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COST AUDITORS' REPORT TO THE DIRECTORS

We, Rahman, Sarfraz Rahim Iqbal Rafiq, having been appointed to conduct an audit of cost accounts of **Messrs. Fecto Cement Limited** have examined the books of account and statement prescribed under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984 and the other relevant record for the year ended on **June 30, 2012** and report that:

(1) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of this audit.

(2) in our opinion:

(a) proper cost accounting records as required by clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984 (XLVII of 1984), and as required by these rules, have been kept by the company;

(b) proper return, statements and schedules for the purpose of audit of cost accounts have been received from branches not visited by us;

(c) the said books and records give the information required by the rules in the manner so required; and

(3) in our opinion and, subject to best of our information:

(a) the annexed statement of capacity utilisation and stock-in trade are in agreement with the books of account of the company and exhibit true and fair view of the Company's affairs; and

(b) cost accounting records have been properly kept so as to give a true and fair view of the cost of production, processing, manufacturing and marketing of the product of the company, namely Ordinary Portland Cement.

The matter contained in the ANNEX forms part of this report.

Rahman Sarfraz Rahim Iqbal Rafiq.

Date: 30 OCT 2012
Karachi

RAHMAN SARFRAZ RAHIM IQBAL RAFIQ
Chartered Accountants
Engagement Partner: **Abdur Rahim Salim Bhai**

1. **Capacity**
Licensed and installed capacity of Clinker & Ordinary Portland Cement produced by the company was 780,000 & 819,000 tonnes per annum respectively based on 300 working days. The company produced 785,345 tonnes of Clinker and 791,937 tonnes of Ordinary Portland Cement during the year ended June 30, 2012.

2. **Cost Accounting System**
Cost accounting system instituted by the management is adequate to determine correctly the cost of Ordinary Portland Cement.

3. **Production**

(a) Production of Ordinary Portland Cement was 791,937 tonnes.

(b) Percentage of Clinker and Ordinary Portland Cement production in relation to installed capacity was 100.69 and 96.70 respectively.

(c) The company has not made any addition to production capacity either during the year or during the immediate preceding two years

4. **Raw Materials**

(a) Cost of raw material consumed in terms of quantity and value and the related transportation cost was:

Lime Stone	
Quantity (Tonnes)	1,138,222.00
Value (Rupees)	112,979,557.00
Transport Cost (Rupees)	158,086,532.00
Value including Transport Cost (Rupees)	271,066,089.00
Shale	
Quantity (Tonnes)	74,010.00
Value (Rupees)	4,603,489.00
Transport Cost (Rupees)	10,251,477.00
Value including Transport Cost (Rupees)	14,854,966.00
Laterite	
Quantity (Tonnes)	53,172.00
Value (Rupees)	49,153,202.00
Gypsum	
Quantity (Tonnes)	38,533.00
Value (Rupees)	35,676,318.00

(b) Consumption of raw material per unit of production:

Raw Material	30-Jun-12	30-Jun-11	30-Jun-10
Lime Stone	1.437	1.376	1.361
Shale	0.093	0.102	0.084
Laterite	0.057	0.049	0.035
Raw Meal	1.551	1.483	1.435
Gypsum	0.049	0.048	0.049

(c) Consumption of raw material per tonne of cement depends on properties of rock. It can be concluded that there is no major variation in raw material consumption.

(d) The method of accounting adopted for recording the quantities and value of receipts, issues and balances of all material directly used in production is adequate to determine the value of raw material.

5. Wages and Salaries

(a) Total wages and salaries paid for all categories of employees were:

		Rupees
(i)	Direct labour cost on production	47,160,439
(ii)	Indirect employees' cost on production	133,813,142
(iii)	Employees' cost on administration	42,924,430
(iv)	Employees cost on selling & distribution	19,081,173
(v)	Bonus / Ex-gratia to workers and employees	21,415,152
(vi)	Other employees' cost (including taxes and levies)	50,106,757
(vii)	Total employees' cost [total of items (i) to (vi)]	314,501,093

(b) Salaries and perquisites of director(s) and chief executive were Rs. 13,211,194

(c) Total man-days of direct labour available during the year were 39,847.20

(d) Average number of workers employed during the year was 879.17.

(e) Direct labour cost per unit of Ordinary Portland Cement was Rs. 59.55 Rs. 57.43 and Rs. 44.76 respectively for the years ended on June 30, 2012, June 30, 2011 and June 30, 2010.

(f) The main reason for variance in item (e) are increments and ex-gratia given to staff during the year June 30, 2012.

(g) Company does not have any incentive scheme for payment to laborers.

6 Stores and Spare Parts

(a) The expenditure per tonne of Ordinary Portland Cement on stores was Rs. 114.00

(b) System of stores accounting is computerized and there is a proper method of recording of receipts, issues and balances both in quantities and values. These are valued at moving average cost other than stores and spares in transit which are valued at cost comprising invoice value plus other charges paid thereon.

(c) We have been informed that the issue of items which have not moved over 24 months has been considered by the management. The plant like that of Fecto Cement is not being fabricated any longer. Replacement parts are mostly not fabricated and have to be got made against order of the buyer. Lead time required for such made-up to order spreads to several months. The spares inventory therefore serve as safety nest for the plant. The management has affirmed that none of the spares can be regarded as those devoid of use.

7. Depreciation

(a) Company follows straight line method of depreciation.

(b) Depreciation on common assets is allocated in proportion to value of assets of relevant department.

(c) Depreciation to the products is charged in proportion to departmental cost.

8. Overheads

(a) Total amount of overheads with breakup were:

	Expenses	June 30 2012	June 30 2011	June 30 2010
(i)	**Factory overheads**			
	Traveling & conveyance	492,401	442,398	1,672,825
	Communication	1,523,865	1,306,699	1,155,129
	Printing & stationary	1,477,502	1,293,224	1,561,173
	Vehicles running & maintenance	21,228,158	19,687,222	19,106,755
	Entertainment	4,068,646	3,608,470	3,077,454
	Fees & subscription	648,453	827,650	417,115
	Lubricants	225,066	226,305	-
	Electricity	4,751,133	4,721,899	4,936,461
	Water	-	1,394,757	1,264,236
	Gas	1,894,522	1,642,746	2,055,708
	Freight & transportation	188,443	148,710	266,504
	Advertising & Publicity	-	-	-
	Miscellaneous	7,233,743	4,206,778	4,615,915
	Rupees	43,731,932	39,506,858	40,129,275

Expenses		June 30 2012	June 30 2011	June 30 2010
(ii)	**Administration Overheads**			
	Salaries, Wages and Benefits	74,995,391	73,487,440	64,462,234
	Traveling and Conveyance	3,415,977	5,627,941	8,297,334
	Vehicles Running Expenses	7,687,439	7,265,135	6,706,560
	Communications	3,189,788	2,659,865	2,461,166
	Printing and Stationery	920,260	1,055,504	834,678
	Rent, Rates and Taxes	8,840,909	9,955,890	10,187,525
	Utilities	9,545,189	9,325,422	7,367,629
	Repairs and Maintenance	1,602,201	1,321,692	1,029,622
	Legal and Professional Charges	2,487,409	3,653,194	2,212,166
	Auditors' Remuneration	552,236	552,236	737,736
	Donations	2,534,000	2,568,600	2,862,858
	Depreciation	5,813,889	5,628,830	5,652,920
	Miscellaneous	5,763,924	5,389,965	9,822,351
	Rupees	127,346,612	128,491,714	122,634,779

Expenses		June 30 2012	June 30 2011	June 30 2010
(iii)	**Selling and Distribution overheads**			
	Salaries, Wages and Benefits	24,906,687	24,000,733	22,435,975
	Traveling and Conveyance	120,082	831,630	503,653
	Vehicles Running Expenses	3,303,711	2,551,414	2,270,937
	Commission	202,980,075	166,004,787	136,308,734
	Export Expenses	75,213,500	34,402,638	78,413,277
	Communications	928,097	934,714	1,088,955
	Rent, Rates and Taxes	1,566,015	2,227,940	3,191,515
	Repairs and Maintenance	1,263,541	526,874	442,270
	Advertisement	2,541,424	2,456,742	1,607,937
	Marking Fee	4,389,750	3,353,287	2,948,535
	Depreciation	2,053,814	1,994,876	2,009,386
	Miscellaneous	2,705,143	2,747,505	1,537,317
	Rupees	321,971,839	242,033,140	252,758,491

Expenses		June 30 2012	June 30 2011	June 30 2010
(iv)	**Financial charges** Rupees	205,708,584	149,680,898	83,362,037

(b) The factory overheads and selling and distribution overheads for the year increased by 10.69% and 33.03% respectively whereas Administrative overheads reduced by 0.89% as compared with 2011. Factory overheads increased due to renovation of land facilties that was required, whereas selling and distribution expenses increased in propotion to increase in volume of export sales to India and Afghanistan. The Administrative Expenses for the year reduced marginally.

(c) The factory overheads have been allocated to cost centres in proportion to departmental cost which, in our opinion, is a rational basis.

(d) Cost of packing material consumed for the year under report amounted to Rs. 297,618,804 and, whereas the cost of Ordinary Portland Cement amounted to Rs. 382.60 per tonne.

9. **Royalty / Technical Aid Payments**

The company is not required to pay any Royalty or make Technical Aid Payment to anyone on its product i.e., Ordinary Portland Cement.

10. **Abnormal non - recurring features**

(a) We have not observed any abnormal non-recurring features affecting the production of the Company during the year.

(b) No special expenses have been directly allocated to the product under reference.

11. **Cost of production**

The production cost per tonne of Ordinary Portland Cement for the year was Rs. 4213.83 and Rs. 3,559.98 for previous year respectively. The increase is mainly due to increase in rates for supply of Electricity, Fuel and Power and Coal during the year.

12. **Sales**

(a) The sales quantities, value and per tonne realisation for the year respectively were 792,596.90 tonnes, Rs. 4,342,634,033 and Rs. 5,478.99 per tonne.

(b) Company has exported 337,076 tonnes of cement during the year to Afghanistan and India. The average net realization per tonne was Rs. 4,090.87.

13. **Profitability (before taxation)**

Profit earned per tonne of Ordinary Portland Cement, which is the only product of the Company, was Rs. 370.39.

14. **Observations & Conclusions**

We did not observe any matter of significant nature during the course of our cost audit. However, some of our observations are given below:

(a) None

(b) None

(c) Production cost is Rs. 4,213.83 per tonne. Commissioning of Waste Heat Recovery Power Plant and Expreimentation on Coal mix may be continued to improve calorific value which would go to reduce cost, particularly in the wake of both segmental and total energy costs.

(d) (i) Budgetary control exists and is adequate for the cost audit purposes.

(ii) The Board of Directors has an Audit Committee which monitors the internal audit. The internal audit is considered satisfactory.

(e) (i) Rectification of general imbalance, if any, in production has been done through up gradation/modification undertaken during previous years.

(ii) Full capacity was not achieved mainly due to marketing constraints.

(iii) (a) Exercise should be continued to undertake possible modification and up gradation which may result in additional production or cost reduction.

(b) Export market should be further explored to enhance the production capacity and overall sale volume.

(c) No such bottleneck registered.

(d) The company has drawn various energy conservation plans including. Waste Heat Recovery Power Plant which will ensure reduction in electric consumption and the cost therof as well.

(iv) Studies are continued to be made by the company in the realm of technology.

Relatively new technology may help increase production.

Investment in a new plant would require fresh financing arrangements and consequential financing costs. In the current scenario of fast expanding production facilities by other plants and demand supply position.it does not seems to be most appropriate.

More appropriate steps are to consider such techniques, which go to save cost, particularly energy and transportation cost of the company.

(v) New at the time of installation.