

AnnualReport 2010

art &  
kraft  
two decades of production



**Cherat Papersack Limited**

A Ghulam Faruque Group Company

# introduction



Producing papersack is simple, yet precise.

It is a time sensitive production line. Our clients depend on our timely papersack deliveries to get their production out.

Top of the line equipment, which is continuously updated, top class imported kraft paper, production and quality control have made Cherat Papersack the reliable business partner.

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# high tensile energy absorption



## strong yet flexible

Papersack has to be strong. It has to hold its own and yet have high tensile absorption to retain the pressure of rapid filling.



Resistant to wear and tear, rough handling and the elements, the kraft paper used in the manufacture of Cherat Papersack is the best grade paper available.



excellent  
**runnability**



## optimum run

Paper and production when in harmony should flow like a water drop off a leaf. No resistance, no hitches.

The Cherat Papersack manufacturing unit is kept in optimum running condition



and when this is matched up by the finest quality paper, production runs smoothly. As a result there are few, if any, stoppages and that means our customers get their orders on time, everytime.

optimal  
printability







## crisp clean graphics

Flexographic printing presses are used for the Cherat Papersack line.

These rubber colour plates produce vibrant solid hues and can cover large colour



areas without the issues of pinhole spots or irregular colour patches.



# vision



To be a preferred supplier of papersacks for cement industry combined with efficient manufacturing facilities and satisfied customers.



# mission



To seek increased market share by anticipating emerging trends and introducing new products for meeting the demands of our valued customers and ensuring adequate return to our shareholders.





# strategic objectives

We strive to improve the efficiency of our operations through continuous innovation. We intend to grow through expansion of our core business. It is our endeavour to create value for our shareholders by ensuring a maximum return on investment and achieve customer satisfaction by way of providing our clients a world class product.

We aim to develop the long-term sustainability of the organization by grooming and training our employees and providing a congenial work environment, where they are motivated to perform at the highest standards. We remain committed to the highest ethical and moral business values and to the true spirit of the Code of Corporate Governance.





# core values



Achieve excellence in business

Explore new markets and  
keep up with emerging trends

Strong commitment to quality

Professional development of  
work force

Compliance to the practices of  
ISO 9001:2008



# company information



## Board of Directors

Mr. Mohammed Faruque	Chairman
Mr. Amer Faruque	Chief Executive
Mr. Iqbal Faruque	Director
Mr. Mahmood Faruque	Director
Mr. Akbarali Pesnani	Director
Mr. Aslam Faruque	Director
Mr. Shehryar Faruque	Director
Mr. Arif Faruque	Director
Mr. Saquib H. Shirazi	Director

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## Chief Financial Officer

Mr. Yasir Masood

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## Company Secretary

Mr. Abid A. Vazir

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## Audit Committee

Mr. Mohammed Faruque	Chairman
Mr. Iqbal Faruque	Member
Mr. Aslam Faruque	Member

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## Auditors

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants

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## Legal Advisor

K.M.S. Law Associates

## Bankers

Allied Bank Ltd.  
Bank Al-Habib Ltd.  
Habib Bank Ltd.  
HSBC Bank Middle East Ltd.  
MCB Bank Ltd.  
Meezan Bank Ltd.  
National Bank of Pakistan  
NIB Bank Ltd.  
Soneri Bank Ltd.  
Standard Chartered Bank (Pakistan) Ltd.  
The Royal Bank of Scotland  
United Bank Ltd.

## Share Registrar

Central Depository Company  
of Pakistan Limited (CDC)  
CDC House, 99-B, Block 'B'  
S.M.C.H.S., Main Shahrah-e-Faisal  
Karachi-74400

## Registered Office

1st Floor, Betani Arcade  
Jamrud Road  
Peshawar

## Factory

Plot No. 26  
Gadoon Amazai Industrial Estate  
District Swabi  
Khyber Pakhtunkhwa

## Head Office

Modern Motors House  
Beaumont Road  
Karachi-75530

## Regional Office

3, Sunder Das Road  
Lahore

## Islamabad Office

Mezzanine Floor  
Razia Sharif Plaza  
91-Blue Area



# notice of annual general meeting

Notice is hereby given that the 21st Annual General Meeting of the Company will be held on Wednesday, October 27, 2010 at 11:00 a.m. at the Registered Office of the Company at Betani Arcade, Jamrud Road, Peshawar to transact the following business:

## Ordinary business

1. To receive and consider the Audited Accounts of the Company for the year ended June 30, 2010 and the Reports of the Directors and the Auditors thereon.
2. To approve the payment of final cash dividend @ 20% (Rs. 2.00 per share) as recommended by the Board of Directors for the financial year ended June 30, 2010.
3. To approve the issuance of bonus shares @ 25% i.e. in the ratio of 1 share for every 4 shares held.
4. To appoint the Auditors for the year 2010/11 and to fix their remuneration.
5. To transact any other business with the permission of the Chair.

## Special business

6. To approve an increase in the authorized share capital of the company, and in this connection pass the following resolution as and by way of a Special Resolution:

Resolved that the authorized share capital of the company be and is hereby increased from Rs. 150 million to Rs. 225 million by creation of 7.50 million shares of Rs. 10 each; that the new shares shall rank pari passu in all respects with the existing ordinary shares in the capital of the company.

Resolved further that the Memorandum and Articles of Association of the Company be and is hereby amended by substituting "150,000,000" with "225,000,000".

A statement under Section 160 of the Companies Ordinance, 1984, pertaining to the above-mentioned Special Business, is being sent to the Members with this Notice.

**By Order of the Board  
of Directors**

**Abid A. Vazir**  
Company Secretary

Karachi: September 8, 2010

### Notes:

1. The register of members of the Company will be closed from Wednesday, October 13, 2010 to Wednesday, October 27, 2010 inclusive and no transfers will be registered during that time. Shares received in order at the Office of the Registrar of the company M/s. Central Depository Company of Pakistan Limited (CDC) , CDC House, 99-B, Block 'B' S.M.C.H.S., Main Shahrah-e Faisal, Karachi-74400 at the close of business on Tuesday, October 12, 2010 will be treated in time for the entitlement of 20% final cash dividend and 25 % bonus shares. The payment of dividend will be made on the existing paid-up capital of Rs. 91,800,000.
2. A member of the Company eligible to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend and vote in his/her stead. Proxies to be effective must be in writing and must be received by the Company 48 hours before the Meeting.
3. The shareholders of the Company whose shares are registered in their account/sub-account with Central Depository System (CDS) are requested to bring original computerized National Identity Card along with their account number in CDS and participant's ID number for verification. In case of appointment of proxy by such account holders and sub-account holders the guidelines as contained in SECP's circular of January 26, 2000 are to be followed.
4. The shareholders of the Company are requested to immediately notify the Share Registrar of the Company of any change in their addresses.

### Item no. 3

It is proposed that the following resolution be passed with regard to the issuance of bonus shares:

- ▶ Resolved that a sum of Rs. 22,950,000 be capitalized out of the un-appropriated profits of the company for the year 2009/10 to issue at par 2,295,000 ordinary shares of Rs. 10 each. Such shares shall be distributed as bonus shares to those members whose names appear in the register of members of the Company on October 13, 2010 @ 25% (1 share for every existing 4 shares held);
- ▶ that the new shares shall rank pari passu with the existing shares of the Company for all purposes;
- ▶ that any fraction of shares arising thereof shall be disregarded and the whole shares representing such fractions shall be disposed off in such manner as the Directors of the Company think fit and the proceeds shall be distributed in due proportion among the members of the Company entitled thereto in accordance with their respective rights;
- ▶ that the Directors of the Company be and are hereby authorized to sign the new share certificates and the common seal of the Company may be affixed in the presence of any two Directors;
- ▶ that the above Directors and Company Secretary be and are hereby authorized to give effect to this resolution and to do all such acts, deeds and things that may be necessary or required for the issue, allotment or distribution of ordinary shares.

## Statement U/S 160(1)(b) of the Companies Ordinance, 1984

This Statement sets out material facts concerning "Special Business" to be transacted at the 21st Annual General Meeting of the Company to be held on October 27, 2010. The approval of the Members of the Company will be sought for:

### Item no. 6: Increase in Authorized Capital

The Company presently has an authorized share capital of Rs. 150,000,000 divided into 15,000,000 ordinary shares of Rs. 10/- each. In order to facilitate future increase in the paid up capital, the Board of Directors has recommended that the authorized capital of the Company be raised to Rs. 225,000,000 divided into 22,500,000 ordinary shares of Rs. 10/- each by creation of 7,500,000 ordinary shares of Rs. 10/- each. For this purpose, the Board of Directors has also recommended that the resolution set forth at item (6) under the heading of "Special Resolution" of the notice of the 21st Annual General Meeting of the Company be passed as a Special Resolution. The resolution increases the authorized capital of the Company in the manner stated above and makes the required consequential changes in the Memorandum and Articles of Association of the Company.



From left to right

Mr. Aslam Faruque  
Director

Mr. Shehryar Faruque  
Director

Mr. Saquib H. Shirazi  
Director

Mr. Arif Faruque  
Director

Mr. Mohammed Faruque  
Chairman

Mr. Amer Faruque  
Chief Executive

Mr. Iqbal Faruque  
Director

Mr. Akbarali Pesnani  
Director

Seated

Mr. Mahmood Faruque  
Director

## directors' report to the members

for the year ended June 30, 2010

The Board of Directors is pleased to present the annual report of the Company along with the audited accounts for the year ended June 30, 2010.



## Company Overview

During the year 2009/10, the performance of Cherat Papersack Limited (CPL) improved substantially from last year as it continued to maintain the quality of its paper bags and improve its efficiency in all spheres of activity. As always, the company remained in the forefront of innovation by introducing yet another variety of 2-ply 85 gsm paperbag, which proved to be a great success. During the year, the company was also able to make inroads into the regional export markets.

In the year 2009/10, CPL successfully faced many challenges like continued imposition of 5% regulatory duty on imported sack kraft paper, devaluation of Pak rupee and increase in transportation and other input costs. However, rising cost of imported kraft paper and its limited availability in the international markets due to shutdown of certain paper mills owing to global recession remained a source of great concern. The company was able to overcome the challenge through its established relationship with leading kraft paper supplier M/s. Mondi Packaging and effective inventory management. During the year under review, the financial position of cement sector remained vulnerable because of cut throat competition due to over supply scenario, which resulted in drop in cement prices. As a result, we witnessed certain delays in receipt of our outstanding payments from few well reputed customers. However, through constant monitoring and prudent financial management, the company was able to bring its trade debts down to a manageable level.

In line with the demand for paper bags from its customers, the company was able to dispatch almost the same quantity of paper bags as last year and was able to post handsome results.

The financial highlights for the current year and that of last year are indicated below:

	2009/10 (In million)	2008/09 (In million)
▶ Paper bags dispatched	121.24	122.40
▶ Net sales (PKR)	1,985.24	2,060.61
▶ Gross Profit (PKR)	235.69	141.40
▶ Net Profit (PKR)	96.32	(35.21)

### Financial performance

During the year 2009/10, there was a 4% decline in the turnover of the company due to slight decline in sales volume and change in the composition of bags dispatched with the successful introduction of a 2-ply 85 gsm paper bag, which is cheaper in price compared to other varieties. During the year under review, the company benefited from the special relief granted by the State Bank of Pakistan on mark-up to companies operating in the affected areas of Khyber Pakhtunkhwa Province. The company also benefited from exemption on paying income taxes for the year 2010 up to 2012 as announced in the Federal Budget. Additionally, through regular review of trade debts and effective financial management, the company was able to lower its working capital requirement, which also led to decline in finance cost. As explained above, there was increase in the import cost of kraft paper due to rise in its demand and limited availability in the later part of the year. However, with efficient management of inventory, the company was able to control its costs. After taking into consideration the factors explained above, the company was able to make an after tax profit of Rs. 96.32 million for the year ended June 30, 2010.

### Dividend for the year

At its meeting held on September 8, 2010, the Board of Directors has proposed a final cash dividend @ 20% (Rs. 2.00 per share) for the year ended June 30, 2010.

Further, the Board of Directors has also proposed issuance of bonus shares @ 25% i.e. in the ratio of one (1) share for every four (4) shares held through capitalization of Rs. 22,950,000 out of free reserves of the company. The said bonus shares shall not be entitled for dividend declared for the year ended June 30, 2010.

The approval of the members for final cash dividend and bonus shares will be obtained at the Annual General Meeting to be held on October 27, 2010.

### ERP System

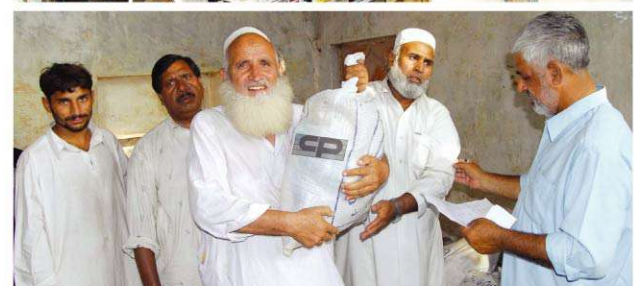
The company had last year entered into a contract with IBM Pakistan to implement SAP - ERP system to further improve its business processes. The decision was also aimed at further sharpening its decision making

capabilities and as a result, control its costs. We are pleased to inform you that the implementation of all modules has been completed within a record time and it has been termed in the industry quarters as one of the fastest successful implementation by a company in Pakistan. The use of SAP will allow the company to further leverage its capabilities by analyzing the impact of its decisions and enhance its efficiencies to the next level.

### Corporate Social Responsibility

In accordance with its corporate philosophy, the company actively participates in various social work initiatives. In the year, when we were focusing on cost control measures, the company as a conscientious member of the corporate community, contributed generously to various social and charitable causes. Most notably, the company contributed towards the health and education sectors and in this context, worked with reputable organizations like Aga Khan University Hospital and The Citizens Foundation. The company also extended its complete financial and administrative support in carrying out various relief activities in the camps set up last year for the internally displaced people of Swat.

Subsequent to the year end, the country was hit by unprecedented floods, which caused wide spread devastation to the lives and properties of the people of Pakistan. Responsive to the sufferings of the people in this hour of grief, the company launched relief efforts in





different areas of Nowshera and Mardan, which are some of the worst affected. Cooked food, drinking water, dry rations, life-saving medicines, tents, clothes and other related items were provided on a daily basis in the relief camps. The company has earmarked an amount of Rs. 2.50 million for carrying out the relief activities. The amount will be reviewed and if required, will be enhanced further. The employees of the company have also contributed their one day salary to the cause. The company has always stood by the people of Pakistan in their hour of need and shall always continue to do so.

### Safety, Health and Environment

Being a responsible corporate citizen, the company remained committed to continuous improvement in Health and Safety aspects. The production facility remained fully compliant with industry standards and safety requirements and there was no occupational accident to our staff.

Papersack is an environment friendly cement packaging solution. The company strongly believes that its environmental responsibilities extend beyond its own boundaries.

### Statement on Corporate and Financial Reporting Framework

- ▶ The financial statements prepared by the company fairly present its state of affairs, the result of operations, cash flows and changes in equity.
- ▶ Proper books of account have been maintained by the company.
- ▶ Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- ▶ Applicable International Accounting Standards have been followed in the preparation of financial statements and there has been no departure therefrom.
- ▶ The system of internal controls has been effectively implemented and is continuously reviewed and monitored.
- ▶ The company is a going concern and there are no doubts about its ability to continue.
- ▶ There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- ▶ Key operating and financial data for last six (6) years in summarized form is annexed.
- ▶ The company has been declaring regular dividends to its shareholders. However, it could not do so in the

year 2008/09 due to operating losses.

- ▶ There is nothing outstanding against the company on account of taxes, duties, levies and other charges except for those which are being made in normal course of business.
- ▶ The company maintains Provident and Gratuity Fund accounts for its employees. Stated below are the values of the investments of the fund as on June 30, 2010.

Provident Fund	Rs. 23,663,341
Gratuity Fund	Rs. 12,199,797

- ▶ During the year, five meetings of the Board of Directors were convened. The attendance record of each director is as follows:

Name of Director	Meetings Attended
Mr. Mohammed Faruque	3
Mr. Iqbal Faruque	3
Mr. Mahmood Faruque	2
Mr. Akbarali Pesnani	5
Mr. Aslam Faruque	3
Mr. Shehryar Faruque	4
Mr. Amer Faruque	5
Mr. Arif Faruque	2
Mr. Saquib H. Shirazi	5

- ▶ Pattern of shareholding is annexed with the report.
- ▶ No trading in the shares of the company was made by the Chief Executive, Directors, Chief Financial Officer and Company Secretary and their spouses and minor children during the year except for 5,624 shares of the company gifted by Mr. Mohammed Faruque to his children including Mr. Amer Faruque, who received 1,874 shares. Furthermore, Mr. Amer Faruque also received 33,389 shares as gift from his sister during the year.
- ▶ Earnings/Loss per share (EPS) during the year was Rs. 10.49 compared to Rs. (3.84) last year.

### Contribution to National Exchequer

The company contributed over Rs. 550 million to the government treasury in shape of taxes, excise duty, income tax and sales tax.

## Imposition of Regulatory Duty

In the federal budget for the year 2009/10, the government had imposed 5% regulatory duty on import of sack kraft paper. This action was taken by the government without a complete appreciation of the situation and its negative implications on the Papersack and other related industries like Cement. Despite several representations by the Papersack Industry and showing an understanding of the issue, the government has not withdrawn the duty. This action of the government has made papersacks uncompetitive against polypropylene bags which are less environmental friendly and imported finished paper bags. In the absence of a suitable local industry with adequate capacity and capability, we feel that this action of the government will hurt its efforts of encouraging construction activities in the country and will hamper the much needed economic stimulus. We take this opportunity to urge the government to reconsider this decision and save the Papersack industry from collapse as it may result in loss of thousands of jobs and billions of rupees in the form of taxes to the National Exchequer.

## Future Prospects

We witnessed an upsurge in the domestic demand for cement, driven mainly by private sector consumption during the year 2009/10. We are hopeful that this development pattern will continue, which should help further boost the cement demand and consequently increase the sale of paper bags. In the backdrop of expected cut in the PSDP by the government, energy crisis and uncertain security environment in the country, the company is likely to face challenging times in the year 2010/11. In order to effectively face these challenges, the company is making concerted efforts to not only improve

its costs and operational efficiencies but also optimize the utilization of its available resources. As mentioned earlier, shortage of kraft paper in the international markets and the consequent increase in its prices may pose a significant challenge to the company in the coming year. The management is confident of meeting the same with the support of its reliable kraft paper supplier - M/s. Mondi Packaging, stringent inventory management and efficient financial planning. The demand for cement may remain affected in the first quarter due to monsoon and floods in the country. However, it is likely to pickup soon thereafter, which will benefit the company in the form of increased demand for paper bags.

We take this opportunity to thank the government on providing special relief in mark up and income tax to the companies operating in the affected areas of Khyber Pakhtunkhwa province due to law and order situation. We would also like to urge the government to provide further relief to industries in the affected areas to help them recover from the current crisis.

## Auditors

The present auditors M/s. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, retire and being eligible, offer themselves for reappointment.

## Acknowledgment

The management of the company would like to express its gratitude to all the financial institutions, individuals, staff members, suppliers and shareholders who have been associated with the company for their continued support and cooperation. The management would like to particularly thank its supplier of kraft paper - M/s. Mondi Packaging for their understanding and continuing support.

**On behalf of the Board of Directors**



**Mohammed Faruque**  
Chairman

Karachi: September 8, 2010

# key management



Management Team



Factory Management



Finance Team

# statement of compliance

## with the Best Practices of the Code of Corporate Governance

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

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. At present the Board includes eight non-executive directors, one of whom is independent.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred on the Board during the year.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and has been circulated to all employees of the Company.
6. The Board has developed vision and mission statement/overall corporate strategy and significant policies of the Company.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. 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. The Directors of Cherat Papersack Ltd. are professionally qualified and experienced persons and are well aware of their duties and responsibilities. Further, an orientation course for Directors was arranged by the Company to apprise Directors of their duties and responsibilities.
10. The Board has approved the appointment of CFO, Company Secretary and Head of Internal Audit including their remuneration and terms and conditions of employment, 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 presently comprises of three members, of whom two are non-executive directors of the Company.
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 effective 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 alongwith pricing methods for such transactions.
21. We confirm that all other material principles contained in the Code of Corporate Governance have been complied with.

Karachi: September 08, 2010

**On behalf of the Board of Directors**



**Mohammed Faruque**  
Chairman

## statement of compliance with the Best Practices of Transfer Pricing

The company has fully complied with the best practices of Transfer Pricing as contained in the Listing Regulations of the Stock Exchanges.

Karachi: September 08, 2010

**On behalf of the Board of Directors**



**Mohammed Faruque**  
Chairman

# review report to the members

on statement of compliance with the best practices of  
the code of corporate governance



Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants  
Progressive Plaza, Beaumont Road  
P.O.Box 15541, Karachi 75530, Pakistan

Tel: +9221 35650007  
Fax: +9221 35681965  
www.ey.com

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) for the year ended **30 June 2010** prepared by the Board of Directors of **Cherat Papersack Limited** (the Company) to comply with the Listing Regulations No. 35 Chapter XI of Karachi Stock Exchange (Gurantee) Limited and Listing Regulations No. 35 Chapter XI of Lahore Stock Exchange (Gurantee) Limited, where the Company is listed.

The responsibility for compliance with the Code 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 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 are not required to consider whether the Board's statement of internal controls covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii) of Listing Regulation No. 35 notified by the Karachi Stock Exchange (Gurantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions 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 for the year ended **30 June 2010**.

**Chartered Accountants**

**Audit Engagement Partner:** Riaz A. Rehman Chamdia

KARACHI: September 08, 2010

# statement of ethics and business practices

The business policy of the company is based on the principles of honesty, integrity and professionalism at every stage.

## **Product Quality**

Regularly update ourselves with technological advancements and emerging trends to produce bags/sacks under highest standards and maintain all relevant technical and professional standards.

## **Dealing with Employees**

Provide congenial work atmosphere where all employees are treated with respect and dignity. Recognise and reward employees based on their performance and their ability to meet goals and objectives.

## **Responsibility to interested parties**

To be objective, fair and transparent in our dealings with people who have reposed their confidence in us.

## **Financial Reporting & Internal Controls**

To implement an effective and transparent system of financial reporting and internal controls to safeguard the interest of our shareholders and fulfill the regulatory requirements.

## **Procurement of Goods & Services**

Only purchase goods and services that are tailored to our requirement and are priced appropriately. Before taking decision about procurement of any goods or services, obtain quotations from various sources.

## **Conflict of Interest**

All the acts and decisions of the management be motivated by the interest of the Company and activities and involvements of the directors and employees in no way conflict with the interest of the company.

## **Adherence to laws of the land**

To fulfill all statutory requirements of the Government and its regulatory bodies and follow relevant and applicable laws of the country.

We recognise the need for working with optimum efficiency to attain desired levels of performance. We endeavor to conduct our business with honesty and integrity and produce and supply paper bags/sacks with care and competence, so that our clients receive the quality they truly deserve.

# SAP business innovation



Our vision for Cherat is to be a best-run business.

In today's challenging business environment, best-run companies have clarity across all aspects of their business, which allow them to act quickly with increased insight, efficiency, and flexibility. By using SAP solutions, Cherat can reduce costs, optimize performance, and gain the insight and agility needed to close the gap between strategy and execution. In this way we get the most out of our IT investments so that we can maximize our business performance.

Cherat's SAP implementation was one of the fastest in Pakistan.

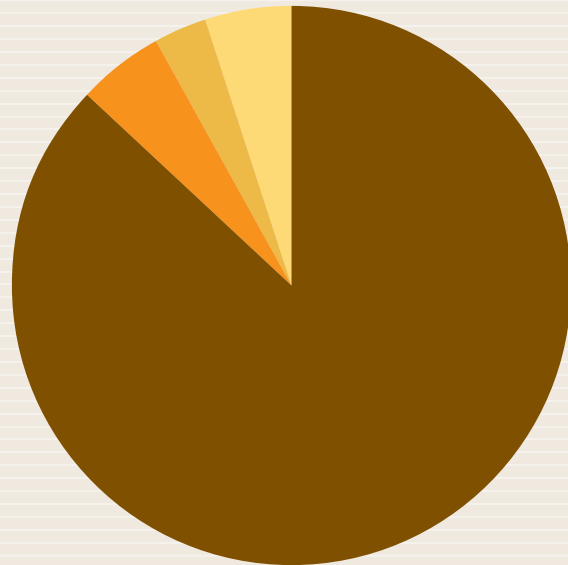




# progress graphs

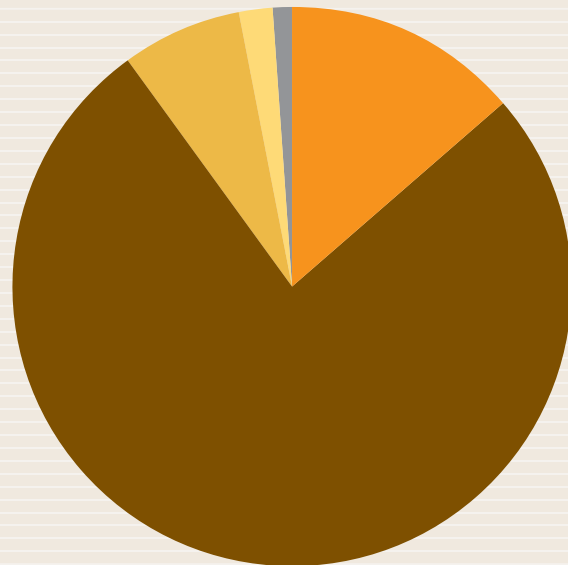
## Wealth Generated and Distributed during 09-10

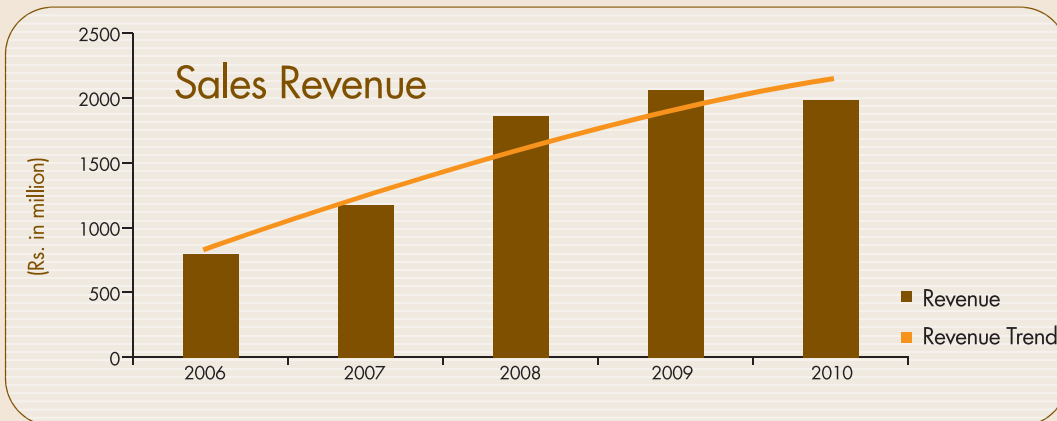
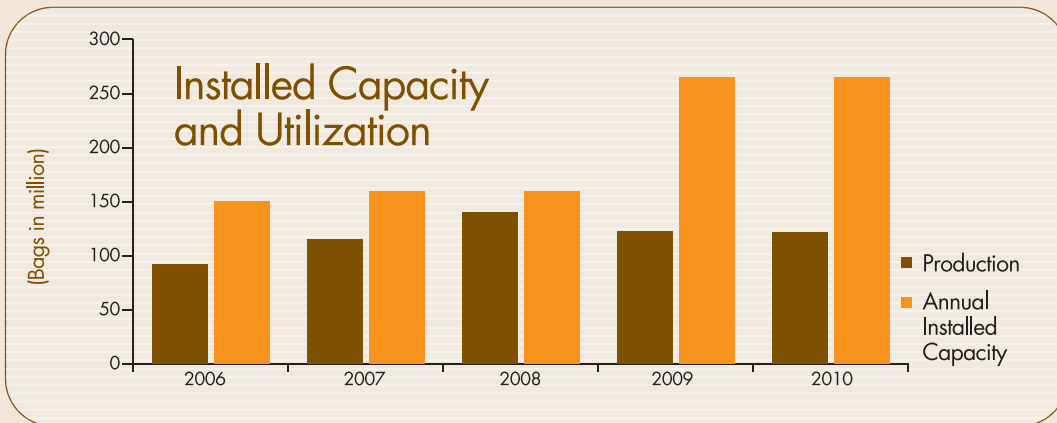
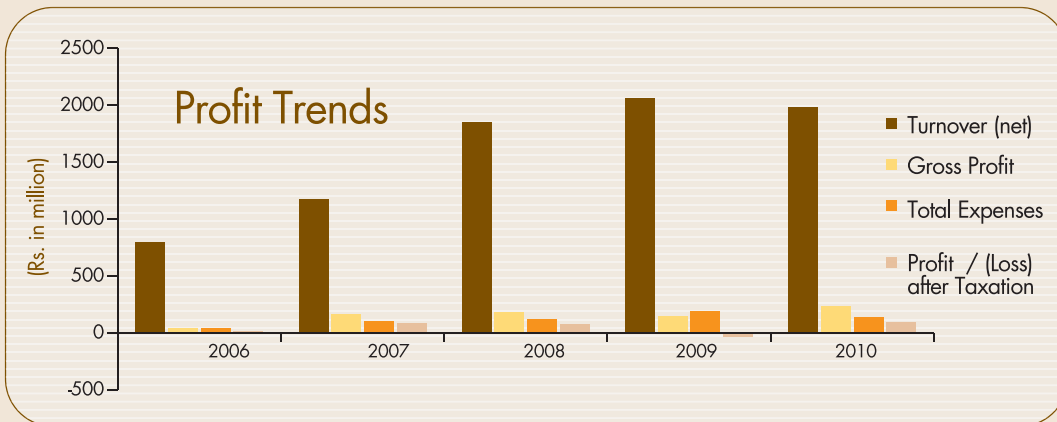
■ Material & Services	87%
■ Financial institutions	5%
■ Employees	3%
■ Shareholders & Equity	5%

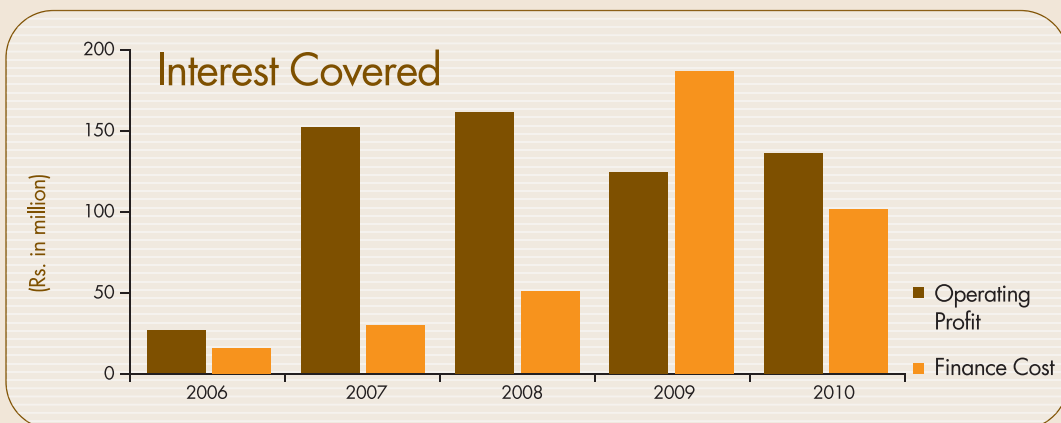
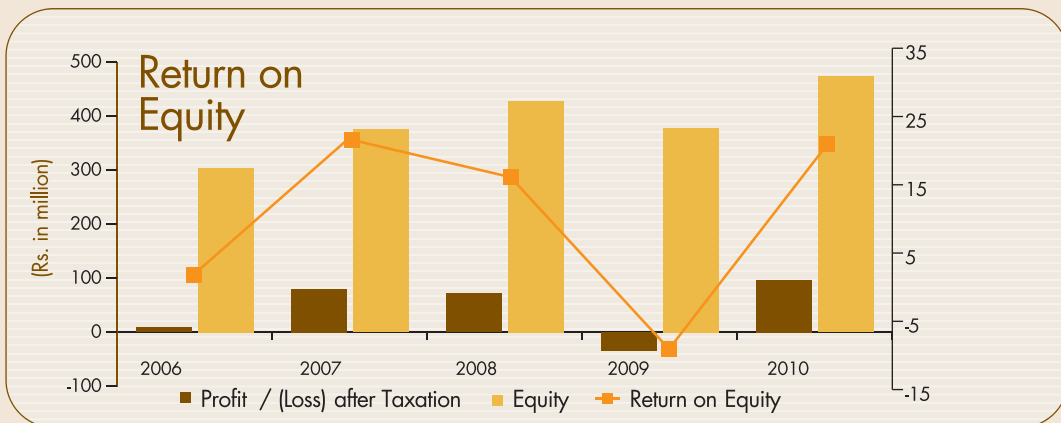
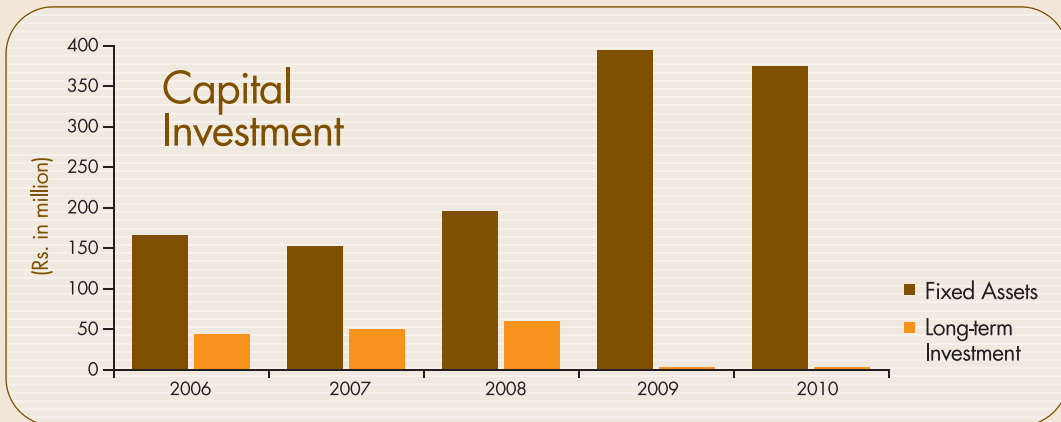
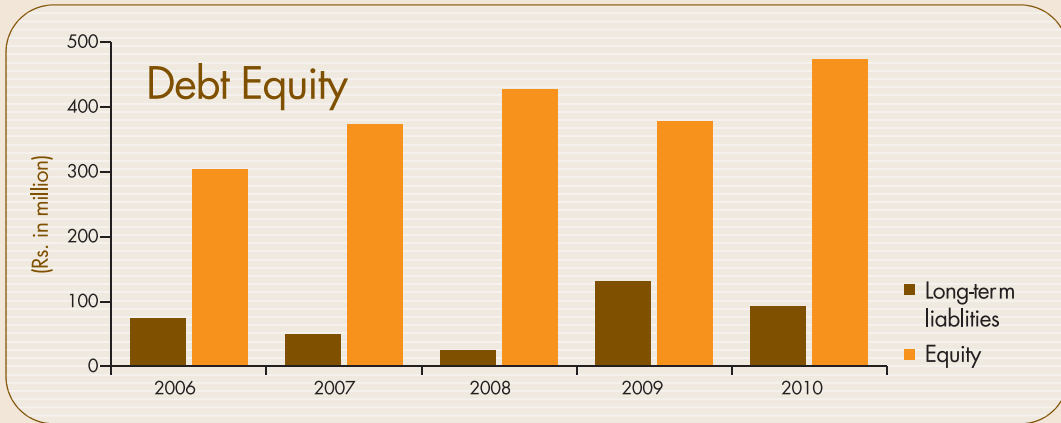


## Wealth Generated and Distributed during 08-09

■ Government	14%
■ Material & Services	78%
■ Financial institutions	7%
■ Employees	2%
■ Shareholders & Equity	(1)%







# year-wise statistical summary

	2010	2009	2008	2007	2006	2005	2004
--	------	------	------	------	------	------	------

(Bags in million)

Production	121.24	122.44	140.48	114.99	92.15	85.02	57.73
Dispatches	122.24	122.40	140.58	114.27	90.52	84.14	57.82

(Rupees '000)

## Assets Employed

Fixed Assets - Tangible	369,619	393,807	196,061	152,484	165,461	172,156	54,189
Fixed Assets - Intangible	5,143	541	-	-	-	-	-
Long-term Investments, loans and deposits	3,344	4,168	51,775	51,271	45,348	31,937	27,657
<b>Current Assets</b>	742,856	1,117,554	1,293,114	666,526	488,588	383,690	320,948
<b>Total Assets Employed</b>	1,120,962	1,516,070	1,540,950	870,281	699,397	587,783	402,794

## Financed By

Shareholders' equity	473,641	378,276	427,502	374,593	303,835	296,913	286,240
Long-term liabilities	93,750	131,250	25,000	50,000	75,000	100,000	114
Deferred liabilities	1,818	12,632	35,772	26,449	3,753	6,126	6,136
Current liabilities	551,753	993,912	1,052,676	419,239	316,809	184,744	110,304
<b>Total Fund Invested</b>	1,120,962	1,516,070	1,540,950	870,281	699,397	587,783	402,794

## Turnover & Profit

Turnover (net)	1,985,235	2,060,614	1,851,416	1,175,404	795,584	713,869	571,255
Operating Profit	191,870	118,397	152,817	144,015	25,113	49,009	63,070
Profit before taxation	95,442	(58,351)	104,426	116,207	9,910	47,838	62,544
Profit after taxation	96,319	(35,211)	71,166	79,576	8,306	32,705	42,477
Cash dividend	18,360	-	11,016	11,750	8,813	19,584	24,480
Issue of bonus shares	22,950	-	18,360	14,688	-	9,792	8,160

# ratio analysis

	2010	2009
<b>Profitability:</b>		
1 Gross Profit (percentage)	11.87	6.86
2 Operating Profit (percentage)	9.66	5.75
3 Profit / (loss) Before Tax (percentage)	4.81	(2.83)
4 Profit / (loss) After Tax (percentage)	4.85	(1.71)
5 Profit / (loss) to Average Shareholder's Equity (percentage)	22.61	(8.74)
6 Earnings / (loss) per share - Before Tax	10.40	(6.36)
7 Earnings / (loss) per share - After Tax	10.49	(3.84)
8 Profit to Total Assets (Average after tax) (percentage)	2.73	1.19
9 Increase / (Decrease) in Sales (Net percentage)	(3.66)	11.30
10 Raw Material % of Net Sales	80.87	88.41
11 Labour % of Net Sales	2.19	1.76
12 Other Cost of Sales Expenses % of Net Sales	5.07	2.97
13 Raw Material as % of Cost of Sales	91.77	94.92
14 Administrative Expenses % of Net Sales	0.76	0.57
15 Distribution Cost % of Net Sales	1.26	0.98
16 Tax % of Net Sales	0.04	(1.12)
17 Finance Cost % of Net Sales	4.86	8.58
<b>Short Term Solvency:</b>		
1 Working Capital Ratio	1.35	1.12
2 Acid Test Ratio	0.65	0.42
3 Working Capital Turnover (Net Sales) Times	10.39	16.67
4 Inventory Turnover / Times	3.22	2.29
<b>Overall Valuation and Assessment:</b>		
1 Number of Time Interest Covered	1.99	0.67
2 Return on Equity after Tax (Average in percentage)	22.61	(8.74)
3 Book Value Per Share	51.59	41.21
4 Long-term Debts to Equity Ratio	21.70	31.63

# auditors' report to the members



Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants  
Progressive Plaza, Beaumont Road  
P.O.Box 15541, Karachi 75530, Pakistan

Tel: +9221 35650007  
Fax: +9221 35681965  
www.ey.com

We have audited the annexed balance sheet of **Cherat Papersack Limited** (the Company) as at **30 June 2010** 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, except for the change as stated in note 2.3 to the financial statements, with which we concur;
- ii) the expenditure incurred during the year was for the purpose of the Company's business; and
- iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 2010** and of the profit, the comprehensive income, its cash flows and changes in equity for the year then ended; and

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

*Ernst & Young Ford Rhodes Sidat Hyder*

**Chartered Accountants**

**Audit Engagement Partner:** Riaz A. Rehman Chamdia

KARACHI: September 08, 2010

# balance sheet

as at June 30, 2010

	Note	2010	2009
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Fixed assets			
Property, plant and equipment	4	369,619	393,807
Intangible asset	5	5,143	541
		374,762	394,348
Long-term investments	6	2,040	2,994
Long-term loans	7	1,128	998
Long-term deposits	8	176	176
		378,106	398,516
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools	9	13,072	14,220
Stock-in-trade	10	386,135	700,688
Trade debts	11	229,308	245,388
Loans and advances	12	1,018	2,003
Trade deposits and short-term prepayments	13	2,444	2,710
Other receivables	14	24,596	45,511
Short-term investments	6	-	52,500
Tax refunds due from the Government		79,019	46,629
Cash and bank balances	15	7,264	7,905
		742,856	1,117,554
<b>TOTAL ASSETS</b>		<b>1,120,962</b>	<b>1,516,070</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	16	91,800	91,800
Reserves	17	381,841	286,476
		473,641	378,276
<b>NON-CURRENT LIABILITIES</b>			
Long-term financing	18	93,750	131,250
Deferred taxation	19	1,818	12,632
		95,568	143,882
<b>CURRENT LIABILITIES</b>			
Trade and other payables	20	114,615	74,825
Accrued mark-up		18,943	35,890
Short-term borrowings	21	380,695	839,447
Current maturity of long-term financing	18	37,500	43,750
		551,753	993,912
<b>CONTINGENCIES AND COMMITMENTS</b>			
	22		
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,120,962</b>	<b>1,516,070</b>

The annexed notes from 1 to 39 form an integral part of these financial statements.

  
**AMER FARUQUE**  
 Chief Executive

  
**IQBAL FARUQUE**  
 Director

# profit & loss account

for the year ended June 30, 2010

	Note	2010	2009
(Rupees '000)			
<b>Turnover - net</b>	23	1,985,235	2,060,614
Cost of sales	24	(1,749,546)	(1,919,207)
<b>Gross profit</b>		235,689	141,407
Distribution costs	25	(25,026)	(20,253)
Administrative expenses	26	(15,050)	(11,694)
Other operating expenses	27	(8,045)	(1,296)
		(48,121)	(33,243)
Other operating income	28	4,302	10,233
<b>Operating profit</b>		191,870	118,397
Finance costs	29	(96,428)	(176,748)
<b>Profit / (loss) before taxation</b>		95,442	(58,351)
<b>Taxation</b>			
Current		(9,937)	-
Deferred		10,814	23,140
	30	877	23,140
<b>Profit / (loss) after taxation</b>		96,319	(35,211)
<b>Earnings / (loss) per share - basic</b>	31	Rs. 10.49	Rs. (3.84)

The annexed notes from 1 to 39 form an integral part of these financial statements.

  
**AMER FARUQUE**  
 Chief Executive

  
**IQBAL FARUQUE**  
 Director



# statement of comprehensive income

for the year ended June 30, 2010

	2010	2009
	(Rupees '000)	
<b>Profit / (loss) after taxation</b>	96,319	(35,211)
<b>Other comprehensive income</b>		
Unrealized loss on available-for-sale securities	(954)	(2,999)
<b>Total comprehensive income for the year</b>	<u>95,365</u>	<u>(38,210)</u>

The annexed notes from 1 to 39 form an integral part of these financial statements.

  
**AMER FARUQUE**  
Chief Executive

  
**IQBAL FARUQUE**  
Director

# cash flow statement

for the year ended June 30, 2010

## Cash Flows From Operating Activities

### Profit / (loss) before taxation

#### Adjustment for:

Depreciation	4.1.4	32,721	20,080
Amortization	5.1.1	224	-
Gain on disposal of operating property, plant and equipment	28	(1,985)	-
Return on held-to-maturity investments	28	-	(8,022)
Finance costs	29	96,428	176,748

(Rupees '000)

Note	2010	2009
	95,442	(58,351)
	222,830	130,455
	353,947	268,448
	39,790	(228,953)
	616,567	169,950
	(42,327)	(42,312)
	574,240	127,638
	40,996	(218,237)
	(615,877)	88,675
	(641)	(1,924)
	7,905	9,829
15	7,264	7,905

### (Increase) / decrease in current assets:

Stores, spare parts and loose tools	1,148	217
Stock-in-trade	314,553	272,796
Trade debts	16,080	(74,936)
Loans and advances	985	2,351
Trade deposits and short-term prepayments	266	69,469
Other receivables	20,915	(1,449)

### Increase / (decrease) in current liabilities:

Trade and other payables	39,790	(228,953)
--------------------------	--------	-----------

Cash generated from operations

Income tax paid

### Net cash generated from operating activities

## CASH FLOWS FROM INVESTING ACTIVITIES

Additions to property, plant and equipment	4.1.1	(10,057)	(217,826)
Proceeds from sale of operating property, plant and equipment		3,509	-
Proceeds from sale of short term investments		52,500	-
Intangible asset acquired		(4,826)	(541)
Long-term loans		(130)	130

### Net cash generated from / (used in) investing activities

## CASH FLOWS FROM FINANCING ACTIVITIES

Long-term financing - net	(43,750)	125,000
Dividend paid	-	(10,958)
Short-term borrowings	(458,752)	127,683
Finance costs paid	(113,375)	(153,050)

### Net cash (used in) / generated from financing activities

### Net decrease in cash and cash equivalents

### Cash and cash equivalents at the beginning of the year

### Cash and cash equivalents at the end of the year

The annexed notes from 1 to 39 form an integral part of these financial statements.

  
**AMER FARUQUE**  
 Chief Executive

  
**IQBAL FARUQUE**  
 Director

# statement of changes in equity

for the year ended June 30, 2010

	RESERVES							Total
	Issued, subscribed and paid-up capital	CAPITAL RESERVE	REVENUE RESERVES			Fair value gain /(loss) on available-for-sale securities	Total reserves	
			Share Premium	General Reserve	Unappropriated profit			
	(Rupees '000)							
<b>Balance as at July 01, 2008</b>	73,440	6,800	180,000	165,366	345,366	1,896	354,062	427,502
Loss for the year	-	-	-	(35,211)	(35,211)	-	(35,211)	(35,211)
Other comprehensive income	-	-	-	-	-	(2,999)	(2,999)	(2,999)
<b>Total comprehensive income</b>	-	-	-	(35,211)	(35,211)	(2,999)	(38,210)	(38,210)
Cash dividend for the year ended June 30, 2008 @ Rs. 1.5 per share	-	-	-	(11,016)	(11,016)	-	(11,016)	(11,016)
Issue of bonus shares @ 25% i.e. 1 share for every 4 shares	18,360	-	-	(18,360)	(18,360)	-	(18,360)	-
<b>Balance as at June 30, 2009</b>	<b>91,800</b>	<b>6,800</b>	<b>180,000</b>	<b>100,779</b>	<b>280,779</b>	<b>(1,103)</b>	<b>286,476</b>	<b>378,276</b>
<b>Balance as at July 01, 2009</b>	<b>91,800</b>	<b>6,800</b>	<b>180,000</b>	<b>100,779</b>	<b>280,779</b>	<b>(1,103)</b>	<b>286,476</b>	<b>378,276</b>
Profit for the year	-	-	-	96,319	96,319	-	96,319	96,319
Other comprehensive income	-	-	-	-	-	(954)	(954)	(954)
Total comprehensive income	-	-	-	96,319	96,319	(954)	95,365	95,365
<b>Balance as at June 30, 2010</b>	<b>91,800</b>	<b>6,800</b>	<b>180,000</b>	<b>197,098</b>	<b>377,098</b>	<b>(2,057)</b>	<b>381,841</b>	<b>473,641</b>

The annexed notes from 1 to 39 form an integral part of these financial statements.

  
**AMER FARUQUE**  
 Chief Executive

  
**IQBAL FARUQUE**  
 Director

# notes to the financial statements

for the year ended June 30, 2010

## 1. THE COMPANY AND ITS OPERATIONS

Cherat Papersack Limited (the Company) was incorporated in Pakistan as a public company limited by shares in the year 1989. Its main business activity is manufacturing, marketing and sale of paper bags and sacks. The Company started commercial production on December 15, 1991 and is listed on Karachi and Lahore Stock Exchanges.

The registered office of the Company is situated at 1st Floor, Betani Arcade, Jamrud Road, Peshawar, Pakistan.

## 2. BASIS OF PREPARATION

### 2.1 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 (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

### 2.2 Accounting convention

These financial statements have been prepared on the basis of historical cost convention except for available-for-sale investments that have been measured at fair value in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

### 2.3 Changes in accounting policies and disclosures:

During the current year, the Company has adopted the following new and amended IFRSs as of July 01, 2009, which has resulted in extended disclosures as described below:

IAS-1 - Presentation of Financial Statements (Revised)

IFRS-7 - Financial Instruments: Disclosures (Amended)

#### **IAS-1 - "Presentation of Financial Statements" (Revised)**

The revised IAS-1 was issued in September 2007 and became effective for financial years beginning on or after January 01, 2009. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard has introduced a statement of comprehensive income, which presents all items of recognised income and expense, either as a single statement, or in two linked statements. The Company has opted to present two linked statements and accordingly has presented a separate statement of comprehensive income in these financial statements.

#### **IFRS-7 - "Financial Instruments: Disclosures" (Amended)**

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. The fair value measurement disclosures are presented in note 32.5 to the financial statements. The liquidity risk disclosures are not significantly impacted by the amendments and are also presented in note 32.3 to the financial statements.

Adoption of these standards and interpretations did not have any material effect on the financial statements of the Company except for certain additional disclosures in respect of IFRS-7 included in the relevant notes to the financial statements.

## 2.4 Standards and interpretations that become effective but not relevant to the Company:

The following standards (revised or amended) and interpretations became effective for the current financial year but are either not relevant or do not have any material effect on the financial statements of the Company:

IFRS 3	-	Business Combinations (Revised)
IFRS 8	-	Operating Segments
IAS 23	-	Borrowing Costs (Revised)
IAS 27	-	Consolidated and Separate Financial Statements (Revised)
IAS 32	-	Financial Instruments (Amended for Puttable instruments and obligations arising on liquidation)
IAS 39	-	Financial Instruments: Recognition and Measurement (Amended)
IFRIC 15	-	Agreements for the Construction of Real Estate
IFRIC 16	-	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	-	Distributions of Non-cash Assets to Owners
IFRIC 18	-	Transfers of Assets from Customers

## 2.5 Standards, interpretations and amendments to approved accounting standards that are not yet effective:

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective revised standard and interpretation:

	Standards or interpretation	Effective date (accounting periods beginning on or after)
IAS 24	Related Party Disclosures (Revised)	January 01, 2011
IAS 32	Financial Instruments: Presentation - Amendments relating to Classification of Rights Issues	February 01, 2010
IFRS 2	Share-based Payment: Amendments relating to Group - settled Share-based Payment Transactions	January 01, 2010
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendment)	January 01, 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 01, 2010

The Company expects that the adoption of the above revision, amendments and interpretations of the standards will not have any material impact on the Company's financial statements in the period of initial application except for the implications of IAS 24 - Related Party Disclosures (Revised), which may effect certain disclosures.

## 2.6 Significant accounting judgments and estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In the process of applying the accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

### 2.6.1 Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 20.1 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any change in these assumptions in future years might affect gains and losses in those years. The actuarial valuation involves making assumptions about discount rate, expected rate of return on assets, future salary increases and mortality rates.

### **2.6.2 Operating property, plant and equipment**

The Company reviews appropriateness of the rate of depreciation, useful life and residual value used in the calculation of depreciation. Further, where applicable, an estimate of the recoverable amount of asset is made for possible impairment on an annual basis. In making these estimates, the Company uses the technical resources available with the Company. Any change in the estimates in the future might affect the carrying amount of respective item of operating property, plant and equipment, with corresponding effects on the depreciation charge and impairment.

### **2.6.3 Taxation**

In making the estimate for income tax payable, the Company takes into account the applicable tax laws and the decision by appellate authorities on certain issues in the past. Instance where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingency.

### **2.6.4 Stock-in-trade, stores, spare parts and loose tools**

The Company reviews the net realizable value (NRV) of stock-in-trade, stores and spare parts and loose tools to assess any diminution in the respective carrying values. NRV is estimated with reference to the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **3.1 Property, plant and equipment**

#### **3.1.1 Owned assets**

Property, plant and equipment except leasehold land and capital work-in-progress are stated at cost less accumulated depreciation and impairment loss, if any. Leasehold land and capital work-in-progress are stated at cost. Depreciation is charged to income applying the reducing balance method except for computers, which are depreciated by using the straight-line method, at the rates mentioned in note 4.1.1 to the financial statements.

Maintenance and repairs are charged to income as and when incurred. Major renewals and improvements which increase the asset's remaining useful economic life or the performance beyond the current estimated levels are capitalized and the assets so replaced, if any, are retired.

Gains or losses on disposal of operating property, plant and equipment, if any, are recognized in the profit and loss account.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If such indications exist and where the carrying values exceed the estimated recoverable amounts, the assets are written down to the recoverable amounts.

Depreciation is charged from the month of the year in which addition / capitalization occurs while no depreciation is charged in the month in which an asset is disposed off.

#### **3.1.2 Assets subject to finance lease**

Finance lease, which transfers to the Company substantially all the risks and benefits incidental to ownership of leased items are capitalized at the inception of lease. Assets subject to finance lease are stated at the lower of the present value of minimum lease payments under the lease agreements and their fair value. Depreciation is charged using the same basis and rates used for similar owned assets whereby the cost of assets less residual value is written off over their estimated useful lives.

### **3.2 Intangible asset**

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of such assets can also be measured reliably.

Computer software and implementation costs that are directly associated with the computer and computer controlled machines which cannot operate without the related specific software, are included in the cost of respective assets. Software which is not an integral part of the related hardware is classified as intangible assets.

Intangible assets are stated at cost less accumulated amortization and any impairment loss. Intangible assets are amortized when assets are available for use on straight line method. Amortization is charged from the month of the year in which addition / capitalization occurs while no amortization is charged in the month in which an asset is disposed off.

### **3.3 Investments**

#### **3.3.1 Available-for-sale securities**

These are non-derivative financial assets which are intended to be held for an indefinite period but may be sold in response to the need for liquidity or changes in interest rates.

These investments are initially measured at fair value plus transaction costs and subsequently carried at fair value. Changes in fair value are taken to a separate component of equity until the investment is derecognized at which time the cumulative gain or loss recorded in equity is recognized in profit and loss account.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

#### **3.3.2 Held-to-maturity investments**

These represent non-derivative financial assets with fixed or determinable payments and fixed maturities in respect of which the Company has the positive intent and ability to hold till maturity. These investments are recognized initially at fair value plus directly attributable costs and are subsequently measured at amortized cost using effective interest rate method. Gains and losses are recognized in profit and loss account when the investments are derecognized or impaired, as well as through the amortization process.

### **3.4 Stores, spare parts and loose tools**

These are valued at lower of cost and NRV. Cost is determined on moving average basis less provision for obsolete and slow moving items except for items in transit which are stated at invoice value plus other charges incurred thereon.

The Company reviews the carrying amount of stores, spare parts and loose tools on an annual basis and provision is made for obsolescence.

Net realizable value represents estimated selling prices in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

### **3.5 Stock-in-trade**

#### **3.5.1 Raw materials**

Raw materials are valued at the lower of weighted average cost and NRV.

Cost signifies purchase cost and other direct expenses.

Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

#### **3.5.2 Finished goods**

Finished goods are valued at lower of moving average cost and NRV.

Net realizable value represents estimated selling prices in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

### **3.6 Trade debts**

Trade debts are recognized at invoice value less provision for uncollectible amounts. Provision for doubtful debts is based on management's assessment of customer's credit worthiness. Bad debts are written-off when there is no realistic prospect of recovery.

### **3.7 Trade and other payables**

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Company.

### **3.8 Financial instruments**

All financial assets and liabilities are recognized at the time when the Company becomes party to the contractual provisions of the instrument and are derecognized in case of assets, when the contractual rights under the instrument are realized, expired or surrendered and in case of a liability, when the obligation is discharged, cancelled or expired.

Any gain / (loss) on the recognition and de-recognition of the financial assets and liabilities is included in the profit / (loss) for the period in which it arises.

### **3.9 Foreign currency translations**

Transactions in foreign currencies are translated into Pak Rupees (functional currency) at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Pak Rupees at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

### **3.10 Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand and current and savings accounts with commercial banks.

### **3.11 Revenue recognition**

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and revenue can be reliably measured. Revenue is measured at fair value of the consideration received or receivable.

#### **3.11.1 Sale of goods**

Revenue from sales is recognized upon passage of title to the customers which generally coincides with physical delivery.

#### **3.11.2 Other operating income**

- Return on held-to-maturity investments is recognized on accrual basis taking into account effective yield method.
- Dividend income is recognized when the right to receive such income is established.
- Other revenues are accounted for on accrual basis.

### **3.12 Staff retirement benefits**

#### **3.12.1 Gratuity scheme**

The Company operates an approved and funded gratuity scheme for all eligible employees who have completed the minimum qualifying period of service. The scheme is administered by the trustees nominated under the trust deed. Contributions to the scheme are made in accordance with actuarial valuation using Projected Unit Credit method.

Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized actuarial gains or losses exceed 10% of the higher of defined benefit obligation and the fair value of plan assets as of the end of previous reporting period. These gains or losses are recognized over the expected remaining working lives of employees participating in the scheme.

Past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If benefits have already vested, immediately following the introduction of, or change to the scheme, past service costs are recognized immediately.



The amount recognized in balance sheet represents the present value of defined benefit obligations as adjusted for unrecognized actuarial gains and losses and as reduced by the fair value of plan assets.

### **3.12.2 Provident fund**

The Company operates an approved defined contributory provident fund scheme for all permanent employees who have completed the minimum qualifying period of service. Equal monthly contributions are made by the Company and the employees to the fund at the rate of 8.33% of basic salary.

### **3.13 Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provision are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

### **3.14 Taxation**

#### **3.14.1 Current**

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted after taking into account tax credits, rebates and exemptions, if any. The tax charge as calculated above is compared with turnover tax under section 113 of the Income Tax Ordinance 2001, and whichever is higher is provided in the financial statements. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

#### **3.14.2 Deferred**

Deferred income tax is provided using the liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilized.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recognized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. In this regard, the effects on deferred taxation of the portion of income expected to be subject to final tax regime is adjusted in accordance with the requirement of Accounting Technical Release - 27 of the Institute of Chartered Accountants of Pakistan, if considered material.

#### **3.14.3 Sales tax**

Revenues, expenses and assets are recognized net of amount of sales tax except:

- Where sales tax incurred on a purchase of asset or service is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables or payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

### 3.15 Derivative financial instruments

The Company occasionally uses derivative financial instruments such as forward exchange contracts to hedge its risks associated with foreign currency borrowings. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is estimated with reference to current forward exchange rates for contracts with similar maturity profiles.

In relation to cash flow hedges which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity.

When the hedged commitment results in the recognition of an asset or a liability, then, the associated gains or losses previously recognized in equity are included in the initial measurement of the acquisition cost or other carrying amount of an asset or a liability. Effect for remaining period of hedge, if material, is taken to profit and loss account, being considered a fair value hedge.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for special hedge accounting. At that point, any cumulative gain or loss on the hedging instrument recognized in equity is kept until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to net profit or loss for the period.

### 3.16 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in balance sheet if, and if only, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle liabilities simultaneously. Income and expenses arising from such assets and liabilities are also offset accordingly.

### 3.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Company capitalizes borrowing costs for all qualifying assets where construction was commenced on or after July 01, 2008. The Company had the practice to expense borrowing costs relating to construction of projects that commenced prior to July 01, 2008.

### 3.18 Related party transactions

Transactions with related parties are carried out on commercial terms, as approved by the Board, substantiated as given in note 34 to the financial statements.

### 3.19 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

### 3.20 Functional and presentation currency

These financial statements are presented in Pakistani Rupees, which is the Company's functional and presentation currency.

## 4. PROPERTY, PLANT AND EQUIPMENT

Operating property, plant and equipment  
Capital work-in-progress

Note	2010	2009
	(Rupees '000)	
4.1	369,619	389,641
	-	4,166
	<u>369,619</u>	<u>393,807</u>

#### 4.1 Operating property, plant and equipment

##### 4.1.1 Following is a statement of operating assets:

2010 Description	COST			DEPRECIATION					Book value as at June 30, 2010	Depreciation rate % per annum
	As at July 01, 2009	Additions during the year	Disposals during the year	As at June 30, 2010	As at July 01, 2009	Adjustment on disposal	For the year	As at June 30, 2010		
<b>(Rupees '000)</b>										
Leasehold land	3,761	-	-	3,761	-	-	-	-	3,761	-
Building on leasehold land	66,496	4,511	-	71,007	13,679	-	5,428	19,107	51,900	5-10
Plant and machinery	418,608	-	-	418,608	104,216	-	23,579	127,795	290,813	7.5
Power and other installations	888	59	-	947	679	-	24	703	244	10
Furniture and fittings	2,483	2,314	-	4,797	1,446	-	155	1,601	3,196	5-10
Vehicles	21,298	5,694	(5,251)	21,741	11,567	(3,727)	2,482	10,322	11,419	20
Equipment	10,907	12	-	10,919	3,350	-	755	4,105	6,814	10
Computers	2,167	1,633	-	3,800	2,030	-	298	2,328	1,472	33.33
	<b>526,608</b>	<b>14,223</b>	<b>(5,251)</b>	<b>535,580</b>	<b>136,967</b>	<b>(3,727)</b>	<b>32,721</b>	<b>165,961</b>	<b>369,619</b>	

2009 Description	COST			DEPRECIATION					Book value as at June 30, 2009	Depreciation rate % per annum
	As at July 01, 2008	Additions during the year	Disposals during the year	As at June 30, 2009	As at July 01, 2008	Adjustment on disposal	For the year	As at June 30, 2009		
<b>(Rupees '000)</b>										
Leasehold land	3,761	-	-	3,761	-	-	-	-	3,761	-
Building on leasehold land	66,496	-	-	66,496	7,927	-	5,752	13,679	52,817	5-10
Plant and machinery	213,195	205,413	-	418,608	92,604	-	11,612	104,216	314,392	7.5
Power and other installations	888	-	-	888	656	-	23	679	209	10
Furniture and fittings	2,426	57	-	2,483	1,361	-	85	1,446	1,037	5-10
Vehicles	17,037	4,261	-	21,298	9,665	-	1,902	11,567	9,731	20
Equipment	7,084	3,823	-	10,907	2,790	-	560	3,350	7,557	10
Computers	2,061	106	-	2,167	1,884	-	146	2,030	137	33.33
	<b>312,948</b>	<b>213,660</b>	<b>-</b>	<b>526,608</b>	<b>116,887</b>	<b>-</b>	<b>20,080</b>	<b>136,967</b>	<b>389,641</b>	

4.1.2 During the year borrowing costs has been capitalized amounting to Nil (2009: Rs. 12.53 million) by using weighted average capitalization rate of Nil (2009: 15.71%).

##### 4.1.3 Reconciliation of carrying amount:

Carrying amount at beginning of the year  
 Additions during the year  
 Depreciation for the year  
 Disposals during the year at carrying amount  
 Carrying amount at the end of the year

Note	2010	2009
<b>(Rupees '000)</b>		
	389,641	196,061
	14,223	213,660
	(32,721)	(20,080)
	(1,524)	-
	<b>369,619</b>	<b>389,641</b>

##### 4.1.4 The depreciation charge for the year has been allocated to:

Cost of sales  
 Distribution costs  
 Administrative expenses

24	31,543	19,065
25	659	661
26	519	354
	<b>32,721</b>	<b>20,080</b>

**4.2** The following operating assets were disposed off during the year

Description		Cost	Book value	Sales proceeds	Gain	Mode of disposal	Particulars of buyer
(Rupees '000)							
<b>Vehicles</b>							
Honda civic EXI	AGS-410	986	296	867	571	Tender	Mr. Zahid Qadri, Outside party
Suzuki Aulto VXR	AJX-837	464	177	177	-	Employee car scheme	Mr. Riaz Tabani, Employee
Honda City	AHP-129	847	259	276	17	Employee car scheme	Mr. Shahid Anwar, Employee
Honda Civic	AFP-234	1,120	250	900	650	Tender	M/s Genesis Aviation (Pvt) Limited, Outside party
Toyota Carolla	AHF-234	1,244	340	1,087	747	Tender	Mr. Sameer Ahmed, Outside party
Suzuki Cultus VXR	R-6348	590	202	202	-	Employee car scheme	Mr. Qamar Nisar Anjum, Employee
		<b>2010</b>	5,251	1,524	3,509	1,985	
		<b>2009</b>	-	-	-	-	

**5. INTANGIBLE ASSET**

Description	COST				Amortisation				Book value as at June 30,	Amortisation rate % per annum
	As at July 01,	Additions during the year	Disposals during the year	As at June 30,	As at July 01,	Adjustment on disposal	For the year	As at June 30,		
(Rupees '000)										
<b>2010 ERP System</b>	541	4,826	-	5,367	-	-	224	224	5,143	10
2009 ERP system under development	-	541	-	541	-	-	-	-	541	-

**5.1** During the year, ERP system was implemented which was under development during the year 2009. Accordingly, amortization charged for the year is Rs. 0.22 million (2009: Rs. Nil).

**5.1.1** The amortization charge for the year has been allocated to:

Note	2010	2009
(Rupees '000)		
Cost of sales	24	156
Administrative expenses	26	68
		224

**6. LONG-TERM INVESTMENTS**

**Available-for-sale securities - related party**

Ordinary shares of listed company  
Cherat Cement Company Limited  
221,239 (2009: 221,239) fully paid ordinary shares of Rs.10/- each

	2,040	2,994
<b>Held-to-maturity investment</b>		
Defence Saving Certificates	-	52,500
Less: Maturity within one year shown in short-term investments	-	52,500
	-	-
	2,040	2,994

## 7. LONG-TERM LOANS - considered good

	Note	2010	2009
(Rupees '000)			
Loans to:			
Executives	7.1 & 7.2	541	494
Employees	7.2	1,264	836
		1,805	1,330
Less: Due within one year shown under current portion of loans	12	677	332
		1,128	998

### 7.1 Reconciliation of carrying amount of loans to executives

Balance as at July 01		494	-
Disbursement		600	915
Repayment		(553)	(421)
Balance as at June 30		541	494

The maximum aggregate amount due from executives at the end of any month during the year was Rs. 1.93 million (2009: Rs. 0.92 million).

**7.2** Represent car and other loans provided as per the Company's employee loan policy. These loans carry mark-up upto 14% per annum (2009: upto 15% per annum) and are repayable within 3 to 6 years. These loans are secured against the provident fund balances of the respective employees.

## 8. LONG-TERM DEPOSITS

	Note	2010	2009
(Rupees '000)			
Security deposits		163	163
Others		13	13
		176	176

## 9. STORES, SPARE PARTS AND LOOSE TOOLS

Stores		2,209	2,142
Spare parts		10,748	11,969
Loose tools		115	109
		13,072	14,220

## 10. STOCK-IN-TRADE

Raw material			
In hand		85,830	406,552
In bonded warehouse		211,415	218,149
In transit		58,768	24,480
		356,013	649,181
Finished goods		30,122	51,507
		386,135	700,688

## 11. TRADE DEBTS - unsecured

Considered good	11.1	229,308	245,388
Considered doubtful		17,966	17,966
		247,274	263,354
Less: Provision for doubtful debts		17,966	17,966
		229,308	245,388

- 11.1** Trade receivables are non-interest bearing and are generally on 30 days term. Aging analysis of trade debts is as follows:

Note	2010	2009
	(Rupees '000)	
Neither past due nor impaired	212,915	182,504
Past due but not impaired		
- Within 60 days	16,393	62,884
	<u>229,308</u>	<u>245,388</u>

## 12. LOANS AND ADVANCES - considered good

Current portion of loans due from:

Executives

Employees

7

Advances - unsecured:

Suppliers

Letters of credit

	189	124
	488	208
	<u>677</u>	<u>332</u>
	80	472
	261	1,199
	<u>341</u>	<u>1,671</u>
	<u>1,018</u>	<u>2,003</u>

## 13. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS

Trade deposit - earnest money

Short-term prepayments

	210	200
	2,234	2,510
	<u>2,444</u>	<u>2,710</u>

## 14. OTHER RECEIVABLES

Excise duty claim

Sales tax adjustable

Special excise duty adjustable

Warehousing surcharge claim

Markup subsidy receivable

Others

29.1

	362	362
	-	42,475
	-	2,064
	517	517
	21,240	-
	2,477	93
	<u>24,596</u>	<u>45,511</u>

## 15. CASH AND BANK BALANCES

With banks:

Current accounts

Saving accounts

15.1

Cash in hand

	6,198	3,714
	899	4,126
	<u>7,097</u>	<u>7,840</u>
	167	65
	<u>7,264</u>	<u>7,905</u>

- 15.1** Effective profit rate in respect of saving accounts is 5 % per annum (2009: 5% per annum).

## 16. SHARE CAPITAL

### 16.1 Authorized capital

2010	2009		2010	2009
<b>Number of Share</b>			<b>(Rupees '000)</b>	
15,000,000	15,000,000	Ordinary shares of Rs. 10/- each	150,000	150,000
<b>Number of Share</b>			<b>(Rupees '000)</b>	
4,080,000	4,080,000	Fully paid ordinary shares of Rs. 10/- each	40,800	40,800
5,100,000	3,264,000	Issued for consideration in cash	51,000	32,640
-	1,836,000	Issued as bonus shares	-	18,360
		- Opening balance		
		- Issued during the year		
5,100,000	5,100,000		51,000	51,000
9,180,000	9,180,000		91,800	91,800

## 17. RESERVES

### 17.1 Capital reserve

Capital reserve was created due to the issuance of shares on premium in the preceding years.

### 17.2 Unrealized gain / (loss) on available-for-sale securities

This reserve records the fair value changes on available-for-sale financial assets as required under the relevant accounting standard.

## 18. LONG-TERM FINANCING - secured

From banks:

Long-term loan - I

Long-term loan - II

Less: Current maturity

Note	2010	2009
	<b>(Rupees '000)</b>	
	-	25,000
18.1	131,250	150,000
	131,250	175,000
	37,500	43,750
	93,750	131,250

- 18.1** This represents a long-term loan obtained from a commercial bank for the import of "Tuber and Bottomer", carrying mark-up at the rate of 6 months KIBOR plus 0.5%. The loan is repayable in 8 equal semi-annual instalments commencing after 18 months from drawdown of the facility i.e. April 2010. The loan is secured by way of first pari-passu charge of Rs. 200 million over plant and machinery imported by the Company.

## 19. DEFERRED TAXATION

Deferred tax liability on taxable temporary difference:

Accelerated tax depreciation on operating fixed assets

Deferred tax asset on deductible temporary differences:

Taxable loss

Minimum tax

2010	2009
<b>(Rupees '000)</b>	
74,414	75,294
(62,659)	(62,662)
(9,937)	-
1,818	12,632

## 20. TRADE AND OTHER PAYABLES

Note	2010	2009
	(Rupees '000)	
Creditors	7,313	6,605
Bills payable	77,633	57,536
Accrued liabilities	8,746	7,628
Retention money	-	1,075
Unclaimed and unpaid dividends	924	925
Payable to gratuity fund	20.1 1,548	1,056
Workers' Profits Participation Fund	20.2 5,126	-
Workers' Welfare Fund	1,948	-
Sales tax payable	10,449	-
Special excise duty payable	928	-
	<u>114,615</u>	<u>74,825</u>

### 20.1 Staff retirement benefits

#### Defined benefit plan

As mentioned in note 3.12.1, the Company operates an approved funded gratuity scheme for all eligible employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at June 30, 2010.

The fair value of scheme's assets and the present value of obligation under the scheme at the balance sheet date were as follows:

	2010	2009
	(Rupees '000)	
<b>Staff Gratuity Fund Liability</b>		
Present value of defined benefit obligation	19,157	13,317
Fair value of plan assets	(11,643)	(10,358)
Unrecognized actuarial losses	(5,966)	(1,903)
Liability recognized in the balance sheet	<u>1,548</u>	<u>1,056</u>
<b>Amounts charged to profit and loss account:</b>		
Current service cost	1,012	908
Interest cost	1,719	1,282
Expected return on plan assets	(1,303)	(1,091)
Actuarial losses recognized	64	2,196
	<u>1,492</u>	<u>3,295</u>
<b>Movement in the balance recognized in the balance sheet:</b>		
Balance as at July 01	1,056	(1,489)
Net charge for the year	1,492	3,295
Contribution to the fund	(1,000)	(750)
Balance as at June 30	<u>1,548</u>	<u>1,056</u>
<b>Movement in the present value of defined benefit obligation:</b>		
Balance as at July 01	13,317	10,685
Current service cost	1,012	908
Interest cost	1,719	1,282
Actuarial losses	3,109	442
Balance as at June 30	<u>19,157</u>	<u>13,317</u>
<b>Movement in the fair value of plan assets:</b>		
Balance as at July 01	10,358	9,093
Expected return	1,303	1,091
Contributions	1,000	750
Actuarial losses	(1,018)	(576)
Balance as at June 30	<u>11,643</u>	<u>10,358</u>



**Principal actuarial assumptions used are as follows:**

	2010	2009
Expected rate of increase in salary level	11%	12%
Valuation discount rate	13%	12%
Rate of return on plan assets	11%	12%

**Comparisons for past years:**

As at June 30

	2010	2009	2008	2007	2006
	(Rupees '000)				
Present value of defined benefit obligation	19,157	13,317	10,685	10,418	9,399
Fair value of plan assets	(11,643)	(10,358)	(9,093)	(7,728)	(7,256)
Deficit	7,514	2,959	1,592	2,690	2,143
Experience adjustment on plan liabilities	3,109	442	2	56	1,007
Experience adjustment on plan assets	1,018	576	225	235	472
	4,127	1,018	227	291	1,479

**Composition of plan assets are as follows:**

	2010	2009
	(Rupees '000)	
Special Saving Certificates and Term Finance Certificates	6,614	5,823
Mutual Funds / Shares	3,753	3,480
Amount in banks	1,276	1,055
	11,643	10,358

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

The return on plan assets was assumed to equal the discount rate. Actual return on plan assets during the year 2010 was Rs 0.29 million (2009: Rs 0.52 million).

**20.2 Workers' Profits Participation Fund**

	Note	2010	2009
		(Rupees '000)	
Balance as at July 01		-	5,500
Interest thereon	29	-	55
		-	5,555
Less: Payments during the year		-	5,555
		-	-
Charge for the year	27	5,126	-
		5,126	-

**21. SHORT-TERM BORROWINGS - secured**

Running finances utilized under mark-up arrangements	21.1 & 21.2	286,611	699,447
Money market loans	21.1 & 21.3	75,000	140,000
Foreign currency term finances	21.1	19,084	-
		380,695	839,447

21.1 These facilities are obtained from various commercial banks amounting to Rs. 1,230 million (2009: Rs. 1,230 million) out of which Rs. 849.31 million (2009: Rs. 390.55 million) remains unutilized at the year end. These facilities are secured against registered pari-passu hypothecation charge over stocks and book debts for Rs. 1,555.33 million and hypothecation charge of Rs. 140 million on all present and future plant and machinery of the Company.

**21.2** These facilities carry mark-up of 1 month KIBOR plus spread ranging from 1.25 % to 2% and 3 months KIBOR plus spread ranging from 1 % to 1.75 % (2009: 1 month KIBOR plus spread ranging from 1.5 % to 2 % and 3 months KIBOR plus spread ranging from 1% to 2.75%) per annum. The balance includes cheques in hand amounting to Rs. 98.22 million (2009: Rs. 88.19 million).

**21.3** These are sub facilities of note 21.1 above and carry mark-up of 1 month KIBOR plus spread of 0.8 % and 3 months KIBOR plus spread of 0.75% (2009: 1 month KIBOR plus spread ranging from 0.85% to 1.50%) per annum.

## 22. CONTINGENCIES AND COMMITMENTS

- 22.1** Guarantee issued by a commercial bank  
**22.2** Letters of credit issued by commercial banks  
**22.3** Duties payable on bonded stock and stock in transit

Note	2010	2009
	(Rupees '000)	
	1,000	-
	246,480	191,867
	50,393	48,725

## 23. TURNOVER - NET

### Local

Less: Sales tax  
 Special excise duty

2,308,577	2,410,864
316,879	329,647
19,805	20,603
336,684	350,250
1,971,893	2,060,614
13,342	-
1,985,235	2,060,614

### Export

## 24. COST OF SALES

Raw material consumed

Opening stock  
 Purchases

Closing stock

Duty drawback on exports

Manufacturing overheads

Salaries, wages and benefits  
 Stores, spare parts and loose tools consumed  
 Fuel and power  
 Packing charges  
 Rent, rates and taxes  
 Repairs and maintenance  
 Depreciation  
 Amortization  
 Insurance  
 General office expenses  
 Vehicle running expenses  
 Travelling and conveyance  
 Communication expenses  
 Printing and stationery  
 Legal and professional charges  
 Freight and cartage  
 Obsolete stock - written off  
 Others

24.1

4.1.4

5.1.1

406,552	692,839
1,285,799	1,535,475
1,692,351	2,228,314
(85,830)	(406,552)
1,606,521	1,821,762
(1,016)	-
1,605,505	1,821,762
43,404	36,307
5,208	4,631
3,812	4,694
16,934	15,928
94	146
882	1,581
31,543	19,065
156	-
15,335	12,940
55	34
1,316	1,005
447	942
1,004	264
214	150
1,806	1,514
124	111
63	64
259	415
122,656	99,791

Cost of goods manufactured

Finished goods  
 Opening stock  
 Closing stock

1,728,161	1,921,553
51,507	49,161
(30,122)	(51,507)
21,385	(2,346)
1,749,546	1,919,207

**24.1** This includes Rs. 1.14 million (2009: Rs. 0.92 million) in respect of provident fund and Rs. 1.23 million (2009: Rs. 2.72 million) in respect of gratuity fund.

## 25. DISTRIBUTION COSTS

Note	2010	2009
	(Rupees '000)	
	7,748	5,975
	1,488	1,079
	121	115
	106	14
	17	12
	518	331
	197	124
4.1.4	659	661
	13,885	11,672
	287	270
	<u>25,026</u>	<u>20,253</u>

## 26. ADMINISTRATIVE EXPENSES

Salaries, wages and benefits	26.1	8,926	6,726
Directors' fee		280	270
Travelling and conveyance		221	137
Vehicle running expenses		442	393
Communication expenses		437	298
Printing and stationery		681	526
Rent, rates and taxes		666	784
Legal and professional charges		1,427	1,122
Insurance		718	546
Subscription		141	147
Advertisement		139	150
Depreciation	4.1.4	519	354
Amortization	5.1.1	68	-
Repairs and maintenance		130	40
General office expenses		103	59
Utilities		131	100
Others		21	42
		<u>15,050</u>	<u>11,694</u>

**26.1** This includes Rs. 0.27 million (2009: Rs. 0.23 million) in respect of provident fund and Rs. 0.27 million (2009: Rs. 0.57 million) in respect of gratuity fund.

## 27. OTHER OPERATING EXPENSES

Note	2010	2009
	(Rupees '000)	
	801	911
	170	385
	5,126	-
	1,948	-
	<u>8,045</u>	<u>1,296</u>
	350	310
	356	525
	95	76
	<u>801</u>	<u>911</u>

**27.1** Auditors' remuneration  
Audit fee  
Tax, corporate and other services  
Out of pocket expenses

**27.2** Recipients of donations do not include any donee in which any Director or his spouse had any interest.

## 28. OTHER OPERATING INCOME

Note	2010	2009
(Rupees '000)		
<b>Income from financial assets</b>		
Return on:		
Held-to-maturity investments	-	8,022
Short-term bank deposits	83	198
	83	8,220
<b>Income from non-financial assets</b>		
Gain on disposal of operating property, plant and equipment	1,985	-
<b>Others</b>		
Scrap sales	2,232	2,013
Miscellaneous receipts	2	-
	2,234	2,013
	4,302	10,233

## 29. FINANCE COSTS

Mark-up on:			
Long-term financing	29.1	17,774	10,331
Short-term borrowings	29.1	78,555	150,017
		96,329	160,348
Others:			
Exchange (gain) / loss		(445)	15,510
Guarantee commission		4	205
Bank charges and duties		540	630
Interest on Workers' Profits Participation Fund	20.2	-	55
		96,428	176,748

**29.1** State Bank of Pakistan (SBP) has granted special relief on mark-up to companies operating in the affected areas of Khyber Pakhtunkhwa province vide SMEFD Circular No. 11 of 2010 dated July 01, 2010. As per the circular, mark-up will be charged @ 7.5 % per annum for such companies with effect from January 01, 2010. Accordingly, mark-up charged on long-term financing amounting to Rs. 3.92 million and short-term borrowings amounting to Rs. 17.32 million has been recorded as receivable and finance cost has been reduced accordingly. These amounts have subsequently been received from commercial banks.

## 30. TAXATION

**30.1** The assessments of the Company for and upto the tax year 2009 have been completed or deemed to be assessed.

**30.2** The income of the Company has been exempted from income tax for the tax years 2010, 2011 and 2012 under clause 126F of Part I of second schedule to the Income Tax Ordinance, 2001. However, based on prudence, provision for minimum turnover tax u/s 113 of the Income Tax Ordinance, 2001, has been made in the financial statements.

**30.3** Since the Company is only liable to pay minimum tax and final tax, therefore, no numerical tax reconciliation is given.

## 31. EARNINGS / (LOSS) PER SHARE

Note	2010	2009	
Profit / (loss) after taxation (Rupees '000)	96,319	(35,211)	
Weighted average number of ordinary shares in issue	16	9,180,000	
Basic earnings / (loss) per share	31.1	Rs. 10.49	Rs. (3.84)

**31.1** There is no dilutive effect on basic earnings per share of the Company.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks i.e. market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

The Company's senior management oversees the management of these risks. The Company's senior management provides policies for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, financial instruments and investment of excess liquidity. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

The Board of Directors reviews policies for managing each of these risks which are summarized below:

### 32.1 Market risk

Market risk is the risk that fair value of future cash flows will fluctuate because of changes in market prices. Market prices comprise three types of risk: currency risk, interest rate risk and other price risk, such as equity risk.

Financial instruments affected by market risk include long-term investment (available-for-sale), long-term financing and short-term borrowings.

#### 32.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate because of changes in the market interest rates. The Company's interest rate risk arises from long-term and short-term borrowings obtained with floating rates. All the borrowings of the Company are obtained in the functional currency. In line with SBP SMEFD circular No.11 of 2010 dated July 01, 2010 (refer note 29.1) all the borrowings of the company are at a fixed rate of 7.5 %. For sensitivity analysis purpose, the company will not be affected by any increase or decrease in market interest rates to the extent of balances outstanding as of June 30, 2010.

#### 32.1.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expenses are denominated in a different currency from the Company's functional currency).

	2010	2009
	(Euro '000)	
Bills payable	745	501
Foreign currency term finances	183	-
	928	501
	(Rupees)	
Exchange rates	104.20	114.82

In Pakistan, complete hedging solutions are not available currently. The company regularly monitors different hedging solutions available and currently has the assessment that hedging its foreign currency liabilities will be expensive than assuming the risk itself.

**Sensitivity analysis:**

The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Company's profit before tax and the Company's equity.

	Change in Euro rate (%)	Effect of translation of foreign currency liabilities on profit or (loss)	Effect on equity
(Rupees '000)			
<b>30 June 2010</b>	+10	(9,672)	(9,672)
	- 10	9,672	9,672
<b>30 June 2009</b>	+10	(5,754)	(5,754)
	- 10	5,754	5,754

**32.1.3 Equity risk**

The Company's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities.

The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves all major equity instrument decisions.

At the balance sheet date, the exposure to listed equity securities at fair value was Rs. 2.04 million. A decrease of 10% in the share price of the listed security would have an impact of approximately Rs. 0.2 million on the equity or income depending whether or not the decline is significant and prolonged. An increase of 10% in the share price of the listed security would impact equity in the similar amount.

**32.2 Credit Risk**

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Aging analysis of trade debts is disclosed in note 11.1 to the financial statements. The company has a strong credit control system and the Board of Directors reviews credit position on regular basis.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

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

	Carrying values	
	2010	2009
(Rupees '000)		
Long-term deposits	176	176
Investments	2,040	55,494
Trade debts	229,308	245,388
Advances	341	1,671
Deposits	210	200
Bank balances	7,097	7,840
	<u>239,172</u>	<u>310,769</u>

### 32.2.1 Credit quality of financial assets

The credit quality of financial assets that are neither past nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates:

	2010	2009
	(Rupees '000)	
<b>Long-term investments</b>		
Counter parties without credit rating	2,040	2,994
<b>Trade debts</b>		
Customers with no defaults in the past one year	229,308	245,388
<b>Short-term investments</b>		
Government securities without credit rating	-	52,500
<b>Cash at bank and short-term deposits</b>		
A1+	7,097	7,840

### 32.3 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company applies prudent liquidity risk management by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At the balance sheet date the Company has unavailed credit facility of Rs. 849.31 million (2009: Rs. 390.55 million).

Table below summarises the maturity profile of the Company's financial liabilities at the following reporting dates based on contractual undiscounted payments. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	2010					2009				
	Interest Bearing			Non Interest Bearing	Total	Interest Bearing			Non Interest Bearing	Total
	Less than one year	One to five years	Total			Less than one year	One to five years	Total		
	(Rupees '000)					(Rupees '000)				
Long-term financing	37,500	93,750	131,250	-	131,250	43,750	131,250	175,000	-	175,000
Trade and other payables	-	-	-	114,615	114,615	-	-	-	74,825	74,825
Accrued mark-up	18,943	-	18,943	-	18,943	35,890	-	35,890	-	35,890
Short-term borrowings	380,695	-	380,695	-	380,695	839,447	-	839,447	-	839,447
	437,138	93,750	530,888	114,615	645,503	919,087	131,250	1,050,337	74,825	1,125,162

Effective interest / yield rates for the monetary liabilities are mentioned in the respective notes to the financial statements.

### 32.4 Capital risk management

The primary objective of the Company's capital management is to maintain healthy capital ratios, strong credit rating and optimal capital structures in order to ensure ample availability of finance for its existing and potential investment projects, to maximize shareholders value and reduce the cost of capital. The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies and processes during the year ended June 30, 2010.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as total loans and borrowings including any finance cost thereon, less cash and cash equivalents.

The gearing ratios as at June 30, 2010 and 2009 were as follows:

	2010	2009
	(Rupees '000)	
Long-term financing including current portion	131,250	175,000
Accrued mark-up	18,943	35,890
Short-term borrowings	380,695	839,447
<b>Total debt</b>	<b>530,888</b>	<b>1,050,337</b>
Cash and cash equivalents	(7,264)	(7,905)
<b>Net debt</b>	<b>523,624</b>	<b>1,042,432</b>
Share capital	91,800	91,800
Reserves	381,841	286,476
<b>Total capital</b>	<b>473,641</b>	<b>378,276</b>
<b>Capital and net debt</b>	<b>997,265</b>	<b>1,420,708</b>
<b>Gearing ratio</b>	<b>52.51 %</b>	<b>73.37 %</b>

The Company finances its expansion projects through equity, borrowings and management of its working capital with a view to maintaining an appropriated mix between various sources of finance to minimize risk.

### 32.5 Fair value of financial instruments

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.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value.

The following table shows financial instruments recognized at fair value, analysed between those whose fair value is based on:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: Those whose inputs for the asset or liability that are not based on observable market data (unobservable inputs)



**Financial assets measured at fair value**

	Total	Level 1	Level 2	Level 3
	(Rupees '000)			
<b>30 June 2010</b>				
Available for sale securities	2,040	2,040	-	-
<b>30 June 2009</b>				
Available for sale securities	2,994	2,994	-	-

During the year ended June 30, 2010, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurement.

**33. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES**

	2010		2009	
	Director	Executives / Key Employees	Director	Executives / Key Employees
	(Rupees '000)			
Managerial remuneration	3,484	13,691	3,097	10,717
Housing allowance	1,568	4,328	1,393	3,437
Retirement benefits	-	1,603	-	1,273
Utilities	348	940	310	746
Leave fare	-	801	-	636
	5,400	21,363	4,800	16,809
Number	1	9	1	8

**33.1** The Chief Executive Officer is not drawing any remuneration from the Company.

**33.2** The director is provided with the use of Company maintained car.

**33.3** The aggregate amount charged in the financial statements for the year for fee to 8 directors amounted to Rs. 0.28 million, including Rs. 0.05 million for the Chief Executive (2009: 8 directors amounted to Rs. 0.27 million, including Rs. 0.04 million for the Chief Executive).

**34. TRANSACTIONS WITH RELATED PARTIES**

Related parties comprise of group companies, directors and executives. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties, contribution to staff benefit funds, remuneration of a director and executives and other transactions are disclosed in the relevant notes. Other material transactions with related parties are given below:

Relationship	Nature of transactions	2010	2009
		(Rupees '000)	
Group companies	Sale of goods	405,627	445,375
	Purchase of goods	400	970
	Services received	6,161	8,644
	Software consultancy charges	2,518	2,096
	Dividends paid	-	3,073
Other related parties	Insurance premium	4,573	5,029

In addition, certain actual administrative expenses are being shared amongst the group companies.

### 35. CAPACITY

Annual installed capacity as of June 30  
Actual production for the year  
Actual production is in line with the industry demand.

2010	2009
(Bags in '000)	
265,000	265,000
121,242	122,439

### 36. DATE OF AUTHORISATION

These financial statements were authorised for issue on September 08, 2010 by the Board of Directors of the Company.

### 37. DIVIDEND AND APPROPRIATIONS

Subsequent to the year ended June 30, 2010, the Board of Directors has proposed the following in their meeting held on September 08, 2010 for approval of the members at the Annual General Meeting:

Proposed final cash dividend @ Rs. 2 per share (2009: Nil)  
Proposed issue of bonus shares @ 25% (2009: Nil)

2010	2009
(Rupees '000)	
18,360	-
22,950	-

### 38. CORRESPONDING FIGURES

There was no reclassification that could affect the financial statements materially.

### 39. GENERAL

Figures have been rounded off to the nearest thousand of Rupees unless otherwise stated.



**AMER FARUQUE**  
Chief Executive



**IQBAL FARUQUE**  
Director

# pattern of shareholding

as at June 30, 2010

No. of Shareholder	Shareholding		Shares held
	From	To	
152	1	100	6,204
249	101	500	77,786
121	501	1000	99,360
316	1001	5000	720,065
59	5001	10000	431,645
20	10001	15000	245,034
10	15001	20000	167,328
8	20001	25000	176,964
6	25001	30000	165,881
4	30001	35000	129,725
3	35001	40000	113,488
2	40001	45000	85,268
3	45001	50000	146,125
2	50001	55000	102,637
4	55001	60000	229,877
1	60001	65000	60,306
6	65001	70000	407,475
1	95001	100000	98,914
1	105001	110000	105,208
1	135001	140000	136,596
2	150001	155000	305,365
1	300001	305000	303,208
1	400001	405000	405,000
1	430001	435000	432,000
1	505001	510000	508,903
1	515001	520000	519,250
1	535001	540000	540,000
1	670001	675000	675,000
1	840001	845000	844,888
1	940001	945000	940,500
980			9,180,000

# categories of shareholders

as at June 30, 2010

Categories	No. of Shareholders	Share held	Percentage
1 Charitable Trust	1	5,625	0.06
2 Individuals	945	3,997,217	43.54
3 Insurance Companies	5	2,191,911	23.88
4 Investment Company	1	13,500	0.15
5 Joint Stock Companies	23	2,910,704	31.71
6 Modaraba	1	35,000	0.38
7 Mutual Fund	1	20,500	0.22
8 Others	3	5,543	0.06
Totals	980	9,180,000	100.00

# pattern of shareholding

as at June 30, 2010

Shareholders' Category	Shares Held
<b>Associated Companies, Undertakings &amp; Related Parties</b>	
Faruque (Private) Limited	940,500
Cherat Cement Company Limited	540,000
Mirpurkhas Sugar Mills Limited	405,000
Greaves Pakistan (Private) Limited	675,000
<b>Directors, Chief Executive and their spouses</b>	
Mohammed Faruque	1
Amer Faruque	55,063
Amina Faruque wife of Mr. Amer Faruque	38,250
Iqbal Faruque	5,625
Mahmood Faruque	57,037
Chaman Faruque wife of Mr. Mahmood Faruque	46,125
Akbarali Pesnani	33,750
Sakina Pesnani wife of Mr. Akbarali Pesnani	8,237
Aslam Faruque	15,750
Shehryar Faruque	30,825
Arif Faruque	136,596
Saqib H. Shirazi	6
<b>Executives</b>	72,000
<b>Banks, Development Finance Institutions, Non-Banking Finance Institution, Insurance Companies, Modarabas and Mutual Funds</b>	2,247,673
<b>General Public</b>	3,872,562
<b>Shareholders holding 10% or more voting interest</b>	
Faruque (Private) Limited	940,500

# proxy form

## 21st Annual General Meeting 2010

### IMPORTANT

Instruments of Proxy will not be considered as valid unless deposited or received at the Company's Head Office at Modern Motors House, Beaumont Road, Karachi-75530 not later than 48 hours before the time of holding the meeting.

Registered folio / participant's  
ID No. and A/c. No. \_\_\_\_\_

Number of shares held: \_\_\_\_\_

I / We \_\_\_\_\_

of \_\_\_\_\_

being a member of CHERAT PAPERSACK LIMITED, hereby appoint \_\_\_\_\_  
\_\_\_\_\_ of \_\_\_\_\_ another member of the company  
as my/our proxy to attend & vote for me/us and on my/our behalf at the 21st Annual General Meeting  
of the Company to be held on Wednesday, October 27, 2010 at 11:00 a.m. and at any adjournment  
thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2010.

### WITNESSES:

1. Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

NIC or \_\_\_\_\_

Passport No. \_\_\_\_\_

Signature

Revenue  
Stamp  
Rs.5/-

2. Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

NIC or \_\_\_\_\_

Passport No. \_\_\_\_\_

(Signature should agree with the  
specimen signature registered with  
the Company)

**Note:** SECP circular of January 26, 2000 is on the reverse side of this form.

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
STATE LIFE BUILDING, 7-BLUE AREA.

Islamabad, January 26, 2000.

**Circular No. I of 2000**

**sub: GUIDELINES FOR ATTENDING GENERAL MEETING AND APPOINTMENT OF PROXIES**

The shares of a number of listed companies are now being maintained as “book entry security” on the Central Depository System (CDS) of the Central Depository Company of Pakistan Limited (CDC). It has come to the notice of the Commission that there is some confusion about the authenticity of relevant documents in the matter of beneficial owners of the shares registered in the name of CDC for purposes of attending the general meetings and for verification of instruments of proxies. The issue has been examined and pending the further instructions to be issued in this regard, the following guidelines for the convenience of the listed companies and the beneficial owners are laid down:

**A. Attending of meeting in person by account holders and/or sub-account holders and persons whose securities are in group account and their registration details are uploaded to CDS:**

- (1) The company shall obtain list of beneficial owners from the CDC as per regulation # 12.3.5 of the CDC Regulations.
- (2) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are up loaded as per the regulation, shall authenticate his identity by showing his original National Identity Card (NIC) or original passport at the time of attending the meeting.
- (3) In case of corporate entity, the Board of Directors’ resolution /power of attorney with specimen signature of the nominee shall be produced at the time of the meeting.

**B. Appointment of Proxies:**

- (1) In case of individual, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulation, shall submit the proxy form as per requirement notified by the company.
- (2) The proxy form shall be witnessed by two persons whose names, addresses and NIC numbers shall be mentioned on the form.
- (3) Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- (4) The proxy shall produce his original NIC or original passport at the time of the meeting.
- (5) in case of corporate entity, the Board of Directors’ resolution/power of attorney with specimen signature shall be submitted alongwith proxy form to the company.

sd.  
**(M. Javed Panni)**  
Chief (Coordination)



GHULAM FARUQUE  
GROUP



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**Head Office**

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Web: [www.gfg.com.pk](http://www.gfg.com.pk)