

**Un-audited Accounts**  
September 30, 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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## 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. Abrar Hasan	Director

### Chief Financial Officer

Mr. Yasir Masood

### Company Secretary

Mr. Abid A. Vazir

### Audit Committee

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

### Auditors

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants

### 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

## directors' review

The Board of Directors is pleased to present the un-audited financial results of the Company for the first quarter ended September 30, 2010.

### Production & Sales

During the quarter under review, the production and dispatches of the Company remained affected owing to unprecedented floods in the country and economic slowdown, which had an impact on the sales of cement and consequently papersacks. However, despite difficult circumstances for business, there was significant improvement in the financial performance of the Company from the corresponding period last year.

### Operating performance

Compared to the corresponding period last year, the sales revenue of the Company showed an increase of Rs. 32 million. The rise in turnover was on account of adjustment in the selling price of paper bags to offset the increase in the cost of production, which had gone up due to rise in international prices for kraft paper. During the period, 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 given by the government on income taxes for the years 2010 to 2012.

Through constant monitoring 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. Furthermore, in times of rising prices of kraft paper and its limited availability, the Company continued to efficiently manage its inventory to control its costs and meet the demand of its customers. Taking into consideration the above with effective measures taken and government incentives, the Company earned an after tax profit of Rs. 64.47 million during the first quarter of the year 2010/11.

### Future Prospects

The performance of the papersack industry is directly linked with the demand for cement. Although the domestic demand for cement remained affected due to heavy monsoons rains and floods in the country during the first quarter of the year, it is likely to pick up in the remaining part of the year. This will benefit the Company in the form of enhanced sales volume. As mentioned earlier, shortage of kraft paper in the international markets and the consequent increase in its prices pose a significant challenge. The management is confident of overcoming this challenge with the support of its reliable kraft paper supplier - M/s. Mondi Packaging and efficient inventory management. However, continuing devaluation of Pak Rupee, especially viz-a-viz Euro and its negative impact on the cost of production remains a cause of concern. Further, despite repeated requests of the industry, the government has still not withdrawn 5% regulatory duty imposed on import of kraft paper, which is an additional financial burden to the Company.

### Acknowledgment

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

On behalf of the Board of Directors

  
**MOHAMMED FARUQUE**  
Chairman

Karachi: October 26, 2010

## condensed interim balance sheet

as at September 30, 2010

	Note	September 30, 2010 (Unaudited)	June 30, 2010 (Audited)
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Fixed Assets			
Property, plant and equipment	4	361,995	369,619
Intangible asset		5,010	5,143
		367,005	374,762
Long-term investments	5	2,283	2,040
Long-term loans		1,214	1,128
Long-term deposits		176	176
Deferred taxation		4,824	-
		375,502	378,106
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools		13,138	13,072
Stock-in-trade		654,460	386,135
Trade debts - unsecured, considered good		232,034	229,308
Loans and advances		832	1,018
Trade deposits and short-term prepayments		1,682	2,444
Other receivables		45,962	24,596
Tax refunds due from the Government		83,304	79,019
Cash and bank balances		6,702	7,264
		1,038,114	742,856
<b>TOTAL ASSETS</b>		1,413,616	1,120,962
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital			
15,000,000 (June 30, 2010: 15,000,000)			
ordinary shares of Rs. 10/- each		150,000	150,000
Share capital (Fully paid ordinary shares of Rs. 10/- each)		91,800	91,800
Reserves		446,551	381,841
		538,351	473,641
<b>NON-CURRENT LIABILITIES</b>			
Long-term financing - secured		93,750	93,750
Deferred taxation		-	1,818
		93,750	95,568
<b>CURRENT LIABILITIES</b>			
Trade and other payables		204,650	114,615
Accrued mark-up		22,009	18,943
Short-term borrowings - secured	6	517,356	380,695
Current maturity of long-term financing		37,500	37,500
		781,515	551,753
<b>CONTINGENCIES AND COMMITMENTS</b>			
	7		
<b>TOTAL EQUITY AND LIABILITIES</b>		1,413,616	1,120,962

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

  
**MOHAMMED FARUQUE**  
 Chairman

  
**AMER FARUQUE**  
 Chief Executive

**condensed interim profit and loss account (unaudited)**  
for the period ended September 30, 2010

	Note	September 30,	September 30,
		2010	2009
		(Rupees `000)	
<b>Turnover - net</b>		514,871	482,375
Cost of sales	8	(414,205)	(454,811)
<b>Gross profit</b>		100,666	27,564
Distribution costs	9	(5,441)	(5,013)
Administrative expenses		(4,326)	(3,458)
Other operating expenses		(6,830)	(339)
		(16,597)	(8,810)
Other operating income		642	323
<b>Operating profit</b>		84,711	19,077
Finance costs	10	(21,732)	(34,196)
<b>Profit / (loss) before taxation</b>		62,979	(15,119)
<b>Taxation</b>			
Current	11	(5,154)	(2,413)
Deferred		6,642	7,705
		1,488	5,292
<b>Profit / (loss) after taxation</b>		64,467	(9,827)
<b>Earnings / (loss) per share - basic</b>	12	Rs. 7.02	Rs. (1.07)

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

  
**MOHAMMED FARUQUE**  
Chairman

  
**AMER FARUQUE**  
Chief Executive

**condensed interim statement of comprehensive income (unaudited)**  
for the period ended September 30, 2010

	<b>September 30, 2010</b>	<b>September 30, 2009</b>
	<b>(Rupees `000)</b>	
<b>Profit / (loss) after taxation</b>	64,467	(9,827)
<b>Other comprehensive income</b>		
Unrealized gain on available-for-sale securities	243	380
<b>Total comprehensive income for the period</b>	<u>64,710</u>	<u>(9,447)</u>

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

  
**MOHAMMED FARUQUE**  
Chairman

  
**AMER FARUQUE**  
Chief Executive



**condensed interim cash flow statement (unaudited)**  
for the period ended September 30, 2010

	September 30, 2010	September 30, 2009
	(Rupees ` 000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit / (loss) before taxation	62,979	(15,119)
<b>Adjustments for:</b>		
Depreciation	7,700	7,917
Amortization	133	-
Finance costs	21,732	34,196
	29,565	42,113
	92,544	26,994
<b>(Increase) / decrease in current assets</b>		
Stores, spare parts and loose tools	(66)	1,892
Stock-in-trade	(268,325)	106,001
Trade debts	(2,726)	(15,487)
Loans and advances	186	189
Trade deposits and short-term prepayments	762	1,308
Other receivables	(21,366)	36,598
	(291,535)	130,501
	(198,991)	157,495
<b>Increase in current liabilities</b>		
Trade and other payables	90,035	18,289
Cash (used in) / generated from operations	(108,956)	175,784
Income tax paid	(9,439)	(6,445)
<b>Net cash (used in) / generated from operating activities</b>	(118,395)	169,339
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to operating property, plant and equipment	(76)	(191)
Proceeds from short-term Investments	-	52,500
Capital work-in-progress	-	(1,902)
Intangible asset	-	(925)
Long-term loans	(86)	(26)
<b>Net cash (used in) / generated from investing activities</b>	(162)	49,456
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Finance costs paid	(18,666)	(35,515)
Short-term borrowings	136,661	(181,182)
<b>Net cash generated from / (used in) financing activities</b>	117,995	(216,697)
<b>Net (decrease) / increase in cash and cash equivalents</b>	(562)	2,098
<b>Cash and cash equivalents at the beginning of the period</b>	7,264	7,905
<b>Cash and cash equivalents at the end of the period</b>	6,702	10,003

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

  
**MOHAMMED FARUQUE**  
Chairman

  
**AMER FARUQUE**  
Chief Executive

**condensed interim statement of changes in equity (unaudited)**  
for the period ended September 30, 2010

Issued, Subscribed and Paid-up Capital	RESERVES				Total reserves	Total	
	Capital reserve - share premium	General reserve	Unapp- ropriated profit	Fair value gain / (loss) on available- for-sale securities			
(Rupees ` 000)							
<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>(1,103)</b>	<b>286,476</b>	<b>378,276</b>
Loss for the period	-	-	-	(9,827)	-	(9,827)	(9,827)
Other comprehensive income	-	-	-	-	380	380	380
Total comprehensive income from July 01, 2009 to September 30, 2009	-	-	-	(9,827)	380	(9,447)	(9,447)
<b>Balance as at September 30, 2009</b>	<b>91,800</b>	<b>6,800</b>	<b>180,000</b>	<b>90,952</b>	<b>(723)</b>	<b>277,029</b>	<b>368,829</b>
<b>Balance as at July 01, 2010</b>	91,800	6,800	180,000	197,098	(2,057)	381,841	473,641
Profit for the period	-	-	-	64,467	-	64,467	64,467
Other comprehensive income	-	-	-	-	243	243	243
Total comprehensive income from July 01, 2010 to September 30, 2010	-	-	-	64,467	243	64,710	64,710
<b>Balance as at September 30, 2010</b>	<b>91,800</b>	<b>6,800</b>	<b>180,000</b>	<b>261,565</b>	<b>(1,814)</b>	<b>446,551</b>	<b>538,351</b>

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

  
**MOHAMMED FARUQUE**  
Chairman

  
**AMER FARUQUE**  
Chief Executive

## notes to the condensed interim financial statements (unaudited)

for the period ended September 30, 2010

### 1. THE COMPANY AND ITS OPERATIONS

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

These condensed interim financial statements are unaudited and are being submitted to the shareholders in accordance with the requirements of Section 245 of the Companies Ordinance, 1984 and International Accounting Standard (IAS) 34 'Interim Financial Reporting'. The condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended June 30, 2010.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the preceding annual published financial statements of the Company for the year ended June 30, 2010.

	Note	September 30, 2010 (Unaudited)	June 30, 2010 (Audited)
<b>(Rupees ` 000)</b>			
<b>4. PROPERTY, PLANT AND EQUIPMENT</b>			
Opening written down value (WDV)		369,619	389,641
Additions during the period / year		76	14,223
		369,695	403,864
Disposals during the period / year (WDV) - vehicles		-	(1,524)
Depreciation charged during the period / year		(7,700)	(32,721)
		361,995	369,619
<b>5. LONG-TERM INVESTMENTS</b>			
<b>Available-for-sale securities - related party</b>			
Ordinary shares of listed company Cherat Cement Company Limited 221,239 (June 30, 2010: 221,239) fully paid ordinary shares of Rs.10/- each		2,283	2,040
<b>6. SHORT-TERM BORROWINGS - secured</b>			
Running finances utilized under mark-up arrangements	6.1, 6.2 & 9	355,302	286,611
Money market loans	6.1, 6.3 & 9	35,000	75,000
Foreign currency import loan	6.1	127,054	19,084
		517,356	380,695

**6.1** These facilities are obtained from various commercial banks amounting to Rs. 1,230 million (June 30, 2010: Rs. 1,230 million) out of which Rs. 713 million (June 30, 2010: Rs. 849.31 million) remains unutilized at the period 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.

**6.2** 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% (June 30, 2010: 1 month KIBOR plus spread ranging from 1.25% to 2% and 3 months KIBOR plus spread ranging from 1% to 1.75%) per annum. The balance includes cheques in hand amounting to Rs. 63.96 million (June 30, 2010: Rs. 88.19 million).

**6.3** These are sub facilities of note 6.1 above and carry mark-up of 1 month KIBOR plus spread of 0.8% (2010: 1 month KIBOR plus spread of 0.8% and 3 months KIBOR plus spread of 0.75%) per annum.

**7. CONTINGENCIES AND COMMITMENTS**

Guarantee issued by a commercial bank  
 Letters of credit issued by commercial banks  
 Duties payable on bonded stock and stock in transit

September 30, 2010 (Unaudited)	June 30, 2010 (Audited)
(Rupees `000)	
-	1,000
254,995	246,480
57,903	50,393

**8. COST OF SALES**

Opening stock - finished goods  
 Cost of goods manufactured  
 Closing stock - finished goods

Period ended	
September 30, 2010	September 30, 2009
(Rupees `000)	
30,122	51,507
439,855	444,634
469,977	496,141
(55,772)	(41,330)
414,205	454,811
6,830	339

**9. OTHER OPERATING EXPENSES**

This includes Rs. 3.38 million (September 30, 2009: Nil) and Rs. 1.29 million (September 30, 2009: Nil) on account of Workers' Profits Participation Fund (WPPF) and Workers' Welfare Fund (WWF) respectively.

Period ended	
September 30, 2010	September 30, 2009
(Rupees `000)	
21,732	34,196

**10. FINANCE COSTS**

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. Accordingly, mark-up charged on long-term financing and short-term borrowings have been adjusted.

**11. TAXATION**

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, provision for minimum turnover tax u/s 113 of the Income Tax Ordinance, 2001, has been made in the financial statements.

**12. EARNINGS PER SHARE - Basic**

Profit / (loss) after taxation (Rupees '000)  
 Weighted average number of ordinary shares  
 in issue during the period  
 Earnings / (loss) per share - basic

Period ended	
September 30, 2010	September 30, 2009
(Rupees `000)	
64,467	(9,827)
9,180,000	9,180,000
Rs. 7.02	Rs. (1.07)

There is no dilution effect on basic earnings per share of the Company.

### 13. RELATED PARTY DISCLOSURES

Related parties comprise of group companies, directors and executives. The Company in the normal course of business carries out transactions with various related parties. Material transactions with related parties are given below:

Relationship	Nature of transactions	Period ended	
		September 30, 2010	September 30, 2009
		(Rupees `000)	
Group companies	Sale of goods	91,001	109,581
	Purchase of goods	-	322
	Services received	3,252	1,114
	Software consultancy charges	581	727
Director	Remuneration	1,431	1,350
Executives	Remuneration	6,008	5,342
Other related parties	Contribution to staff provident and gratuity funds	396	344
	Insurance premium	1,389	1,244

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

### 14. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on October 26, 2010 by the Board of Directors of the Company.

### 15. DIVIDEND AND APPROPRIATIONS

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

	June 30, 2010	June 30, 2009
	(Rupees `000)	
Proposed final cash dividend @ Rs. 2 per share (2009: Nil)	18,360	-
Proposed issue of bonus shares @ 25% (2009: Nil)	22,950	-

### 16. GENERAL

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

  
**MOHAMMED FARUQUE**  
Chairman

  
**AMER FARUQUE**  
Chief Executive



GHULAM FARUQUE  
GROUP



**Cherat Papersack Limited**  
**Head Office**

Modern Motors House  
Beaumont Road  
Karachi 75530 Pakistan  
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