Other - Joint Stock Companies | 24 | 154,052 | 0.39 |
| **Total** | **1,771** | **50,160,000** | **100.00** |

# Pattern of shareholding as at June 30, 2011
## Additional Information

| Shareholders' Category | Number of Shareholders | Number of Shares held |
|---|---|---|
| **Associated Companies, undertakings and related parties** | _ | _ |
| **NIT and ICP** | | |
| National Bank of Pakistan - Trustee Department | 1 | 1,727,655 |
| Investment Corporation of Pakistan | 2 | 2,860 |
| NIT | 2 | 45,786 |
| **Directors** | | |
| Mrs. Zubeda Bai | 1 | 5,500 |
| Mr. Mohammed Yasin Fecto | 1 | 10,153,036 |
| Mr. Mohammed Asad Fecto | 1 | 8,371,146 |
| Mr. Altaf A. Hussain | 1 | 2,750 |
| Mr. Safdar Abbas Morawala | 1 | 2,750 |
| Mr. Ijaz Ali | 1 | 2,750 |
| Mr. Aamir Ghani | 1 | 2,750 |
| Mr. Mohammad Anwar Habib | 1 | 2,750 |
| **Chief Executive Officer** | | |
| Mr. Mohammed Yasin Fecto | 1 | 10,153,036 |
| **EXECUTIVES** | - | - |
| **Public Sector Companies and Corporations** | - | - |
| **Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds** | 14 | 5,879,330 |
| **Shareholders holding 10% or more voting interest** | | |
| Mr. Mohammed Yasin Fecto | 1 | 10,153,036 |
| Mr. Mohammed Asad Fecto | 1 | 8,371,146 |
| There were no trading in shares by any Directors, CEO, Chief Financial Officer, Company Secretary and their Spouse and Minor Children during the year. | | |

# Six Years Key Operating And Financial Data

| Year ended June 30 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| **PRODUCTION SUMMARY** | | | (Tonnes) | | | |
| Clinker production | **718,322** | 772,940 | 740,330 | 763,478 | 729,599 | 537,350 |
| Cement production | **757,424** | 841,904 | 764,119 | 790,518 | 750,400 | 609,081 |
| Cement despatches | **756,829** | 841,822 | 763,468 | 792,506 | 741,727 | 612,495 |
| | | (Rupees in thousand unless stated otherwise) | | | | |
| **PROFIT & LOSS SUMMARY** | | | | | | |
| Turnover (net) | **3,304,272** | 2,902,684 | 3,455,706 | 2,409,364 | 2,226,545 | 2,497,491 |
| Gross profit | **605,924** | 152,731 | 913,403 | 279,548 | 234,524 | 828,226 |
| Profit/ (loss) before taxation | **91,960** | (291,434) | 396,289 | (118,435) | 29,104 | 637,516 |
| **BALANCE SHEET SUMMARY** | | | | | | |
| Paid up capital | **501,600** | 501,600 | 456,000 | 456,000 | 456,000 | 456,000 |
| Reserve | **50,000** | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Accumulated profit | **477,735** | 412,302 | 666,160 | 351,810 | 433,753 | 483,209 |
| Long term loans and lease finance | **456,418** | 684,048 | 292,074 | 394,018 | 489,604 | 304,349 |
| Deferred liabilities | **119,406** | 138,560 | 196,252 | 180,335 | 220,287 | 209,523 |
| Operating assets | **2,162,168** | 1,316,405 | 1,339,752 | 1,151,827 | 953,943 | 980,265 |
| **MISCELLANEOUS** | | | | | | |
| Contribution to national exchequer | **776,363** | 759,579 | 991,662 | 943,407 | 956,726 | 878,111 |
| Earnings / (loss) per share (Rs.) | **1.30** | (4.15) | 6.27 | (1.8) | 0.42 | 9.15 |
| Break up value per share (Rs.) | **20.52** | 19.26 | 25.7 | 18.81 | 20.61 | 21.69 |
| Current ratio | **01:1.66** | 01:1.42 | 01:0.9 | 01:0.8 | 01:0.5 | 01:0.5 |
| Debt/equity ratio | **31:69** | 42:58 | 20:80 | 31:69 | 34:66 | 24:76 |
| Dividend declared | **-** | - | *10% | - | - | 30% |

* Bonus

# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
## FOR THE YEAR ENDED JUNE 30, 2011

This statement is being presented to comply with the Code of Corporate Governance as contained in the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges respectively 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 comprise of nine directors including four independent non-executive directors, one director representing minority shareholders and one director nominated by Financial Institution.

2. The Directors have confirmed that none of them is serving as director in more than ten listed companies.

3. All the resident directors of the Company 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. Two casual vacancies occurred in the Board during the year, which were duly filled in by the Board in accordance with the requirements of the Companies Ordinance, 1984 and 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 management employees of the Company.

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

7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. The Board of Directors and Members have approved appointment and determination of remuneration and terms and conditions of employment of the present CEO and other executive director.

8. The meetings of the Board were presided over by the Chairman and in his absence one of the directors elected for this purpose and 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. Directors are conversant of the relevant laws applicable to the Company, its policies and procedures and provisions of Articles and Memorandum of Associations and are aware of their duties and responsibilities. However, in order to apprise them of material changes, if any, in relevant laws same were placed in Board meetings.

10. The Board has approved appointment of Chief Financial Officer (CFO), Company Secretary and Head of Internal Auditor, including terms and conditions of appointment as determined by the CEO.

11. The directors' report for this year 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 CFO before approval of the Board.

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

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 three members, of whom two are non-executive directors. The Chairman of the Committee is an Executive Director.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has set-up an internal audit function.

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. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors along with pricing methods for such transactions.

21. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board

**MOHAMMED ASAD FECTO**
CHAIRMAN

Karachi: September 30, 2011

# Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Fecto Cement 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.

Further, Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges require the Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm's length transactions and transaction which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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 30 June 2011.

KPMG Taseer Hadi & Co.

**KPMG Taseer Hadi & Co.**
Chartered Accountants
Mazhar Saleem

Date: September 30, 2011
Karachi

# Auditors' Report to the Members

We have audited the annexed balance sheet of Fecto Cement Limited ("the Company") as at 30 June 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

a) in our opinion, proper books of 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 policies 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, statement of comprehensive income, 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 the Company's affairs as at 30 June 2011 and of the profit, cash flows and changes in equity for the year then ended; and

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

KPMG Taseer Hadi & Co.

**KPMG Taseer Hadi & Co.**
Chartered Accountants
Mazhar Saleem

Date: September 30, 2011
Karachi

# BALANCE SHEET

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **SHARE CAPITAL** | | | |
| **Authorised** | | | |
| 75,000,000 (2010: 75,000,000) ordinary shares of Rs. 10/- each | 5 | **750,000** | 750,000 |
| **Issued, subscribed and paid-up** | | | |
| 50,160,000 (2010: 50,160,000) ordinary shares of Rs. 10/- each | 5 | **501,600** | 501,600 |
| **GENERAL RESERVE** | | **50,000** | 50,000 |
| **ACCUMULATED PROFIT** | | **477,735** | 412,302 |
| | | **1,029,335** | 963,902 |
| **NON-CURRENT LIABILITIES** | | | |
| Long term financing | 6 | **450,000** | 650,000 |
| Liabilities against assets subject to finance lease | 7 | **6,418** | 34,048 |
| Deferred taxation | 8 | **119,406** | 138,560 |
| | | **575,824** | 822,608 |
| **CURRENT LIABILITIES** | | | |
| Short term borrowings | 9 | **628,964** | 526,654 |
| Current maturity of long term liabilities | 10 | **235,725** | 107,943 |
| Trade and other payables | 11 | **638,250** | 701,571 |
| | | **1,502,939** | 1,336,168 |
| CONTINGENCIES AND COMMITMENTS | 12 | | |
| | | **3,108,098** | 3,122,678 |

The annexed notes 1 to 35 form an integral part of these financial statements.

# AS AT 30 JUNE 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **PROPERTY, PLANT AND EQUIPMENTS** | | | |
| Operating assets | 13 | **2,162,168** | 1,316,405 |
| Capital work in progress | 14 | **1,137** | 808,228 |
| | | **2,163,305** | 2,124,633 |
| **LONG TERM LOANS AND DEPOSITS** | 15 | **39,210** | 57,899 |
| **CURRENT ASSETS** | | | |
| Stores and spares | 16 | **719,342** | 671,548 |
| Stock-in-trade | 17 | **109,682** | 108,718 |
| Trade debts - considered good | 18 | **18,712** | 10,892 |
| Loans, advances, deposits, prepayments and accrued mark-up | 19 | **33,664** | 129,254 |
| Cash and bank balances | 20 | **24,183** | 19,734 |
| | | **905,583** | 940,146 |
| | | **3,108,098** | 3,122,678 |

**(MOHAMMED YASIN FECTO)**
Chief Executive

**(ROHAIL AJMAL)**
Director

# PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 30 JUNE 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Sales -net | 21 | **3,304,272** | 2,902,684 |
| Cost of sales | 22 | **(2,698,348)** | (2,749,953) |
| Gross profit | | **605,924** | 152,731 |
| Administrative expenses | 23 | **128,492** | 122,635 |
| Distribution cost | 24 | **242,034** | 252,758 |
| Finance cost | 25 | **149,681** | 83,363 |
| Other income | 26 | **(13,059)** | (14,591) |
| | | **(507,148)** | (444,165) |
| | | **98,776** | (291,434) |
| Workers' funds | 27 | **(6,816)** | - |
| Profit / (loss) before taxation | | **91,960** | (291,434) |
| Provision for taxation | 28 | | |
| Current | | **(34,620)** | (20,129) |
| Prior | | **(11,061)** | 45,614 |
| Deferred | | **19,154** | 57,691 |
| | | **(26,527)** | 83,176 |
| Profit / (loss) after taxation | | **65,433** | (208,258) |
| | | (Rupees) | |
| Earnings / (loss) per share - basic & diluted | 29 | **1.30** | (4.15) |

The annexed notes 1 to 35 form an integral part of these financial statements.

**(MOHAMMED YASIN FECTO)**
Chief Executive

**(ROHAIL AJMAL)**
Director

# STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2011

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Net profit / (loss) after taxation | **65,433** | (208,258) |
| Other comprehensive income | **-** | - |
| Total comprehensive income for the year | **65,433** | (208,258) |

The annexed notes 1 to 35 form an integral part of these financial statements.

**(MOHAMMED YASIN FECTO)**
Chief Executive

**(ROHAIL AJMAL)**
Director

# CASH FLOW STATEMENT
## FOR THE YEAR ENDED 30 JUNE 2011

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| **Cash flows from operating activities** | | |
| Profit / (loss) before taxation | **91,960** | (291,434) |
| Adjustments for: | | |
| - Depreciation | **87,266** | 65,748 |
| - Gain on disposal of operating assets | **(226)** | (2,783) |
| - Finance cost | **149,681** | 83,363 |
| Operating profit / (loss) before working capital changes | **328,681** | (145,106) |
| (Increase) / decrease in stores and spares | **(47,794)** | 79,132 |
| (Increase) / decrease in stock-in-trade | **(964)** | 59,144 |
| (Increase) / decrease in trade debts | **(7,820)** | 54,688 |
| Decrease / (increase) in loans, advances, deposits, prepayments and accrued mark-up | **20,058** | (30,104) |
| (Decrease) / increase in trade and other payables | **(7,056)** | 141,189 |
| Cash generated from operations | **285,105** | 158,943 |
| Income tax paid / deducted at source | **29,980** | (32,664) |
| Long term loans and deposits | **18,689** | 24,685 |
| Net cash generated from operating activities | **333,774** | 150,964 |
| **Cash flows from investing activities** | | |
| Fixed capital expenditure | **(126,349)** | (736,603) |
| Sale proceeds of operating assets | **637** | 26,223 |
| Net cash (used) in investing activities | **(125,712)** | (710,380) |
| **Cash flows from financing activities** | | |
| Repayment of long term financing | **(75,000)** | (75,000) |
| Finance cost paid | **(206,074)** | (64,766) |
| Disbursement of Long Term Diminishing Musharaka | **-** | 500,000 |
| Disbursement of lease finance | **9,059** | - |
| Repayment of lease finance | **(33,907)** | (28,122) |
| Dividend paid | **(1)** | (2) |
| Net cash (used in) / generated from financing activities | **(305,923)** | 332,110 |
| Net decrease in cash and cash equivalents | **(97,861)** | (227,306) |
| Cash and cash equivalents as at 01 July | **(506,920)** | (279,614) |
| Cash and cash equivalents as at 30 June | **(604,781)** | (506,920) |
| **Cash and cash equivalent:** | | |
| Cash and bank balances | **24,183** | 19,734 |
| Short term running finance | **(628,964)** | (526,654) |
| | **(604,781)** | (506,920) |

The annexed notes 1 to 35 form an integral part of these financial statements.

**(MOHAMMED YASIN FECTO)**
Chief Executive

**(ROHAIL AJMAL)**
Director

# STATEMENT CHANGES IN EQUITY
## For the year ended 30 June 2011

| | Share capital | General reserve | Accumulated profit | Total |
|---|---|---|---|---|
| | (Rupees in '000) | | | |
| **Balance as at 01 July 2009** | 456,000 | 50,000 | 666,160 | 1,172,160 |
| **Transactions with owners recorded directly in equity - distribution** | | | | |
| Bonus Shares issued @ 10% for the year ended 30 June 2009 | 45,600 | - | (45,600) | - |
| **Total comprehensive income for the year** | | | | |
| Loss for the year ended 30 June 2010 | - | - | (208,258) | (208,258) |
| Balance as at 30 June 2010 | 501,600 | 50,000 | 412,302 | 963,902 |
| **Total comprehensive income for the year** | | | | |
| Profit for the year ended 30 June 2011 | - | - | 65,433 | 65,433 |
| **Balance as at 30 June 2011** | 501,600 | 50,000 | 477,735 | 1,029,335 |

The annexed notes 1 to 35 form an integral part of these financial statements.

**(MOHAMMED YASIN FECTO)**
Chief Executive

**(ROHAIL AJMAL)**
Director

# NOTES TO THE ACCOUNTS
## For the year ended 30 June 2011

**1. STATUS AND NATURE OF BUSINESS**

The Company was incorporated in Pakistan on 28 February 1981 as a public limited company with its Registered Office situated at 35-Darulaman Housing Society, Block 7/8, Shahra-e-Faisal, Karachi, Sindh. Its shares are quoted on Karachi, Lahore and Islamabad Stock Exchanges. It is principally engaged in production and sale of cement.

**2. STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of, or directives issued under the Companies Ordinance, 1984 shall prevail.

**3. BASIS OF PREPARATION**

**3.1 Accounting Convention**

These financial statements are prepared under the historical cost convention, except for the derivative financial instruments which are stated at the fair value.

**3.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year**

During the year certain amendments to Standards and new interpretations became effective however they did not have any material effect on the financial statements of the Company.

**New / revised accounting standards, amendments to published accounting standards, and interpretations that are not yet effective**

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2011:

IAS 24 Related Party Disclosures (revised 2009) – (effective for annual periods beginning on or after 01 January 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 01 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.

Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 01 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment has no impact on Company's financial statements.

Improvements to IFRSs 2010 – In May 2010 the IASB issued improvements to IFRSs 2010 which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after 01 January 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements, add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increase disclosures in the financial statements.

IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 01 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.

IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 01 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.

Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 01 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Company.

**3.3 Functional and presentation currency**

These financial statements are presented in Pakistani Rupees which is the Company's functional currency. All financial information presented in Pak Rupees have been rounded to nearest thousand.

### 3.4 Use of estimates and judgments

The preparation of financial statements is in conformity with approved accounting standards, as applicable in Pakistan, requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is 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 the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the future years are as follows:

#### 3.4.1 Income taxes

In making the estimates for income taxes currently payable by the Company, the management considers the current income tax law and the decisions of appellate authorities on certain issues in the past.

#### 3.4.2 Property, plant and equipments

The Company's management determines the estimated useful lives, residual value and related depreciation charge for its plant and equipments. The Company reviews the value of the assets for possible impairment on an annual 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 impairment.

#### 3.4.3 Stock-in-trade and stores and spares

The Company’s management reviews the net realisable value (NRV) and impairment of stock-in-trade and stores and spares respectively, to assess any diminution in the respective carrying values and wherever required provision for NRV / impairment is made. The difference in provision, if any, would be recognised in the future period.

#### 3.4.4 Trade debts and other debts

Impairment loss against doubtful trade and other debts is made on judgemental basis, for which provision may differ in the future years based on the actual experience. The difference in provision, if any, would be recognised in the future years.

#### 3.4.5 Fair value of derivates financial instrument

The management reviews the changes in fair values of cross currency swap at each reporting date based on the valuations received from the contracting bank. These valuations represent estimated fluctuations in the relevant currencies and interest rate over the reporting period.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

## 4.1 Property, plant and equipments

**Owned**

i) Operating assets are stated at cost (including where relevant related borrowing cost and exchange difference) less accumulated depreciation and impairment losses, if any, except free hold land which is stated at cost. Depreciation on additions is charged for the month the asset is put to use and no depreciation is charged in the month of disposal.

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

iii) Depreciation is charged to income applying the straight line method at the rate specified below:

| Items | Useful lives (Years) | Residual Values (% of cost) |
|---|---|---|
| Factory building | 23.5 - 22.5 | 0 |
| Non-factory building | 23.5 | 0 |
| Plant, machinery and equipments | 23.5 - 9 | 5 |
| Quarry transport equipments | 0 - 10 | 5 |
| Furniture, fixtures and equipments | 0 - 10 | 0 - 5 |
| Motor vehicles | 0 - 5 | 10 |

iv) Useful lives, depreciation methods and residual values are reassessed annually and change, if any, are applied prospectively.

**Leased**

i) Assets subject to finance lease are accounted for by recording the assets and related liabilities. These are stated at lower of present value of minimum lease payments under the lease agreements and fair value of assets acquired on lease at the inception of lease. Assets acquired under the finance lease are depreciated over the useful life of the assets in the same manner as the owned assets.

ii) Finance charge under the lease agreements is allocated over the periods during lease term so as to produce a constant periodic rate of financial charge on the outstanding balance of principal liability of each period.

## 4.2 Capital work in progress

Capital work in progress is stated at cost including, where relevant, related financing costs less impairment losses, if any. These costs are transferred to fixed assets as and when assets are available for use.

## 4.3 Staff benefits

i) The Company operates a defined contribution plan, Provident Fund, for all its regular permanent employees. Contributions are made equally by the Company and the employees as per the rules of the Fund.

ii) The liability in respect of accumulated compensated absences of employees is accounted for in the period in which these absences are earned.

**4.4 Stores and spares**

These are valued under the moving average cost method (less impairment loss if any) other than stores and spares in transit which are valued at cost comprising invoice value plus other charges paid thereon less impairment loss if any. Adequate provision is also made for slow moving items.

**4.5 Stock-in-trade**

Stock-in-trade is valued at lower of cost and net realisable value. Cost signifies in relation to:

| | |
|---|---|
| **Raw Material produced/excavated by the Company** | At average cost comprising of excavation cost, labour and appropriate overheads. |
| **Other Raw Material and Packing Material** | At cost determined on first-in-first-out basis. |
| **Work-in-process and Finished Goods** | At average cost comprising direct material, labour and appropriate manufacturing overheads. |

Net realizable value signifies the selling price less cost necessary to be incurred in order to make the sale.

**4.6 Financial assets other than derivatives**

Financial assets include trade debts, loans, deposits, accrued mark-up and cash and bank balances. These are recognised initially at fair-value plus attributable transaction costs, if any, and subsequently measured at amortised cost using effective interest method less provision for impairment, if any. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

**4.7 Financial liabilities other than derivatives**

Financial liabilities include long term finance, liabilities against assets subject to finance lease, short term borrowing and trade and other payables. All financial liabilities are recognised initially at fair value plus directly attributable transaction costs, if any, and subsequently measured at amortised cost using effective interest rate method.

**4.8 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost or fair value as applicable. Cash and cash equivalents comprises cash and bank balances. Short term running finances that are repayable on demand and form an integral part of the Company's cash management policy are also included as a component of cash equivalents for the purpose of the statement of cash flows.

**4.9 Foreign currency translation**

Transactions in foreign currencies are converted into Rupees at the rate of exchange ruling on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Rupees at the rate of exchange ruling at the balance sheet date. All exchange differences arising on transaction are charged to profit and loss account currently.

### 4.10 Derivative financial instruments

The Company uses derivative financial instruments such as interest rate swaps and cross currency swaps to cover its risk associated with interest and exchange rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from change in fair value of derivatives that do not qualify for hedge accounting are taken directly to profit and loss account.

### 4.11 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss account.

**Current**

Provision for current taxation is based on taxable income for the year at the current rates of taxation enacted or substantively enacted at the balance sheet date after taking into account available tax credits, rebates and any adjustment to tax payable in respect of previous years, if any.

**Deferred**

Deferred tax is provided using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax asset is recognised for deductible temporary differences only to the extent it is probable that future taxable profits will be available and the credits can be utilised.

### 4.12 Provisions

A provision is recognised 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 economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

### 4.13 Revenue recognition

**Sale of goods**

Revenue from sale of goods is measured at fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated cost and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. The Company recognises revenue from the sale of goods (including export sales) on despatch of goods to its customers.

**Profit on term deposits and long term advances**

Profit on term deposits is accounted for on time proportion basis on the principal outstanding at the rates applicable.

### 4.14 Borrowing cost

Borrowing cost incurred upto the date the qualifying asset is ready for use and that is directly attributable to the acquisition or construction of related property, plant and equipment is capitalised as part of cost of the relevant asset. All other mark-up, interest and other related charges are charged to income currently.

### 4.15 Impairment

The carrying amount of all assets not carried at fair value, is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of such asset is estimated. Impairment loss is recognised in profit and loss account whenever carrying amount of an assets exceeds its recoverable amount.

### 4.16 Offsetting

Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle liability simultaneously.

### 4.17 Dividends and appropriations to reserves

Dividends and appropriations to reserves are recognised as liability in the Company's financial statements in the period / year in which these are approved.

### 4.18 Research and development costs

Research and development costs are charged to income as and when incurred, except for certain development costs which are recognised as intangible assets when it is probable that the development project will be a success and certain criteria, including commercial and technological feasibility have been met.

## 5. Share capital

| 2011 | 2010 | | 2011 | 2010 |
|---|---|---|---|---|
| (Number of shares) | | | (Rupees in '000) | |
| **Authorised** | | | | |
| **75,000,000** | 75,000,000 | Ordinary shares of Rs. 10 each | **750,000** | 750,000 |
| **Issued, subscribed and paid up** | | | | |
| **45,600,000** | 45,600,000 | Ordinary shares of Rs. 10 each fully paid in cash | **456,000** | 456,000 |
| **4,560,000** | 4,560,000 | Ordinary shares of Rs. 10 each issued as fully paid bonus shares | **45,600** | 45,600 |
| **50,160,000** | 50,160,000 | | **501,600** | 501,600 |

## 6. LONG TERM FINANCING - secured

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Standard Chartered Bank Limited | 6.1& 6.3 | **50,000** | 75,000 |
| Saudi Pak Syndicate | 6.2& 6.3 | **100,000** | 150,000 |
| Diminishing musharaka | 6.4 | **500,000** | 500,000 |
| | | **650,000** | 725,000 |
| Less: Current Maturity | 10 | **200,000** | 75,000 |
| | | **450,000** | 650,000 |

**6.1** This represents finance facility of Rs. 150 million (2010: Rs. 150 million) obtained from Standard Chartered Bank (Pakistan) Limited. The amount is payable in 12 equal semi annual instalments commenced from 24 July 2007. The facility carries mark-up @ 3 months KIBOR plus 2.75% with a floor of 6.5% and will be set on the first day of each quarter. The loan is secured by way of a first pari passu charge on all movable and immovable properties of the Company and personal guarantee of sponsoring directors.

**6.2** This represents the syndicated term finance facility of Rs. 300 million (2010: Rs. 300 million) obtained from Saudi Pak Industrial & Agricultural Investment Company Limited and NIB Bank Limited (formerly PICIC Commercial Bank Limited). The amount is payable in 12 equal semi annual instalments commenced from 31 December 2007. The facility carries mark-up @ 6 months KIBOR plus 2.5% and will be set on the first day of each quarter. The loan is secured by way of a first pari passu charge on all movable and immovable properties of the Company and personal guarantee of sponsoring directors.

**6.3** The Company has entered into cross currency interest rate swaps against long term finances for a notional amount of Rs. 437.500 million (2010: Rs. 437.500 million), maturing upto 28 June 2013. Under the swap arrangement the principal payable amount of Rs. 437.500 million is swapped with US $ at Rs. 60.59 per US $ making the loan amount to US $ 7.22 million (2010: US $ 7.22 million). Besides the swap of the principal amount to US$, the Company would receive 6 months KIBOR rates in local currency and pay 8.6% fixed in US$ as per the arrangements, which will be settled semi annually. As at the balance sheet date, the net fair value of these interest rates and cross currency swaps was Rs. 76.807 million unfavourable (2010: Rs. 137.650 million unfavourable).This change in fair value after adjustment of settled amount has been recognised in profit and loss account. These swap arrangements have exposed the Company to foreign currency exchange rate fluctuation risk on the US $ value converted at the agreement date while interest rate variability risk due to change in KIBOR rates has been covered.

**6.4** This represents a long term financing of Rs. 500 million obtained under the diminishing musharaka basis from a syndicate led by Standard Chartered Bank (Pakistan) Limited to finance imported plant and machineries of Waste Heat Recovery Power Plant. Principal Amount is repayable in eight equal semi annual instalments commencing from 23 Aug 2011. Mark-up is payable semi annually @ 6 months KIBOR plus 3% at the date of disbursement and will subsequently be revised on each instalment dates. The facility is secured by a registered first pari passu charge on all present and future fixed assets of the company up to Rs. 667 million.

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE** | | | |
| Opening balance | | **66,991** | 95,113 |
| New leases acquired | | **9,059** | - |
| Repayments during the year | | **(33,907)** | (28,122) |
| | | **42,143** | 66,991 |
| Less: Current maturity | 10 | **(35,725)** | (32,943) |
| | | **6,418** | 34,048 |

Lease payments due are as under:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Principal** | **Finance charges allocated to future years** | **Total lease rentals** | Principal | Finance charges allocated to future years | Total lease rentals |
| | (Rupees in '000) | | | | | |
| Not later than one year | 35,725 | 2,038 | 37,763 | 32,943 | 5,697 | 38,640 |
| Later than one year but not later than five years | 6,418 | 1,434 | 7,852 | 34,048 | 785 | 34,833 |
| | 42,143 | 3,472 | 45,615 | 66,991 | 6,482 | 73,473 |

**7.1** This represents lease arrangements for machinery and vehicle repayable latest by 30 December 2014. Financing rate @ 3 months KIBOR plus 3% per annum have been used as discounting factor. Overdue rentals are subject to additional charge up to 3% per month. Taxes, repairs, replacement and insurance costs are to be borne by the lessee. The lessee can exercise purchase option at the end of the lease term by adjusting security deposit of Rs.15.668 million (2010: Rs. 14.76 million) for lease.

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| **8. DEFERRED TAXATION** | | |
| Taxable temporary differences arising in respect of: | | |
| - Accelerated tax depreciation | **271,218** | 158,601 |
| - Finance lease arrangements | **20,194** | 13,380 |
| | **291,412** | 171,981 |
| Deductible temporary difference arising in respect of carried forward losses | **(172,006)** | (33,421) |
| | **119,406** | 138,560 |

## 9. SHORT TERM BORROWINGS - secured

The company has a total finance facility of Rs. 870 million (2010: Rs. 520 million) which includes Running Finance of Rs. 220 million, Export Refinance of Rs. 400 million and Finance Against Imported Material of Rs. 250 million from various banks. These arrangements are secured by way of first pari passu charge on all the Company's movable and immovable properties and hypothecation of Company's stock-in-trade, stores and spares, book debts, machinery, pledge of coal and personal guarantee of sponsoring directors of the Company. The rate of markup ranges from 3 months KIBOR plus 1.75% - 3%(2010: 3 months KIBOR plus 1.75% - 3% ) per annum except Export Re-Finance on which mark-up rate is 11%. The facilities are available for various periods expiring upto 31 January 2012.

## 10. CURRENT MATURITY OF LONG TERM LIABILITIES

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Long term financing | 6 | **200,000** | 75,000 |
| Liabilities against assets subject to finance lease | 7 | **35,725** | 32,943 |
| | | **235,725** | 107,943 |

## 11. Trade and other payables

| | Note | 2011 | 2010 |
|---|---|---|---|
| Creditors for Goods: | | | |
| - Other creditors | | **29,934** | 89,865 |
| - Associated company | | **36,252** | 66,208 |
| Bills payable | | **146,429** | 125,127 |
| Accrued expenses | | **69,507** | 54,410 |
| Workers' funds | 11.1 | **6,816** | - |
| Accrued mark-up - secured | 11.2 | **50,988** | 46,538 |
| Advances from customers | | **126,552** | 89,692 |
| Deposits from dealers, contractors and suppliers | | **10,319** | 11,028 |
| Royalty payable | | **79** | 82 |
| Income tax less provision | | **129** | - |
| Excise duty payable | | **31,944** | 35,277 |
| Sales tax payable | | **3,863** | 3,597 |
| Income tax withheld | | **2,732** | 1,542 |
| Unclaimed dividend | | **11,102** | 11,103 |
| Unpaid dividend | | **257** | 257 |
| Fair value of derivative | 6.3 | **76,807** | 137,650 |
| Other liabilities | | **34,540** | 29,195 |
| | | **638,250** | 701,571 |

### 11.1 Workers' Funds

| | Note | 2011 | 2010 |
|---|---|---|---|
| Workers' profit participation fund | | | |
| Opening balance | | **-** | 21,283 |
| Add: Charge for the year | 27 | **4,939** | - |
| Interest accrued | | **-** | 2,660 |
| | | **4,939** | 23,943 |
| Less: Payment during the year | | **-** | 23,943 |
| | | **4,939** | - |
| Workers' welfare fund | 27 | **1,877** | - |
| | | **6,816** | - |

### 11.2 Accrued mark-up - secured

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Long term financing | **30,892** | 30,277 |
| Lease finance | **192** | 145 |
| Running finance | **19,904** | 16,116 |
| | **50,988** | 46,538 |

## 12. CONTINGENCIES AND COMMITMENTS

### 12.1 Contingencies

The Competition Commission of Pakistan (the CCP) took Suo Moto action under Competition Commission Ordinance, 2007 and issued a Show Cause Notice on 28 October 2008 for increase in prices of cement across the country. Similar notices were also issued to All Pakistan Cement manufacturers Association (APCMA) and its member cement manufacturers. The Company filed a writ petition before the Honourable Lahore High Court (LHC), the LHC wide its order dated 24 August 2009 allowed the CCP to issue its final order. The CCP accordingly passed an order on 27 August 2009 and imposed a penalty of Rs. 174.063 million on the company. The Lahore High Court vide its order dated 31 August 2009 restrained the CCP from enforcing its order against the Company for the time being.

During the financial year ended 30 June 2010, the company has filed an appeal before the Honourable Supreme Court of Pakistan and Lahore High Court against the Order of the CCP dated 27 August 2009. The petition filed by the company and other cement manufacturers before the Lahore High Court are also pending for adjudication meanwhile order passed by the Lahore High Court on 31 August 2009 is still operative.

### 12.2 Commitments

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Outstanding letters of credit | **153,214** | 103,214 |

## 13. OPERATING ASSETS

2011

| Items | Cost | | | | Accumulated depreciation | | | | Written down value as at 30 June 2011 |
|---|---|---|---|---|---|---|---|---|---|
| | As at 01 July 2010 | Additions | Disposals | As at 30 June 2011 | As at 01 July 2010 | Additions | Disposals | As at 30 June 2011 | |
| | (Rupees in '000) | | | | | | | | |
| **Owned** | | | | | | | | | |
| Freehold land | 160,356 | - | - | 160,356 | - | - | - | - | 160,356 |
| Factory building on freehold land | 294,903 | 21,029 | - | 315,932 | 221,161 | 4,303 | - | 225,464 | 90,468 |
| Non-factory building on freehold land | 120,999 | 2,923 | - | 123,922 | 69,217 | 2,677 | - | 71,894 | 52,028 |
| Plant, machinery and equipments | 2,135,099 | 897,417 | - | 3,032,516 | 1,313,185 | 60,769 | - | 1,373,954 | 1,658,562 |
| Quarry transport equipments | 122,552 | - | - | 122,552 | 75,664 | 5,784 | - | 81,448 | 41,104 |
| Furniture, fixtures and equipments | 42,249 | 2,248 | - | 44,497 | 35,922 | 2,099 | - | 38,021 | 6,476 |
| Motor vehicles | 65,588 | 764 | (1,295) | 65,057 | 38,991 | 6,596 | (884) | 44,703 | 20,354 |
| | 2,941,746 | 924,381 | (1,295) | 3,864,832 | 1,754,140 | 82,228 | (884) | 1,835,484 | 2,029,348 |
| **Leased** | | | | | | | | | |
| Plant, machinery and equipments | 144,622 | - | - | 144,622 | 18,319 | 3,233 | - | 21,552 | 123,070 |
| Motor vehicles | 4,800 | 9,059 | - | 13,859 | 2,304 | 1,805 | - | 4,109 | 9,750 |
| | 149,422 | 9,059 | - | 158,481 | 20,623 | 5,038 | - | 25,661 | 132,820 |
| | 3,091,168 | 933,440 | (1,295) | 4,023,313 | 1,774,763 | 87,266 | (884) | 1,861,145 | 2,162,168 |

2010

| Items | Cost | | | | Accumulated depreciation | | | | Written down value as at 30 June 2010 |
|---|---|---|---|---|---|---|---|---|---|
| | As at 01 July 2009 | Additions | Disposals | As at 30 June 2010 | As at 01 July 2009 | Additions | Disposals | As at 30 June 2010 | |
| | (Rupees in '000) | | | | | | | | |
| **Owned** | | | | | | | | | |
| Freehold land | 152,330 | 8,026 | - | 160,356 | - | - | - | - | 160,356 |
| Factory building on freehold land | 294,903 | - | - | 294,903 | 217,381 | 3,780 | - | 221,161 | 73,742 |
| Non-factory building on freehold land | 113,144 | 7,855 | - | 120,999 | 66,658 | 2,559 | - | 69,217 | 51,782 |
| Plant, machinery and equipments | 2,128,850 | 41,231 | (34,982) | 2,135,099 | 1,291,905 | 36,944 | (15,664) | 1,313,185 | 821,914 |
| Quarry transport equipments | 185,549 | - | (62,997) | 122,552 | 130,824 | 5,784 | (60,944) | 75,664 | 46,888 |
| Furniture, fixtures and equipments | 41,585 | 664 | - | 42,249 | 33,825 | 2,097 | - | 35,922 | 6,327 |
| Motor vehicles | 68,332 | 8,067 | (10,811) | 65,588 | 40,117 | 7,614 | (8,740) | 38,991 | 26,597 |
| | 2,984,693 | 65,843 | (108,790) | 2,941,746 | 1,780,710 | 58,778 | (85,348) | 1,754,140 | 1,187,606 |
| **Leased** | | | | | | | | | |
| Plant, machinery and equipments | 144,622 | - | - | 144,622 | 12,213 | 6,106 | - | 18,319 | 126,303 |
| Motor vehicles | 4,800 | - | - | 4,800 | 1,440 | 864 | - | 2,304 | 2,496 |
| | 149,422 | - | - | 149,422 | 13,653 | 6,970 | - | 20,623 | 128,799 |
| | 3,134,115 | 65,843 | (108,790) | 3,091,168 | 1,794,363 | 65,748 | (85,348) | 1,774,763 | 1,316,405 |

### 13.1 Allocation of depreciation

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Excavation cost | **17,669** | 14,141 |
| Manufacturing cost | **61,973** | 43,945 |
| Administrative expenses | **5,629** | 5,653 |
| Distribution cost | **1,995** | 2,009 |
| | **87,266** | 65,748 |

### 13.2 Disposals

| Details of disposals of Operating assets | Cost | Accumulated Depreciation | Written Down Value | Sale Proceeds | Mode of Disposal | Particulars of Purchasers |
|---|---|---|---|---|---|---|
| | --------(Rupees in '000)-------- | | | | | |
| **Motor vehicles** | | | | | | |
| Honda Civic ABF-937 | 772 | 695 | 77 | 400 | Negotiation | Mr.Khalid Hussain, House no KESC - 2930, Bhittaiabad, Gulistan-e-Johar Karachi |
| Suzuki Mehran ARX- 465 | 484 | 160 | 324 | 230 | Negotiation | Mr. Zakaria Yacoob, Flat # A-3, First Floor, Mara Apartment Block # 13D/1, Gulshan -e-Iqbal Karachi |
| Motor Cycle KBU - 7548 | 39 | 29 | 10 | 7 | Negotiation | Mr. Hanif-ur-Rahman Masjid Al Hilal, House # 1 , Ferozabad Thana Block 6, PECHS, Karachi |
| | 1,295 | 884 | 411 | 637 | | |

### 14. CAPITAL WORK IN PROGRESS

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **Building** | | | |
| Opening balance | | **19,092** | 6,376 |
| Expenditure incurred during the year | | **3,063** | 19,092 |
| Transferred to operating assets | 14.1 | **(21,018)** | (6,376) |
| | | **1,137** | 19,092 |
| **Plant, machinery and equipments** | | | |
| Opening balance | | **789,136** | 131,092 |
| Expenditure incurred during the year | | **71,891** | 684,884 |
| Transferred to operating assets | 14.1 | **(861,027)** | (26,840) |
| | | **-** | 789,136 |
| | | **1,137** | 808,228 |

**14.1** This represents expenditure incurred in respect of waste heat recovery power plant capitalised during the year.

### 15. LONG TERM LOANS AND DEPOSITS

| | Note | 2011 | 2010 |
|---|---|---|---|
| Long term deposits | 15.1 | **30,842** | 30,612 |
| Long term loan - unsecured, considered good | | | |
| - Employees - interest free | 15.2 | **5,697** | 6,597 |
| - Executives - interest free | 15.2 | **1,730** | 2,078 |
| - Sui Northern Gas Pipelines Limited | 15.3 | **22,379** | 25,406 |
| | | **29,806** | 34,081 |
| Current portion | 19 | **(21,438)** | (6,794) |
| | | **8,368** | 27,287 |
| | | **39,210** | 57,899 |

**15.1** This includes Rs. 11.00 million (2010: Rs. 11 million) margin given to Silkbank Limited against the bank guarantee of Rs. 110 million (2010: Rs. 110 million) issued in favour of Sui Northern Gas Pipeline Ltd. as security for the payment of gas bill.

15.2 The maximum aggregate amount due from executives of the Company at the end of any month during the year was Rs. 2.269 million (2010: Rs. 2.752 million). The loan to executives and employees are in accordance with the terms of their employment.

15.3 This represents the unsecured loan of Rs. 44.48 million given to Sui Northern Gas Pipelines Limited for laying of gas pipeline and is repayable in 10 equal yearly instalments after grace period of two years starting from 7 December 2007. This loan had been measured to its present value using prevailing market rate of mark-up at 8% per annum for a similar instrument, having similar terms and credit risk profile, at the time the loan was granted.

| | Note | 2011 | 2010 |
|---|---|---|---|
| **16. STORES AND SPARES** | | **(Rupees in '000)** | |
| Stores | | **83,076** | 113,810 |
| Spares | | **500,773** | 491,134 |
| Stores in transit | | **135,493** | 66,604 |
| | | **719,342** | 671,548 |
| **17. STOCK-IN-TRADE** | | | |
| Finished goods | | **32,217** | 28,674 |
| Work-in-process | | **28,926** | 33,456 |
| Raw material | | **13,440** | 8,523 |
| Packing material | | **35,099** | 38,065 |
| | | **109,682** | 108,718 |

## 18. TRADE DEBTS

This includes foreign currency receivable amounting to Rs. Nil (2010: Rs. 4.741 million) secured by letter of credits.

| | Note | 2011 | 2010 |
|---|---|---|---|
| **19. LOANS, ADVANCES, DEPOSITS PREPAYMENTS AND ACCRUED MARK-UP** | | | |
| Current portion of long term loans and deposits-unsecured, considered good | 15 | **21,438** | 6,794 |
| Advances to Suppliers and contractors - unsecured, considered good | | **2,796** | 13,398 |
| Income tax payments less provisions | | **-** | 75,532 |
| Advance sales tax | | **4,930** | 29,197 |
| Deposits | | **-** | 220 |
| Prepayments | | **4,275** | 3,851 |
| Accrued mark-up | | **225** | 262 |
| | | **33,664** | 129,254 |
| **20. CASH AND BANK BALANCES** | | | |
| In hand | | **615** | 550 |
| With banks in current accounts | | **23,568** | 19,184 |
| | | **24,183** | 19,734 |

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **21. SALES - net** | | | |
| Sales - Local | | **2,874,053** | 2,550,134 |
| - Export | | **1,206,365** | 1,111,756 |
| | | **4,080,418** | 3,661,890 |
| Less: | | | |
| - Excise duty | | **357,890** | 404,432 |
| - Sales tax | | **418,473** | 355,147 |
| - Export rebate | | **(217)** | (373) |
| | | **776,146** | 759,206 |
| | | **3,304,272** | 2,902,684 |
| **22. COST OF SALES** | | | |
| Raw and packing material consumed: | | | |
| - Opening stock | | **46,588** | 28,966 |
| - Purchases | | **325,476** | 326,155 |
| - Excavation cost | 22.1 | **178,531** | 158,093 |
| | | **550,595** | 513,214 |
| Closing stock | | **(48,539)** | (46,588) |
| | | **502,056** | 466,626 |
| Fuel and power | | **1,814,926** | 1,847,047 |
| Stores and spares consumed | | **59,297** | 76,617 |
| Salaries, wages and benefits | 22.2 | **189,788** | 170,407 |
| Insurance | | **26,299** | 25,971 |
| Repairs and maintenance | | **3,515** | 2,445 |
| Depreciation | 13.1 | **61,973** | 43,945 |
| Other manufacturing overheads | | **39,507** | 40,129 |
| | | **2,697,361** | 2,673,187 |
| Opening work-in-process | | **33,456** | 110,378 |
| Closing work-in-process | | **(28,926)** | (33,456) |
| Cost of goods manufactured | | **2,701,891** | 2,750,109 |
| Opening finished goods | | **28,674** | 28,518 |
| Closing finished goods | | **(32,217)** | (28,674) |
| | | **2,698,348** | 2,749,953 |

**22.1** Excavation cost includes salaries, wages and benefits and Company's contribution to provident fund amounting to Rs. 7.782 million (2010: Rs. 6.806 million) and Rs. 0.42 million (2010: Rs. 0.39 million) respectively.

**22.2** This includes Company's contribution to provident fund amounting to Rs. 3.281 million (2010: Rs. 4.781 million).

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **23. ADMINISTRATIVE EXPENSES** | | | |
| Salaries, wages and benefits | 23.1 | **73,487** | 64,462 |
| Travelling and conveyance | | **5,628** | 8,297 |
| Vehicles running expenses | | **7,265** | 6,707 |
| Communications | | **2,660** | 2,461 |
| Printing and stationery | | **1,056** | 835 |
| Rent, rates and taxes | | **9,956** | 10,188 |
| Utilities | | **9,325** | 7,368 |
| Repairs and maintenance | | **1,322** | 1,030 |
| Legal and professional charges | | **3,583** | 2,422 |
| Auditors' remuneration | 23.2 | **552** | 528 |
| Donations | 23.3 | **2,569** | 2,863 |
| Depreciation | 13.1 | **5,629** | 5,653 |
| Miscellaneous | | **5,460** | 9,821 |
| | | **128,492** | 122,635 |

**23.1** This includes Company's contribution to provident fund amounting to Rs. 2.32 million (2010: Rs. 2.1 million).

**23.2 Auditors' remuneration**

| | 2011 | 2010 |
|---|---|---|
| Audit fee | **375** | 375 |
| Half yearly review | **75** | 75 |
| Other services | **50** | 50 |
| Out of pocket expenses | **52** | 28 |
| | **552** | 528 |

**23.3** None of the directors or their spouses have any interest in the donee funds.

**24. DISTRIBUTION COST**

| | Note | 2011 | 2010 |
|---|---|---|---|
| Salaries, wages and benefits | 24.1 | **24,001** | 22,436 |
| Commission | | **166,005** | 136,309 |
| Export expenses | | **34,403** | 78,413 |
| Travelling and conveyance | | **832** | 504 |
| Vehicles running expenses | | **2,551** | 2,271 |
| Communications | | **935** | 1,089 |
| Rent, rates and taxes | | **2,228** | 3,192 |
| Repairs and maintenance | | **527** | 442 |
| Advertisement | | **2,457** | 1,608 |
| Marking fee | | **3,353** | 2,949 |
| Depreciation | 13.1 | **1,995** | 2,009 |
| Miscellaneous | | **2,747** | 1,536 |
| | | **242,034** | 252,758 |

**24.1** This includes Company's contribution to provident fund amounting to Rs. 0.92 million (2010: Rs. 0.85 million).

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| | | | (Rupees in '000) | |
| **25.** | **FINANCE COST** | | | |
| | Mark-up on: | | | |
| | - Long term financing | | **71,129** | 40,827 |
| | - Lease finance | | **6,363** | 10,365 |
| | - Running finance | | **89,648** | 28,972 |
| | Interest on Workers Profit Participation Fund | 11.1 | **-** | 2,660 |
| | Exchange (loss) / gain | | **(5)** | 396 |
| | Legal documentation fee | | **763** | 890 |
| | Bank commission and charges | | **1,823** | 1,935 |
| | Gain on derivative financial instrument | 25.1 | **(20,040)** | (2,682) |
| | | | **149,681** | 83,363 |
| | **25.1** Movement in the fair value of cross currency swap | | **(60,843)** | (19,702) |
| | settled during the year - unfavourable | | **40,803** | 17,020 |
| | | | **(20,040)** | (2,682) |
| **26.** | **OTHER INCOME** | | | |
| | Mark-up on bank deposits | | **967** | 1,024 |
| | Mark-up on long term advance | | **430** | 497 |
| | Accretion of discount | | **1,421** | 1,583 |
| | Gain on sale of operating assets | | **226** | 2,783 |
| | Scrap sales | | **10,014** | 8,526 |
| | Miscellaneous | | **1** | 178 |
| | | | **13,059** | 14,591 |
| **27.** | **WORKERS' FUNDS** | | | |
| | Workers' profit participation fund | | **4,939** | - |
| | Workers' welfare fund | | **1,877** | - |
| | | | **6,816** | - |
| **28.** | **TAXATION** | | | |
| | Relationship between income tax expense and accounting profit / (loss) | | | |
| | Profit / (loss) before taxation | | **91,960** | (291,434) |
| | Tax at the applicable rate of 35% (2010: 35%) | | **32,186** | (102,002) |
| | Net tax effect of export sales taxed at different rate | | **105,564** | 56,367 |
| | Net tax effect of gain on sale of operating assets excluded in determination of taxable income | | **-** | 2,872 |
| | Tax effect of inadmissible expenses | | **899** | 1,002 |
| | Tax effect of prior years | | **11,061** | (45,614) |
| | Tax effect of assessed loss | | **(138,585)** | (4,811) |
| | Minimum tax | | **22,028** | 9,010 |
| | Others | | **(6,626)** | - |
| | Net tax charge for the year | | **26,527** | (83,176) |

The income tax assessments of the Company have deemed to be finalized up to and including Tax year 2010.

## 29. EARNINGS / (LOSS) PER SHARE - Basic and Diluted

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Earnings / (loss) after taxation | **65,433** | (208,258) |
| | (Number in '000) | |
| Weighted average number of ordinary shares | **50,160** | 50,160 |
| | (Rupees) | |
| Earnings / (loss) per share | **1.30** | (4.15) |

## 30. OPERATING SEGMENTS

These financial statements have been prepared on the basis of single reportable segment.

**30.1** Revenue from sale of cement represents 100% (2010 : 100%) of the total revenue of the company.

**30.2** 70% (2010: 70%) gross sales of the Company relates to customers in Pakistan.

**30.3** All non-current assets of the Company at 30 June 2011 are located in Pakistan.

**30.4** The Company does not have any customer having sales of 10% or more during the year ended 30 June 2011.

## 31. REMUNERATION OF DIRECTORS AND EXECUTIVES

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Chief Executive** | **Director** | **Executives** | Chief Executive | Director | Executives |
| | (Rupees in '000) | | | | | |
| Managerial remuneration | **5,274** | **5,274** | **59,799** | 5,274 | 5,274 | 53,281 |
| Bonus | **908** | **908** | **6,160** | 908 | 908 | 4,849 |
| Retirement benefits | **-** | **-** | **3,945** | - | - | 3,425 |
| Reimbursable perquisites | **726** | **726** | **3,796** | 726 | 726 | 3,359 |
| Meeting fee | **-** | **80** | **-** | - | 120 | - |
| | **6,908** | **6,988** | **73,700** | 6,908 | 7,028 | 64,914 |
| | (Number) | | | | | |
| Number of key executives | **1** | **1** | **36** | 1 | 1 | 33 |
| Number of non-executive directors | **-** | **-** | **7** | - | 7 | - |

The Chief Executive, Director and certain Executives are provided with the use of Company cars and the operating expenses are borne by the Company to the extent of their entitlement.

Executives are employees whose basic salaries exceeds Rs. 500,000 in a financial year.

## 32. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of group companies (associated companies), directors, and their close family members, staff provident fund, executives and major shareholders of the Company. Remuneration and benefits to executives of the Company are in accordance with the terms of their employment while contribution to the provident fund is in accordance with the staff service rule. Transactions with related parties during the period other than those disclosed elsewhere in the financial statements were as follows:

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| **Associated company** | | |
| Purchases (Frontier Paper Products (Private) Ltd.) | **118,420** | 137,194 |
| **Others** | | |
| Disbursement of advances to key management personnel | **500** | 600 |
| Repayment of advances by key management personnel | **871** | 1,094 |

Balance with related parties are disclosed in note 11 and 15.

## 33. CAPACITY AND PRODUCTION (CLINKER)

| | 2011 | 2010 |
|---|---|---|
| | (Tons) | |
| Rated Capacity | **780,000** | 780,000 |
| Actual Production | **718,322** | 772,940 |

## 34. FINANCIAL INSTRUMENTS

**Financial risk management**

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

### 34.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same party, or when counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

The carrying amount of financial assets represents the maximum credit exposure. To reduce the exposure to credit risk the Company has developed a policy of obtaining advance payments from its customers. Except for customers relating to the Government and certain small and medium sized enterprises, the management strictly adheres to this policy. For any balances receivable from such small and medium sized enterprises, the management continuously monitors the credit exposure towards them and makes provisions against those balances considered doubtful of recovery. Cash is held only with banks with high quality credit worthiness.

The maximum exposure to credit risk at the reporting date is as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Balance sheet** | **Maximum exposure** | **Balance sheet** | **Maximum exposure** |
| | (Rupees in '000) | | | |
| Trade debts | **18,712** | **18,712** | 10,892 | 10,892 |
| Loans, advances, deposits and accrued mark-up | **68,599** | **47,776** | 183,082 | 63,328 |
| Cash and bank balances | **24,183** | **23,568** | 19,734 | 19,184 |
| | **111,494** | **90,056** | 213,708 | 93,404 |

Differences in loan, advances deposits and accrued mark-up is due to the fact that advance tax amounting to Rs 4.801 million (2010: Rs. 104.7 million) and lease deposits amounted to Rs 15.668 million (2010: Rs. 14.6 million) are not considered to carry credit risk. Further the difference in cash and bank balances is due to the fact that the amount of Rs. 0.615 million (2010: Rs. 0.55 million) is cash in hand which is also not considered to credit risk.

**34.1.1** The maximum exposure to credit risk on trade debts at the balance sheet date by geographic region is as follows:

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Domestic (Pakistan) | **18,712** | 6,151 |
| Exports (India and Afghanistan) | **-** | 4,741 |

**34.1.2** The maximum exposure to credit risk for trade debts at the balance sheet date by type of customer is as follows:

| | 2011 | 2010 |
|---|---|---|
| Dealer / distributor | **18,663** | 10,443 |
| End-user customers | **51** | 449 |

**34.1.3 Impairment losses**

The aging of trade debtors at the balance sheet date was:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Gross** | **Impairment** | **Gross** | **Impairment** |
| | (Rupees in '000) | | (Rupees in '000) | |
| Not past due | **-** | **-** | - | - |
| Past due 1-60 days | **13,499** | **-** | 6,304 | - |
| Past due 61 days -1 year | **741** | **-** | 4,100 | - |
| More than one year | **4,474** | **-** | 488 | - |
| | **18,714** | **-** | 10,892 | - |

**34.1.4** Based on past experience, consideration of financial position, past track records and recoveries, the Company believes that trade debtors past due upto one year do not require any impairment. None of the other financial assets are either past due or impaired.

## 34.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The following are the contractual maturities of financial liabilities, including interest payments:

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | Six months or less | Six to twelve months | Two to five years | More than five years |
| | (Rupees in '000) | | | | | |
| **Non-Derivative** | | | | | | |
| **Financial liabilities** | | | | | | |
| Long term financing | **650,000** | **1,167,777** | **191,740** | **189,312** | **786,726** | **-** |
| Liabilities against assets subject to finance lease | **42,143** | **45,615** | **18,882** | **18,978** | **7,852** | **-** |
| Short-term running finance | **628,964** | **709,600** | **709,600** | **-** | **-** | **-** |
| Trade and other payables | **597,755** | **597,755** | **587,436** | **-** | **-** | **10,319** |
| **Derivatives** | | | | | | |
| Cross currency swap | **76,807** | **76,807** | **76,807** | **-** | **-** | **-** |
| | **1,995,669** | **2,597,554** | **1,584,465** | **208,290** | **794,578** | **10,319** |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | Six months or less | Six to twelve months | Two to five years | More than five years |
| | (Rupees in '000) | | | | | |
| **Non-Derivative** | | | | | | |
| **Financial liabilities** | | | | | | |
| Long term financing | 725,000 | 1,001,704 | 60,553 | 90,197 | 850,954 | - |
| Liabilities against assets subject to finance lease | 66,991 | 73,473 | 19,320 | 19,320 | 34,833 | - |
| Short-term running finance | 526,654 | 579,471 | 579,471 | - | - | - |
| Trade and other payables | 523,423 | 523,423 | 512,395 | - | - | 11,028 |
| **Derivatives** | | | | | | |
| Cross currency swap | 137,650 | 137,650 | 137,650 | - | - | - |
| | 1,979,718 | 2,315,721 | 1,309,389 | 109,517 | 885,787 | 11,028 |

**34.2.1** The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rates effective as at 30 June (and includes both principal and interest payable thereon). The rates of mark-up have been disclosed in notes 6, 7 and 9 to these financial statements.

### 34.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. Market risk comprises of currency risk, interest rate risk and other price risk. The Company is exposed to currency risk and interest rate risk only.

#### 34.3.1 Currency risk

Foreign currency risk is the risk that the value of financial asset or a liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions entered into foreign currencies.

**Exposure to currency risk**

The Company's exposure to foreign currency risk was as follows based in notional amount:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Rupees** | **US Dollars** | **Rupees** | **US Dollars** |
| | --------------------------------(in '000)-------------------------------- | | | |
| Trade debts | **-** | **-** | 4,741 | 55 |
| Trade payables | **(146,429)** | **(1,700)** | (125,127) | (1,462) |
| **Gross balance sheet exposure** | **(146,429)** | **(1,700)** | (120,386) | (1,407) |
| Estimated forecast sales | **426,162** | **4,949** | 101,562 | 1,186 |
| Estimated forecast purchases | **(224,611)** | **(2,608)** | (103,214) | (1,206) |
| **Gross exposure** | **201,551** | **2,341** | (1,652) | (20) |
| Cross currency and interest rate swap - US Dollars | **(213,179)** | **(2,476)** | (353,186) | (4,126) |
| **Net exposure** | **(158,057)** | **(1,835)** | (475,224) | (5,553) |

The following significant exchange rates applied during the year:

| | Average rates | | Balance sheet date rate | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| US Dollars | **85.86** | **83.51** | 86.11 | 85.60 |

**Sensitivity Analysis**

A 10 percent strengthening of the Rupee against US Dollar at 30 June would have increased / (decreased) profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 30 June 2010.

| | Profit and loss | Equity |
|---|---|---|
| | (Rupees in '000) | |
| **As at 30 June 2011** | | |
| Effect in US Dollars | **15,806** | - |
| **As at 30 June 2010** | | |
| Effect in US Dollars | **12,039** | - |

A 10 percent weakening of the Rupees against the above currency at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

**34.3.2 Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from short and long term borrowings from banks and term deposits with banks. At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments was as follows:

| | Carrying amount | |
|---|---|---|
| | 2011 | 2010 |
| | (Rupees in '000) | |
| **Fixed rate instruments** | | |
| Financial assets | **22,379** | 25,406 |
| Financial liabilities | **-** | - |
| | **22,379** | 25,406 |
| **Variable rate instruments** | | |
| Financial assets | **-** | - |
| Financial liabilities | **1,321,107** | 1,318,645 |
| | **1,321,107** | 1,318,645 |

**Fair value sensitivity analysis for fixed rate instruments**

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect the profit and loss account and equity of the Company.

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for current and last year.

| | Profit and loss | Equity |
|---|---|---|
| | (Rupees in '000) | |
| **As at 30 June 2011** | | |
| Cash flow sensitivity - Variable rate instruments | **13,211** | - |
| **As at 30 June 2010** | | |
| Cash flow sensitivity - Variable rate instruments | **13,186** | - |

**34.4 Fair value of financial assets and liabilities**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

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

The company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

**Level 1:** Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3:** Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

As at 30 June 2011, cross currency and interest rate swap was categorised in level 3.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Balance as at 01 July 2010 | **137,650** | 157,352 |
| Settled during the year - unfavourable | **(40,803)** | (17,020) |
| Gain on derivative financial instrument | **(20,040)** | (2,682) |
| Balance as at 30 June 2011 | **76,807** | 137,650 |

**34.5 Capital risk management**

The management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The management closely monitors the return on capital along with the level of distributions to ordinary share holders.

The management seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Company is not required to maintain any regulatory capital.

**35. GENERAL**

These financial statements were authorised for issue in the Board of Directors meeting held on September 30, 2011.

**(MOHAMMED YASIN FECTO)**
Chief Executive

**(ROHAIL AJMAL)**
Director

# FORM OF PROXY

I/We ____________________________________________

of ____________________________________________

being a member of FECTO CEMENT LIMITED hereby appoint ____________________

____________________________________________

**(NAME)**

of ____________________________________________

who is also a member of the Company vide Registration Folio Number__________ as my/our proxy in my/our absence to vote for me/us and on my/our behalf at the 30th Annual General Meeting of the Company to be held on Wednesday, October 26, 2011 at 12:00 noon at Registered Office, 35-Darulaman Housing Society, Block 7/8, Shahra-e-Faisal, Karachi and at any adjournment thereof.

| Member's Signature<br><br>On Rupee Five<br>Revenue Stamp |
|---|

Folio No. ____________________

Shares held (Nos.) ____________________

Place ____________ Date ____________

Witness: ____________________
Signature

Name: ____________________

Address : ____________________

____________________

**Note:**

1. Proxies in order to be effective be received at the Company's Registered Office (35-Darulaman Housing Society, Block 7/8, shahra-e-Faisal, Karachi) no less than 48 hours before the meeting and must be duly stamped, signed and witnessed.

2. Member's signature must agree with the specimen signature registered with the Company.

FECTO

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A NAME OF FAITH

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