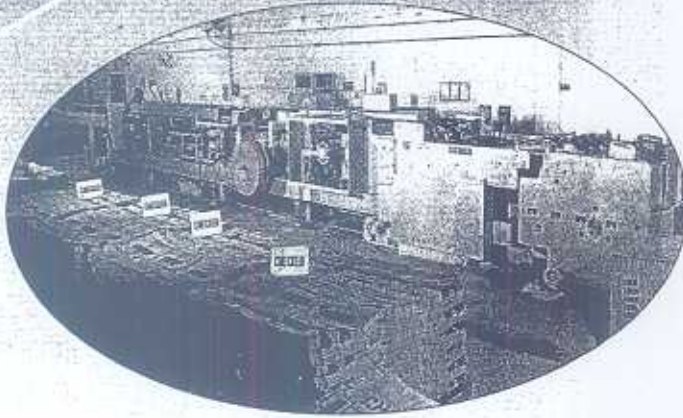




**CHERAT PAPERSACK
LIMITED**



Ghulam Faruque
Group



**Annual Report
2006**





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COMPANY INFORMATION

Board of Directors

Mr. Mohammed Faruque
Mr. Amer Faruque
Mr. Iqbal Faruque
Mr. Ahmad Faruque
Mr. Mahmood Faruque
Mr. Akbarali Pesnani
Mr. Aslam Faruque
Mr. Shehryar Faruque
Mr. Arif Faruque

Chairman
Chief Executive
Director
Director
Director
Director
Director
Director
Director

Company Secretary

Mr. Abid A. Vazir

Audit Committee

Mr. Mohammed Faruque
Mr. Iqbal Faruque
Mr. Aslam Faruque

Chairman
Member
Member

Auditors

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Legal Advisor

K.M.S. Law Associates

Bankers

ABN Amro Bank
Allied Bank Ltd.
Bank Al Habib Ltd.
Habib Bank Ltd.
MCB Bank Ltd.
National Bank of Pakistan
PICIC Commercial Bank Ltd.
Soneri Bank Ltd.
Standard Chartered Bank

Registered Office

1st Floor, Betani Arcade
Jamrud Road
Peshawar.

Head Office

Modern Motors House
Beaumont Road
Karachi-75530.

Factory

Plot No. 26
Gadoon Amazai Industrial Estate
District Swabi
N.W.F.P.

Islamabad Office

Mezzanine Floor
Razia Sharif Plaza, 91-Blue Area
Islamabad.

Regional Office

3, Sunder Das Road
Lahore.



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 17th Annual General Meeting of the Company will be held on Friday, October 20, 2006 at 9:30 a.m. at the Head Office of the Company at Modern Motors House, Beaumont Road, Karachi to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the 16th Annual General Meeting held on October 24, 2005.
2. To receive and consider the audited financial statements of the Company for the year ended June 30, 2006 and the Reports of the Directors and the Auditors thereon.
3. To approve the payment of cash dividend @ 15% (Rs. 1.50 per share) as recommended by the Board of Directors for the financial year ended June 30, 2006.
4. To appoint Auditors for the year 2006/07 and to fix their remuneration.
5. To transact any other business with the permission of the Chair.

By Order of the Board

Abid A. Vazir
Company Secretary

Karachi: September 14, 2006

NOTES:

1. The register of members of the Company will be closed from Friday, October 6, 2006 to Friday, October 20, 2006 (both days inclusive) and no transfers will be registered during that time. Shares received in order at the Head Office of the Company at the close of business on Thursday, October 5, 2006 will be treated in time for the entitlement of 15% cash dividend. The payment of dividend will be made on the existing paid-up capital of Rs. 58,752,000/-.
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. Shareholders of the Company whose shares are registered in their account/sub-account with Central Depository System (CDS) are requested to bring original 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 26th January 2000 (as reproduced on the reverse side of the enclosed proxy form) are to be followed.
4. The shareholders of the Company are requested to immediately notify the Company of any change in their addresses.
5. To comply with the requirements of the SECP in respect of filing of Form A (Annual Return), all shareholders are requested to send us copy of their computerised National Identity Cards along with their folio numbers at the Head Office of the Company.

**DIRECTORS' REPORT TO THE MEMBERS
FOR THE YEAR ENDED JUNE 30, 2006**

The Board of Directors is pleased to place before you the financial results of the company along with the audited accounts for the year ended June 30, 2006.

OVERVIEW

The national economy continued to progress at an impressive pace, despite last year's devastating earthquake. With a growth rate of 6.6% in 2005/06, Pakistan has joined ranks with the fastest growing economies of Asia.

PERFORMANCE OF THE COMPANY

Rising demand for cement in the country benefited the company in the form of higher sales volume. However, due to increase in the price of imported kraft paper, the main raw material for paper bags and severe competition amongst the manufacturers, it did not have corresponding impact on profitability of the company.

Production and dispatches

To meet the demand for paper bags from the cement industry, the company produced 92.15 million bags during the year under review, reflecting a rise of 7.13 million bags from the previous year. In the wake of intense competition, the company continued to pursue an aggressive marketing strategy, which resulted in an increase in sales volume by 6.38 million compared to last year with a total of 90.52 million bags for the year. As part of its strategy, the company focused on enlarging its customer base and was successful in bringing into its fold new clients and enhancing the share of existing clients.

Comparative figures of production and dispatches are:

	2005/06 (Bags in million)	2004/05 (Bags in million)	Variance
• Production	92.15	85.02	8%
• Dispatches	90.52	84.14	8%

Financial performance

Modest improvement in the average selling price of paper bag coupled with 8% rise in sales volume had a positive impact on the sales revenue of the company as it increased by Rs. 82 million i.e. 11% from last year. The growth in sales revenue, however, did not flow through to gross profit as it was offset by an even greater rise in the cost of production due to significant increase in the cost of imported kraft paper. The depreciation expense was also higher because of plant expansion, which was a strategic decision by the company keeping in view the current growth trend of the cement industry and its positive impact on the sales of paper bags in the long run. These factors affected the gross profitability of the company as it declined by 48% from the previous year. Further, increase in financial charges also contributed to higher overall cost of production compared to last year. After taking into consideration various expenses and government taxes, the company was able to earn an after tax profit of Rs. 8.31 million.

Summarised comparative figures for the current year and that of last year are as indicated below:

	2005/06 (Rs. in million)	2004/05 (Rs. in million)	Variance
Net sales	795.58	713.87	11%
Cost of sales	755.99	637.89	19%
Gross profit	39.59	75.98	(48%)
Expenses & taxes	31.28	43.27	(28%)
Net profit	8.31	32.71	(75%)



CHERAT PAPERSACK LIMITED



DIVIDEND FOR THE YEAR

The Board of Directors, at its meeting held on September 14, 2006 recommended cash dividend @ 15% (Rs. 1.50 per share) for the year ended June 30, 2006. Approval of the shareholders for cash dividend will be obtained at the Annual General Meeting to be held on October 20, 2006.

EXPANSION OF PRODUCTION CAPACITY

The company, during the year, successfully installed and commissioned its new tuber and bottomer plant. On the installation of the new plant, the production capacity of the company has increased from 100 million bags to 150 million bags per annum. With this enhanced capacity, the company is now better poised to meet the rising demand for paper bags and improve its efficiency.

DONATION FOR EARTHQUAKE VICTIMS

Fully conscious of its social responsibility, the company during the year donated a sum of Rs. one (1) million for the victims of October's earthquake in the country. Further, the employees of the company also contributed their one day salary for the victims of the earthquake.

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 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 code of corporate governance, as detailed in the listing regulations.
- Key operating and financial data for last six (6) years in summarised form is annexed.
- The company has been declaring regular dividends to its shareholders.
- There is nothing outstanding against your company on account of taxes, duties, levies and other charges except for those which are being made in the 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, 2006.
 - Provident Fund Rs. 10.864 million
 - Gratuity Fund Rs. 7.329 million
- During the year, the Board of Directors of the company held five (5) meetings. The attendance record of each director is as follows:



CHERAT PAPERSACK LIMITED



<u>Name of Directors</u>	<u>Meetings Attended</u>
Mr. Mohammed Faruque	4 / 5
Mr. Zahid Faruque*	2 / 2
Mr. Iqbal Faruque	5 / 5
Mr. Ahmad Faruque**	1 / 4
Mr. Mahmood Faruque	3 / 5
Mr. Akbarali Pesnani	4 / 5
Mr. Shehryar Faruque	3 / 5
Mr. Amer Faruque	5 / 5
Mr. Omar Faruque**	1 / 1
Mr. Arif Faruque	1 / 5
Mr. Aslam Faruque*	2 / 3

* Mr. Aslam Faruque was appointed as Director on January 4, 2006 on the sad demise of Mr. Zahid Faruque.

** Mr. Ahmad Faruque was elected as Director on October 24, 2005 in place of Mr. Omar Faruque.

- The pattern of shareholding is annexed.
- The Earnings per share (EPS) during the year was Rs. 1.41 as against Rs. 5.57 last year.

FUTURE PROSPECTS

The performance of the papersack industry is directly linked with that of cement. With constant growth in the demand for cement in the country and in other regional markets, it is hoped that despite competitive environment especially due to unprecedented rise in the prices of imported kraft paper, the company will be able to post improved results in the future, for which it has intensified its efforts.

In order to provide a level playing field to all cement bag suppliers to ensure healthy competition and curb the influx of imported bags in the country, the government is strongly urged to reduce duty on kraft paper to remove the anomaly in its import duty currently at 15% and polypropylene granules (raw material for manufacturing polypropylene bags) at 5%.

AUDITORS

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

ACKNOWLEDGMENT

We would like to thank all the financial institutions, suppliers and clients for their continued support, cooperation and the trust they have reposed in us. We would like to record our appreciation to our staff for their dedication, loyalty and hard work.

On behalf of the Board of Directors

MOHAMMED FARUQUE
Chairman

Karachi: September 14, 2006



VISION STATEMENT

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

MISSION STATEMENT

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.

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 9001:2000



STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of the 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 seven non-executive directors, none 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. A casual vacancy occurring in the Board in December 2005 was filled up within fourteen days thereof.
5. The Company has prepared a Statement of Ethics and Business Practices, which has been approved by the Board of Directors and 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. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and the Executive Director, 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 and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board comprises of senior corporate executives and professionals who are fully aware of their duties and responsibilities and hence need was not felt by the directors for any orientation course in this regard.
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 including the Chairman of the committee.
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 the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code of Corporate Governance have been complied with.

On behalf of the Board of Directors

(MOHAMMED FARUQUE)
Chairman

Karachi: September 14, 2006

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.

On behalf of the Board of Directors

(MOHAMMED FARUQUE)
Chairman

Karachi: September 14, 2006



REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2006 prepared by the Board of Directors of **Cherat Papersack Limited** to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited and Chapter XIII of the Listing Regulations of the Lahore Stock Exchange (Guarantee) Limited where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, effective for the year ended June 30, 2006.

Ford Rhodes Sidat Hyder

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

Karachi: September 14, 2006



STATEMENT OF ETHICS & 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 good or service, 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.



YEAR-WISE STATISTICAL SUMMARY

	2006	2005	2004	2003	2002	2001	2000
							(Bags in million)
Production	92.15	85.02	57.73	55.48	46.62	51.91	59.87
Dispatches	90.52	84.14	57.82	55.51	47.55	51.08	60.02

ASSETS EMPLOYED

	(Rupees '000)						
Tangible fixed assets	165,461	172,156	54,189	54,563	41,718	45,950	49,666
Long-term investments, loans and deposits	45,348	31,937	27,657	24,055	27,469	21,445	18,480
Current assets	488,588	383,690	320,948	254,645	199,073	344,057	272,251
Total assets employed	699,397	587,783	402,794	333,263	268,260	411,452	340,397

FINANCED BY

Shareholders' equity	303,835	296,913	286,240	256,003	225,659	227,763	227,955
Long-term liabilities	75,000	100,000	114	265	395	-	-
Deferred liabilities	3,753	6,126	6,136	2,448	6,968	3,044	1,805
Current liabilities	316,809	184,744	110,304	74,547	35,238	180,645	110,637
Total Funds Invested	699,397	587,783	402,794	333,263	268,260	411,452	340,397

TURNOVER & PROFIT

Turnover (net)	795,584	713,869	571,255	594,163	484,825	534,354	615,559
Operating profit/(loss)	25,113	49,009	63,070	112,666	19,767	(5,230)	75,867
Profit before taxation	9,910	47,838	62,544	115,424	18,487	19,862	74,179
Profit after taxation	8,306	32,705	42,477	75,224	10,136	16,128	71,101
Cash dividend	8,813	19,584	24,480	44,880	12,240	16,320	59,160
Issue of bonus shares	-	9,792	8,160	-	-	-	-
Transfer to reserves	-	-	-	30,000	-	10,000	15,000



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Cherat Papersack Limited** as at **June 30, 2006** and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 **June 30, 2006** and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Ford Rhodes Sidat Hyder
FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

Karachi: September 14, 2006



CHERAT PAPERSACK LIMITED



BALANCE SHEET AS AT JUNE 30, 2006

	Note	2006 ----- (Rupees `000) -----	2005
ASSETS			
NON-CURRENT ASSETS			
Tangible fixed assets – Property, plant and equipment	3	165,461	172,156
Long-term investments	4	44,428	31,142
Long-term loans	5	744	719
Long-term deposits	6	176	76
		<u>210,809</u>	<u>204,093</u>
CURRENT ASSETS			
Stores, spare parts and loose tools	7	13,032	14,330
Stock-in-trade	8	297,100	198,048
Trade debts	9	118,260	94,811
Loans and advances	10	1,988	1,900
Trade deposits and short-term prepayments	11	1,236	2,347
Other receivables	12	9,079	6,519
Taxation – net		8,723	12,715
Cash and bank balances	13	39,170	53,020
		<u>488,588</u>	<u>383,690</u>
TOTAL ASSETS		<u><u>699,397</u></u>	<u><u>587,783</u></u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital 10,000,000 (2005: 10,000,000) ordinary shares of Rs.10/- each		<u>100,000</u>	<u>100,000</u>
Issued, subscribed and paid-up capital	14	58,752	48,960
Reserves	15	<u>245,083</u>	<u>247,953</u>
		<u>303,835</u>	<u>296,913</u>
NON-CURRENT LIABILITIES			
Long-term financing	16	<u>75,000</u>	<u>100,000</u>
Deferred taxation	17	<u>3,753</u>	<u>6,126</u>
		<u>78,753</u>	<u>106,126</u>
CURRENT LIABILITIES			
Short-term running finance	18	<u>110,511</u>	-
Trade and other payables	19	<u>178,478</u>	<u>183,926</u>
Accrued mark-up		<u>2,820</u>	<u>704</u>
Current maturity of long-term financing	16	<u>25,000</u>	-
Current maturity of liability against asset subject to finance lease		-	<u>114</u>
		<u>316,809</u>	<u>184,744</u>
CONTINGENCIES AND COMMITMENTS	20		
TOTAL EQUITY AND LIABILITIES		<u><u>699,397</u></u>	<u><u>587,783</u></u>

The annexed notes from 1 to 38 form an integral part of these financial statements.

AMER FARUQUE
CHIEF EXECUTIVE

IQBAL FARUQUE
DIRECTOR



CHERAT PAPERSACK LIMITED



PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2006

	Note	2006 ----- (Rupees '000) -----	2005
Turnover – net	21	795,584	713,869
Cost of sales	22	(755,991)	(637,893)
Gross profit		<u>39,593</u>	<u>75,976</u>
Distribution cost	23	(13,037)	(19,737)
Administrative expenses	24	(6,559)	(8,304)
Other operating expenses	25	(2,034)	(6,596)
Other operating income	26	7,150	7,670
Operating profit		<u>25,113</u>	<u>49,009</u>
Finance cost	27	(15,203)	(1,171)
Profit before taxation		<u>9,910</u>	<u>47,838</u>
Taxation			
Current		(3,978)	(14,921)
- for the year			(222)
- prior year		2,374	10
Deferred	28	(1,604)	(15,133)
- for the year			
Profit after taxation		<u>8,306</u>	<u>32,70</u>
Earnings per share – Basic and diluted (restated)	29	<u>Rs. 1.41</u>	<u>Rs. 5.57</u>

The annexed notes from 1 to 38 form an integral part of these financial statements.

Amer Faruque
AMER FARUQUE
CHIEF EXECUTIVE

Iqbal Faruque
IQBAL FARUQUE
DIRECTOR



**CASH FLOW STATEMENT FOR THE YEAR
ENDED JUNE 30, 2006**

	Note	2006 ----- (Rupees '000) -----	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		9,910	47,838
Adjustment for:			
Depreciation	3.1.2 & 3.2.1	13,592	7,033
Gain on disposal of operating property, plant and equipment	26	(522)	(1,245)
Dividend income	26	(462)	(493)
Return on long-term investments	26	(4,078)	(4,132)
Finance cost	27	15,203	1,171
Operating profit before working capital changes		<u>32,843</u>	<u>50,172</u>
(Increase) / decrease in current assets:			
Stores, spare parts and loose tools		1,298	(3,747)
Stock-in-trade		(99,052)	(25,062)
Trade debts		(23,449)	(38,781)
Loans and advances		(88)	(940)
Trade deposits and short-term prepayments		1,083	(805)
Other receivables		(2,560)	(3,610)
		<u>(122,768)</u>	<u>(72,945)</u>
Increase / (decrease) in current liabilities:			
Trade and other payables		(4,855)	73,700
Cash (used in) / generated from operations		<u>(94,780)</u>	<u>50,927</u>
Income tax paid		(4,566)	(23,349)
Income tax refund		4,580	-
Net cash (used in) / generated from operating activities		<u>(94,766)</u>	<u>27,578</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	3.1.1	(7,558)	(125,934)
Sale proceeds of property, plant and equipment	3.1.3	1,183	2,179
Long-term loans		(25)	(179)
Long-term deposits		(100)	31
Dividend received	26	462	493
Net cash used in investing activities		<u>(6,038)</u>	<u>(123,410)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease rentals paid		(88)	(176)
Long-term financing obtained		-	100,000
Dividend paid		(10,385)	(21,959)
Short-term running finance obtained		110,511	-
Finance cost paid		(13,084)	(442)
Net cash generated from financing activities		<u>86,954</u>	<u>77,423</u>
Net decrease in cash and cash equivalents		<u>(13,850)</u>	<u>(18,409)</u>
Cash and cash equivalents at the beginning of the year		<u>53,020</u>	<u>71,429</u>
Cash and cash equivalents at the end of the year		<u>39,170</u>	<u>53,020</u>

The annexed notes from 1 to 38 form an integral part of these financial statements.

AMER FARUQUE
CHIEF EXECUTIVE

IQBAL FARUQUE
DIRECTOR



CHERAT PAPERSACK LIMITED



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2006

	Issued, subscribed and paid-up capital	RESERVES					Total	
		CAPITAL RESERVE	REVENUE RESERVES			Sub-total		Total
			Share Premium	General Reserve	Fair value gain / (loss) on available-for-sale securities			
(Rupees '000)								
Balance as at July 01, 2004	40,800	6,800	180,000	-	58,640	238,640	245,440	286,240
Final dividend for the year ended June 30, 2004 @ Rs. 3 per share (30%)	-	-	-	-	(12,240)	(12,240)	(12,240)	(12,240)
Issue of bonus shares @ 20% i.e. 1 share for every 5 shares	6,160	-	-	-	(8,160)	(8,160)	(8,160)	-
Interim dividend for the year ended June 30, 2005 @ Rs. 2 per share (20%)	-	-	-	-	(9,792)	(9,792)	(9,792)	(9,792)
Profit after taxation for the year ended June 30, 2005	-	-	-	-	32,705	32,705	32,705	32,705
Balance as at June 30, 2005	48,960	6,800	180,000	-	61,153	241,153	247,953	296,913
Balance as at July 01, 2005	48,960	6,800	180,000	-	61,153	241,153	247,953	296,913
Final dividend for the year ended June 30, 2005 @ Rs. 2 per share (20%)	-	-	-	-	(9,792)	(9,792)	(9,792)	(9,792)
Issue of bonus shares @ 20% i.e. 1 share for every 5 shares	9,792	-	-	-	(9,792)	(9,792)	(9,792)	-
Fair value change on available-for-sale securities	-	-	-	6,408	-	6,408	6,408	6,408
Profit after taxation for the year ended June 30, 2006	-	-	-	-	8,306	8,306	8,306	8,306
Balance as at June 30, 2006	58,752	6,800	180,000	6,408	49,875	238,283	245,083	303,835

The annexed notes from 1 to 38 form an integral part of these financial statements.

A. Faruque
AMER FARUQUE
 CHIEF EXECUTIVE

I. Faruque
IQBAL FARUQUE
 DIRECTOR



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

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, selling and marketing 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.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are as follows:

2.1 Basis of preparation of the financial statements

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards (IASs) as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

These financial statements have been prepared on the basis of historical cost convention except for derivatives (if any) and certain investments which are valued at fair value.

2.3 Significant accounting judgments and estimates

Estimates and judgments are continually evaluated by management and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Following are the significant judgments and estimates made by the management:

2.3.1 Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 12.1 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect gains and losses in those years.

2.3.2 Property, plant and equipment

The Company has made certain estimations with respect to residual values, depreciation methods and depreciable lives of property, plant and equipment. Further, the Company reviews the value of assets for possible impairment on an annual basis. Any change in the estimates in future years might effect the remaining amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

2.3.3 Classification of investment

The management has utilised its judgment in respect of classification of investments as disclosed in note 4.1 to the financial statements. Any change in such judgment might affect the accounting policy applied in respect of such investment.

Other areas where estimates and judgments are involved are described in respective policies and notes to the financial statements.



2.4 Property, plant and equipment

2.4.1 Owned assets

Operating fixed assets except land and capital work-in-progress are stated at cost less accumulated depreciation and any impairment in value. 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.

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 capitalised and the assets so replaced, if any, are retired.

Gains or losses on disposal of assets, if any, are recognised as and when incurred.

The carrying values of fixed assets 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.

The Company previously had a practice to charge full year's depreciation in the year of addition / capitalisation and no depreciation charge was made in the year of disposal. In the light of the Institute of Chartered Accountants of Pakistan's circular No. 10/2002, for depreciation on the additions to the fixed assets, a company may charge depreciation on daily / weekly / monthly / quarterly basis. In view of the same, the Company has reconsidered the said practice and has decided that on all major additions, depreciation charge will commence from the month of addition / capitalisation in order to reflect a more fair depreciation charge. Similarly no depreciation will be charged in the month in which an asset is disposed off. Such change has been considered a change in accounting estimate and has resulted in decrease in depreciation charge for the year by Rs. 1.433 million.

During the current year, the management has carried out a study to reassess the useful economic life of plant and machinery and as a result of such exercise; the rate of depreciation on plant and machinery has been changed from 10% per annum to 7.5% per annum. Change in rate of depreciation has been accounted for as a change in accounting estimate. Such change in estimate has resulted in decrease in depreciation charge for the year by Rs. 3.292 million.

2.4.2 Assets subject to finance lease

Assets subject to finance lease are initially stated at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets. The related obligations of the lease are accounted for as liabilities. Assets acquired under finance lease are depreciated on the same basis as for owned assets.

2.5 Investments

2.5.1 Available-for-sale securities

Investments 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 are classified as available-for-sale.

These investments are initially measured at fair value plus transaction costs and are subsequently carried at fair value. Changes in fair value are taken to a separate component of equity.

2.5.2 Held-to-maturity investments

These represent investments with fixed maturity in respect of which the Company has the positive intent and ability to hold till maturity. These investments are carried at amortised cost.

2.6 Stores, spare parts and loose tools

These are valued at lower of average cost and estimated net realisable value (NRV) except items-in-transit which are stated at invoice value plus other charges paid thereon to the balance sheet date.

Provision / write-off, if required is made in the accounts for slow moving, obsolete and unusable items to bring their carrying value down to NRV.

**2.7 Stock-in-trade**

Stock-in-trade is valued at the lower of cost and estimated NRV.

Cost signifies in relation to:

Raw material	-	Purchase cost and direct expenses.
Finished goods	-	Cost of direct material, labour and proportion of manufacturing overheads.

NRV signifies the estimated selling price in the ordinary course of business less cost of completion and cost necessary to be incurred in order to make the sale.

2.8 Trade debts

Trade debts are recognised 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.

2.9 Financial instruments

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

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

2.10 Foreign currency translations

Transactions in foreign currencies are translated to 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 to Pak Rupee at the foreign exchange rate ruling at that date.

2.11 Cash and cash equivalents

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

2.12 Revenue recognition**2.12.1 Sale of goods**

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

2.12.2 Other operating income

Return on held-to-maturity investments is recognised on accrual basis taking into account effective yield method.

Dividend income is recognised when the right to such income is established.

Other revenues are accounted for on accrual basis.

2.13 Staff retirement benefits**2.13.1 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. The contributions to the scheme are made in accordance with actuarial valuation using Projected Unit Credit method.

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses exceed 10 percent 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 recognised over the expected remaining working lives of the employees participating in the scheme.



2.13.2 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 contributions are made by the Company and the employees to the fund at the rate of 8.33 % of basic salary.

2.14 Provisions

Provisions are recognised 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.

2.15 Taxation

2.15.1 Current

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credits, rebates and exemptions available, if any or minimum taxation at the rate of 0.5% of the turnover whichever is higher. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime.

2.15.2 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 income tax assets are recognised 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 utilised.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised 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.

2.16 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 by 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 recognised directly in equity.

When the hedged commitment results in the recognition of an asset or a liability, then, the associated gains or losses previously recognised 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 or 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 recognised 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 recognised in equity is transferred to net profit or loss for the period.

2.17 Related party transactions

All transactions with related parties are carried out by the Company using the methods prescribed under Companies Ordinance, 1984.



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3. PROPERTY, PLANT AND EQUIPMENT

	Note	2006	2005
		(Rupees '000)	
Operating property, plant and equipment	3.1	165,461	57,213
Asset subject to finance lease	3.2	-	236
Capital work-in-progress	3.3	-	114,707
		<u>165,461</u>	<u>172,156</u>

3.1 Operating property, plant and equipment

3.1.1 Following is a statement of operating assets:

2006 Description	Cost at July 01, 2005	Additions/ *Transfer during the year	Deletions during the year	Cost at June 30, 2006	Accumulated depreciation at July 01, 2005	Adjustment for depreciation on (disposal)/ *Transfer	Depreciation charged during the year	Accumulated depreciation at June 30, 2006	Book value at June 30, 2006	Rate per annum %
(Rupees '000)										
Land - leasehold	1,443	-	-	1,443	-	-	-	-	1,443	-
Building on leasehold land	13,128	1,203	-	14,331	5,380	-	773	6,153	8,178	5-10
Plant and machinery	98,486	114,709	-	213,195	62,379	-	9,679	72,258	140,937	7.5
Power and other installations	826	62	-	888	569	-	32	601	287	10
Vehicles	12,035	4,726 *576	(1,873)	15,484	5,788	(1,212) *340	2,109	7,025	8,439	20
Furniture and fittings	2,202	86	-	2,288	1,083	-	97	1,180	1,108	5-10
Equipment	5,497	1,183	-	6,680	1,308	-	537	1,845	4,835	10
Computers	1,393	296	(35)	1,654	1,290	(35)	165	1,420	234	33
	<u>135,010</u>	<u>122,265</u> *576	<u>(1,908)</u>	<u>255,943</u>	<u>77,797</u>	<u>(1,247)</u> *340	<u>13,592</u>	<u>90,482</u>	<u>165,461</u>	

2005 Description	Cost at July 01, 2004	Additions during the year	Deletions during the year	Cost at June 30, 2005	Accumulated depreciation at July 01, 2004	Adjustment for depreciation on disposal	Depreciation charged during the year	Accumulated depreciation at June 30, 2005	Book value at June 30, 2005	Rate per annum %
(Rupees '000)										
Land - leasehold	1,443	-	-	1,443	-	-	-	-	1,443	-
Building on leasehold land	8,157	4,971	-	13,128	4,664	-	716	5,380	7,748	5-10
Plant and machinery	98,486	-	-	98,486	58,367	-	4,012	62,379	36,107	10
Power and other installations	826	-	-	826	540	-	29	569	257	10
Vehicles	8,240	5,876	(2,081)	12,035	5,373	(1,147)	1,562	5,788	6,247	20
Furniture and fittings	2,118	84	-	2,202	982	-	101	1,083	1,119	5-10
Equipment	4,983	514	-	5,497	842	-	466	1,308	4,189	10
Computers	1,297	108	-	1,393	1,202	-	88	1,290	103	33
	<u>125,540</u>	<u>11,551</u>	<u>(2,081)</u>	<u>135,010</u>	<u>71,970</u>	<u>(1,147)</u>	<u>6,974</u>	<u>77,797</u>	<u>57,213</u>	

	Note	2006	2005
		(Rupees '000)	

3.1.2 The depreciation charge for the year has been allocated to:

Manufacturing overheads	22	11,908	5,589
Distribution cost	23	1,311	1,025
Administrative expenses	24	373	360
		<u>13,592</u>	<u>6,974</u>



CHERAT PAPERSACK LIMITED



3.1.3 Disposal of operating property, plant and equipment

Description	Cost	Book Value (Rupees '000)	Sale Proceeds	Gain / (Loss)	Mode of Disposal	Sold to
Motor vehicles						
Toyota Corolla Reg# ACX-192	1,077	353	353	-	Tender	Mr. S. Nasim Ahmad Nowshera
Honda Civic Reg# D-4600	220	72	525	453	Tender	Dr. Fouzia Sadiq Peshawar
Suzuki Cultus Reg# ADW-640	576	236	300	64	Tender	Mr. Shahid Anwer Tarbella (Employee)
	<u>1,873</u>	<u>661</u>	<u>1,178</u>	<u>517</u>		
Aggregate of assets disposed-off having book value below Rs. 50,000 each						
Computer	35	-	5	5		
	<u>1,908</u>	<u>661</u>	<u>1,183</u>	<u>522</u>		
2005	<u>2,081</u>	<u>934</u>	<u>2,179</u>	<u>1,245</u>		

3.2 Asset subject to finance lease

3.2.1 The following is a statement of asset subject to finance lease:

	Cost at July 01, 2005	Transfer during the year	Cost at June 30, 2006	Accumulated depreciation at July 01, 2005	Adjustment for depreciation on Transfer	Depreciation charged during the year	Accumulated depreciation at June 30, 2006	Book value at June 30, 2006	Rate per annum %
	(Rupees '000)								
Vehicle	576	(576)	-	340	(340)	-	-	-	20
2005	576	-	576	281	-	59	340	236	20

3.2.2 The depreciation charge for the last year was allocated to manufacturing overheads.

	Note	2006 (Rupees '000)	2005
Civil works		-	921
Plant and machinery		-	113,786
		<u>-</u>	<u>114,707</u>

3.3 Capital work-in-progress

4. LONG-TERM INVESTMENTS

Available-for-sale securities – Related Party

Ordinary shares of listed company Cherat Cement Company Limited 192,382 (2005: 153,906) fully paid ordinary shares of Rs.10/- each	4.1	12,505	4,097
--	-----	--------	-------

Held-to-maturity investment

Defence Saving Certificates	4.2	<u>31,923</u>	<u>27,045</u>
		<u>44,428</u>	<u>31,142</u>

4.1 During the current year, the relationship between the Company and its related party in which the Company holds an investment has ceased to be an associated company's relationship in terms of IAS-28, Investments in Associates. Accordingly, effective from current year, the investment in such company which was previously being accounted for as an investment in associate has been reclassified as an available-for-sale financial asset. The Company accounts for available-for-sale financial assets at their fair value while changes in fair value are taken to equity. Previously, such investment being considered as investment in associate was being accounted for at cost.



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4.2 Represents Defence Saving Certificates of ten years period maturing on August 20, 2009 having redemption value of Rs. 52.5 million that carry effective mark-up rate of 18 percent per annum (2005: 18 percent per annum). These investments are held in the safe custody of a commercial bank as of the balance sheet date.

	Note	2006	2005
----- (Rupees `000) -----			
5. LONG-TERM LOANS			
Loans to staff – considered good	5.1	1,164	1,039
Less: Current portion	10	420	320
		<u>744</u>	<u>719</u>

5.1 Represent car and other loans provided as per the Company's employee loan policy. These loans carry mark-up upto 11 percent per annum (2005: upto 9.5 percent per annum) and are repayable within 3 to 6 years. These loans are secured against the provident fund balances of the respective employees.

	Note	2006	2005
----- (Rupees `000) -----			
6. LONG-TERM DEPOSITS			
Security deposits		163	62
Others		13	14
		<u>176</u>	<u>76</u>

7. STORES, SPARE PARTS AND LOOSE TOOLS

Stores		907	1,347
Spare parts		12,052	12,909
Loose tools		73	74
		<u>13,032</u>	<u>14,330</u>

8. STOCK-IN-TRADE

Raw material			
In hand		101,432	51,178
In bonded warehouse		98,246	65,551
In transit		75,578	74,122
		<u>275,256</u>	<u>190,851</u>
Finished goods		21,844	7,197
		<u>297,100</u>	<u>198,048</u>

9. TRADE DEBTS – UNSECURED

Considered good		118,260	94,811
Considered doubtful		17,966	17,966
		<u>136,226</u>	<u>112,777</u>
Less: Provision for doubtful debts		17,966	17,966
		<u>118,260</u>	<u>94,811</u>

10. LOANS AND ADVANCES

Current portion of long-term staff loans	5	420	320
Advances - unsecured, considered good			
Employees		23	-
Suppliers		19	670
Letters of credit		1,526	910
		<u>1,988</u>	<u>1,900</u>



CHERAT PAPERSACK LIMITED



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	Note	2006 ----- (Rupees `000) -----	2005
11. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS			
Trade deposits			
Earnest money		200	1,608
Guarantee margin held by bank		-	91
Security deposit		-	29
		<u>200</u>	<u>1,728</u>
Short-term prepayments		1,036	619
		<u>1,236</u>	<u>2,347</u>
12. OTHER RECEIVABLES			
Excise duty claim		362	362
Sales tax adjustable		6,959	2,667
Profit on PLS accounts		-	12
Warehousing surcharge claim		517	517
Gratuity fund	12.1	1,037	2,955
Others		204	6
		<u>9,079</u>	<u>6,519</u>

12.1 Actuarial valuation of the scheme was carried out as of June 30, 2006. The amount recognised in the balance sheet is as follows:

	2006 ----- (Rupees `000) -----	2005
Asset for gratuity arose in the following manner:		
Present value of the defined benefit obligation	9,399	5,562
Fair value of plan assets	<u>(7,256)</u>	<u>(7,025)</u>
Deficit / (surplus)	2,143	(1,463)
Unrecognised actuarial (gain)	<u>(3,180)</u>	<u>(1,492)</u>
	<u>(1,037)</u>	<u>(2,955)</u>
Expense / (gain) recognised during the year		
Current service cost	640	445
Interest cost	525	349
Expected return on plan assets	(703)	(607)
Net actuarial gain recognised	(71)	-
Reversal of amount not recognised as an asset	-	(835)
	<u>391</u>	<u>(648)</u>
Movement in net asset recognised		
Opening net asset	(2,955)	(1,807)
Expense / (gain) recognised during the year	391	(648)
Contributions to fund made during the year	-	(500)
Staff benefits payable adjustment	1,527	-
Closing net asset	<u>(1,037)</u>	<u>(2,955)</u>
Actual return on plan assets		
Expected return on plan assets	703	607
Actuarial loss on plan assets	<u>(473)</u>	<u>(311)</u>
Actual return on plan assets	<u>230</u>	<u>296</u>



CHERAT PAPERSACK LIMITED



The projected unit credit method using the following significant assumptions has been used for the valuation of above mentioned scheme:

	2006	2005
Discount rate	10% per annum	10% per annum
Expected rate of increase in salaries	10% per annum	10% per annum
Expected return on plan assets	10% per annum	10% per annum

	Note	2006	2005
----- (Rupees '000) -----			
13. CASH AND BANK BALANCES			
With banks:			
Current accounts	13.1	35,983	42,077
PLS accounts	13.2	3,169	10,625
		<u>39,152</u>	<u>52,702</u>
Cash in hand		18	318
		<u>39,170</u>	<u>53,020</u>

13.1 Bank balances include cheques in transit amounting to Rs. 36.14 million (2005: 20.946 million).

13.2 Effective mark-up rate in respect of PLS accounts ranges from 1 to 4 percent per annum (2005: 2 to 4 percent per annum).

14. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Fully paid ordinary shares of Rs. 10/- each

Number of shares			2006	2005
2006	2005		----- (Rupees '000) -----	
4,080,000	4,080,000	Issued for cash	40,800	40,800
		Issued as fully paid bonus shares		
816,000	-	- Opening balance	8,160	-
979,200	816,000	- Issued during the year	9,792	8,160
1,795,200	816,000		17,952	8,160
<u>5,875,200</u>	<u>4,896,000</u>		<u>58,752</u>	<u>48,960</u>

15. RESERVES

The detailed reconciliation of capital and revenue reserves is disclosed in the statement of changes in equity.

16. LONG-TERM FINANCING – SECURED

This represents a long-term loan from a commercial bank amounting to Rs. 100 million (2005: Rs. 100 million), having the current maturity of Rs. 25 million (2005: Nil) to finance the capacity expansion project. The loan is repayable in 5 years in 8 half yearly installments and is subject to mark-up at the rate of six months KIBOR plus 0.75%. The first installment will be due for repayment in December 2006. The loan is secured by first registered specific hypothecation charge of Rs. 114 million over plant and machinery of the Company.



CHERAT PAPERSACK LIMITED



	2006 ----- (Rupees '000) -----	2005
17. DEFERRED TAXATION		
Tax effect of temporary differences resulting from:		6,083
Accelerated tax allowance for depreciation	27,042	43
Leased asset	(19,311)	-
Tax losses	(3,978)	-
Tax credit for minimum tax on turnover	<u>3,753</u>	<u>6,126</u>

18. SHORT-TERM RUNNING FINANCE - SECURED

This represents utilised portion of running finance facilities aggregating Rs. 210 million (2005: Rs. 110 million) obtained from various commercial banks. These carry mark-up ranging from 3 months KIBOR + 0.6% to 3 months KIBOR + 1% per annum. The facilities are secured against registered pari passu hypothecation charge over stocks and book debts for Rs. 310 million and hypothecation charge of Rs. 140 million on all present and future plant and machinery of the Company.

	Note	2006 ----- (Rupees '000) -----	2005
19. TRADE AND OTHER PAYABLES			
Creditors		3,435	4,125
Bills payable		168,425	168,282
Accrued liabilities		5,269	5,141
Staff benefits payable		-	1,527
Unpaid and unclaimed dividend		827	1,420
Workers' Profits Participation Fund	19.1	522	2,563
Workers' Welfare Fund	25	-	868
		<u>178,478</u>	<u>183,926</u>
19.1 Workers' Profits Participation Fund			
Opening balance		2,563	3,307
Interest thereon		-	4
		<u>2,563</u>	<u>3,311</u>
Less: Paid during the year		2,563	3,311
		-	-
Contribution for the year		<u>522</u>	<u>2,563</u>
		<u>522</u>	<u>2,563</u>
20. CONTINGENCIES AND COMMITMENTS			
20.1 Guarantee issued by a commercial bank		<u>3,520</u>	<u>3,260</u>
20.2 Letters of credit issued by commercial banks		<u>243,975</u>	<u>93,624</u>
20.3 Duties payable on bonded stock and stock in transit		<u>25,365</u>	<u>20,551</u>



CHERAT PAPERSACK LIMITED



Ghulam Faruque
Group

	Note	2006	2005
----- (Rupees '000) -----			
21. TURNOVER - NET			
Turnover – Local		906,138	818,932
Less: Sales tax		118,867	106,845
		<u>787,271</u>	<u>712,087</u>
Turnover – Export		8,313	1,782
		<u>795,584</u>	<u>713,869</u>
22. COST OF SALES			
Raw material consumed			
Opening stock		51,178	54,840
Purchases		771,537	595,361
		<u>822,715</u>	<u>650,201</u>
Closing stock		(101,432)	(51,178)
		<u>721,283</u>	<u>599,023</u>
Manufacturing overheads			
Salaries, wages and benefits	22.1	18,360	15,373
Stores, spare parts and loose tools consumed		3,370	3,529
Fuel and power		2,263	2,259
Packing charges		7,170	6,287
Rent, rates and taxes		193	117
Repairs and maintenance		851	5,852
Depreciation	3.1.2 & 3.2.2	11,908	5,648
Insurance		2,767	2,723
General office expenses		32	21
Vehicle running expenses		590	939
Travelling and conveyance		388	1,170
Communication		192	217
Printing and stationery		84	85
Legal and professional charges		1,060	901
Freight and cartage		66	88
Obsolete stock – written off		21	148
Others		40	163
		<u>49,355</u>	<u>45,520</u>
Cost of goods manufactured		<u>770,638</u>	<u>644,543</u>
Finished goods			
Opening		7,197	547
Closing		(21,844)	(7,197)
		<u>(14,647)</u>	<u>(6,650)</u>
		<u>755,991</u>	<u>637,893</u>

22.1 This includes Rs. 0.488 million (2005: Rs. 0.371 million) in respect of provident fund and Rs. 0.313 million [2005: Rs. (0.410) million] in respect of gratuity fund.



CHERAT PAPERSACK LIMITED



	Note	2006	2005
----- (Rupees '000) -----			
23. DISTRIBUTION COST			
Salaries, wages and benefits	23.1	4,160	8,765
Travelling and conveyance		396	1,788
Vehicle running expenses		257	1,145
Communication		11	346
Utilities		41	433
Rent, rates and taxes		4	26
Insurance		766	316
Subscription		118	215
Professional services		-	245
Depreciation	3.1.2	1,311	1,025
Freight and cartage		5,884	5,042
Repairs and maintenance		71	222
Others		18	169
		<u>13,037</u>	<u>19,737</u>

23.1 This includes Rs. 0.019 million (2005: Rs. 0.316 million) in respect of provident fund and Rs. Nil [2005: Rs. (0.157) million] in respect of gratuity fund.

	Note	2006	2005
----- (Rupees '000) -----			
24. ADMINISTRATIVE EXPENSES			
Salaries, wages and benefits	24.1	3,454	4,952
Directors' fee		76	68
Travelling and conveyance		85	61
Vehicle running expenses		97	180
Communication		169	252
Printing and stationery		263	248
Rent, rates and taxes		451	595
Legal and professional charges		809	656
Insurance		219	208
Subscription		220	217
Advertisement		91	74
Entertainment		-	24
Depreciation	3.1.2	373	360
Repairs and maintenance		65	74
General office expenses		63	35
Utilities		95	235
Others		29	65
		<u>6,559</u>	<u>8,304</u>

24.1 This includes Rs. 0.127 million (2005: Rs. 0.156 million) in respect of provident fund and Rs. 0.078 million [2005: Rs. (0.081) million] in respect of gratuity fund.

	Note	2006	2005
----- (Rupees '000) -----			
25. OTHER OPERATING EXPENSES			
Auditors' remuneration	25.1	512	464
Donations	25.2	1,000	2,700
Workers' Profits Participation Fund	19.1	522	2,563
Workers' Welfare Fund	19	-	869
		<u>2,034</u>	<u>6,596</u>



CHERAT PAPERSACK LIMITED



	Note	2006	2005
		----- (Rupees `000) -----	
25.1 Auditors' remuneration			
Audit fee		200	150
Tax, corporate and other services		252	265
Out of pocket expenses		60	49
		<u>512</u>	<u>464</u>
25.2 Recipients of donations do not include any donee in which any Director or his spouse had any interest.			
26. OTHER OPERATING INCOME			
Return on:			
Defence Saving Certificates (DSCs)		4,878	4,132
Short-term bank deposits		129	606
		<u>5,007</u>	<u>4,738</u>
Scrap sales		1,159	1,194
Dividend income from a related party		462	493
Gain on disposal of operating property, plant and equipment	3.1.3	522	1,245
		<u>7,150</u>	<u>7,670</u>
27. FINANCE COST			
Mark-up on:			
Long-term financing		9,735	588
Liability against asset subject to finance lease		3	25
Short-term running finance		4,967	131
		<u>14,705</u>	<u>744</u>
Guarantee commission		191	49
Bank charges and duties		307	374
Interest on WPPF	19.1	-	4
		<u>15,203</u>	<u>1,171</u>

28. TAXATION

Since the Company has taxable loss for the current year, the minimum tax provision for current year has been made under Section 113 of the Income Tax Ordinance, 2001. For income covered under final tax regime, taxation is based on applicable tax rates under such regime. The assessments of the Company for and upto the tax year 2005 have been completed or are considered to be deemed assessed.

	2006	2005
	----- (Rupees `000) -----	
28.1 Relationship between tax expense and accounting profit		
Profit before taxation	<u>9,910</u>	<u>47,838</u>
Tax calculated @ 35% (2005: 35%)	3,469	16,743
Tax effect of income exempt from tax	(1,707)	(1,446)
Effect of applicability of lower tax rate on certain income	(138)	(148)
Effect of computational adjustments	(20)	(238)
Tax effects of prior period tax adjustments	-	222
Tax expense for the year	<u>1,604</u>	<u>15,133</u>
Effective average tax rate on accounting profit	<u>16%</u>	<u>32%</u>



CHERAT PAPERSACK LIMITED



Ghulam Faruque
Group

2006

2005

29. EARNINGS PER SHARE – BASIC AND DILUTED

			Restated for the effect of bonus shares
Profit after taxation	(Rupees '000)	8,306	32,705
Weighted average number of ordinary shares in issue during the year		5,875,200	5,875,200
Earnings per share – Basic and diluted		Rs. 1.41	Rs. 5.57

There were no outstanding potential shares on June 30, 2006; therefore diluted earnings per share is considered to be equal to basic earnings per share.

30. FINANCIAL INSTRUMENTS

30.1 Yield / Mark-up rate risk

The Company's exposure to yield risk and the effective rates on its financial assets and liabilities as of June 30, 2006 are summarised as follows:

	2006					2005				
	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)				
Financial assets:										
Long-term investments	-	31,923	31,923	12,505	44,428	-	27,045	27,045	-	27,045
Long-term loans	-	744	744	-	744	-	719	719	-	719
Long-term deposits	-	-	-	176	176	-	-	-	76	76
Trade debts	-	-	-	118,260	118,260	-	-	-	94,811	94,811
Loans and advances	420	-	420	-	420	320	-	320	-	320
Trade deposits	-	-	-	200	200	-	-	-	1,728	1,728
Other receivables	-	-	-	1,758	1,758	12	-	12	3,478	3,450
Cash and bank balances	3,169	-	3,169	36,001	39,170	10,625	-	10,625	42,395	53,020
	3,589	32,667	36,256	168,900	205,156	10,957	27,764	38,721	142,488	181,209
Financial liabilities:										
Long-term financing	25,000	75,000	100,000	-	100,000	-	100,000	100,000	-	100,000
Liability against asset subject to finance lease	-	-	-	-	-	114	-	114	-	114
Short-term running finance	110,511	-	110,511	-	110,511	-	-	-	-	-
Trade and other payables	-	-	-	177,956	177,956	-	-	-	180,495	180,495
Accrued mark-up	2,820	-	2,820	-	2,820	704	-	704	-	704
	138,331	75,000	213,331	177,956	391,287	818	100,000	100,818	180,495	281,313

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

30.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed to perform as contracted. The Company attempts to control credit risk associated with the carrying amount of its receivables by monitoring credit exposures, limiting transactions with specific customers and continuing assessment of credit worthiness of such customers.

30.3 Liquidity risk

The Company applies prudent risk management policies by maintaining sufficient cash and bank balances and by keeping committed credit lines. At the balance sheet date, the Company has unavailed credit facilities of Rs. 99.50 million (2005: Rs. 110 million).



30.4 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign suppliers and customers. The Company occasionally enters into foreign exchange forward contracts to minimise foreign currency risks.

30.5 Fair value of financial instruments

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

31. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

	2006			2005		
	Chief Executive	Director	Executives/ Key Employees	Chief Executive	Director	Executives/ Key Employees
	(Rupees '000)					
Managerial remuneration	234	2,710	2,504	-	3,343	5,262
Housing allowance	-	1,219	759	-	763	1,157
Retirement benefits	19	-	281	-	261	598
Utilities	32	271	169	-	209	137
Leave fare	-	-	141	-	-	299
	285	4,200	3,854	-	4,576	7,453
Number (note 31.1)	1	1	2	-	1	3

31.1 Mr. Amer Faruque was appointed as Chief Executive of the Company on January 04, 2006 on the sad demise of Mr. Zahid Faruque. Currently, he is not drawing any remuneration from the Company.

31.2 A Director is provided with the use of Company maintained car.

31.3 The aggregate amount charged in the financial statements for the year for fee to 9 directors amounted to Rs. 0.076 (2005: 8 directors - Rs. 0.068 million).

2006	2005
----- (Bags in '000) -----	

32. CAPACITY

Annual installed capacity as of June 30	150,000	100,000
Actual production for the year	92,147	85,020

The Company's production was according to the market demand.

33. 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 chief executive, 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	2006	2005
		----- (Rupees '000) -----	
Group companies	Sale of goods	146,656	175,445
	Services received	4,902	3,739
	Software consultancy charges	1,200	1,200
	Insurance premium	2,285	1,639
	Dividend received	462	493
	Dividend paid	2,731	6,142

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



CHERAT PAPERSACK LIMITED



34. RECENT ACCOUNTING DEVELOPMENTS

Following amendments to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after January 01, 2006 or later periods:

IAS-19	(Amendments) – Employee Benefits	Effective from January 01, 2006
IAS-39	Financial Instruments: Recognition and Measurement – Fair Value Option, Accounting for Financial Guarantees and Cash Flow Hedge for Forecast Intra Group Transactions	Effective from January 01, 2006
IAS-1	Presentation of Financial Statements Capital Disclosures	Effective from January 01, 2006

Adoption of the above amendments may only impact the extent of disclosures presented in the financial statements.

In addition to above, a new series of standards called "International Financial Reporting Standards (IFRSs)" have been introduced and seven IFRSs have been issued by International Accounting Standards Board (IASB). Out of these, following four IFRSs have been adopted by the Institute of Chartered Accountant of Pakistan (ICAP). However since these have not been adopted by SECP, therefore, do not form part of the approved local financial reporting framework:

IFRS-2	Share based Payments;
IFRS-3	Business Combinations;
IFRS-5	Non-current Assets held for Sale and Discontinued Operations; and
IFRS-6	Exploration for and Evaluation of Mineral Resources.

The Company expects that the adoption of these pronouncements mentioned above will have no significant impact on the Company's financial statements in the period of initial application.

35. DATE OF AUTHORISATION

These financial statements were authorised for issue on September 14, 2006 by the Board of Directors of the Company.

36. DIVIDEND AND APPROPRIATIONS

Subsequent to the year ended June 30, 2006, the Board of Directors has approved / proposed the following in their meeting held on September 14, 2006 for approval of the members at the Annual General Meeting:

	2006	2005
	----- (Rupees '000) -----	
Proposed final cash dividend @ Rs. 1.50 per share (2005: @ Rs. 2/- per share)	8,813	9,792
Interim cash dividend Nil (2005: @ Rs. 2/- per share)	-	9,792
Proposed issue of bonus shares Nil (2005: 20% i.e.1 share for every 5 shares held)	-	9,792

37. CORRESPONDING FIGURES

There were no material reclassifications that could affect the financial statements materially.

38. 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, 2006**

No. of Shareholders	Shareholding		Shares held	Percentage
	From	To		
92	1	100	4,588	0.08
207	101	500	62,790	1.07
210	501	1,000	167,841	2.86
230	1,001	5,000	507,807	8.64
46	5,001	10,000	335,689	5.71
14	10,001	15,000	178,272	3.03
13	15,001	20,000	227,343	3.87
6	20,001	25,000	135,200	2.30
7	25,001	30,000	188,336	3.21
2	30,001	35,000	68,048	1.16
4	35,001	40,000	150,019	2.55
1	40,001	45,000	44,064	0.75
1	50,001	55,000	51,408	0.88
1	60,001	65,000	64,108	1.09
1	65,001	70,000	67,334	1.15
2	70,001	75,000	146,880	2.50
1	75,001	80,000	76,441	1.30
2	80,001	85,000	166,694	2.84
1	95,001	100,000	97,743	1.66
1	110,001	115,000	113,040	1.92
1	190,001	195,000	190,800	3.25
1	205,001	210,000	207,648	3.53
1	255,001	260,000	259,200	4.41
1	275,001	280,000	276,480	4.71
1	325,001	330,000	325,699	5.54
1	345,001	350,000	345,600	5.88
1	380,001	385,000	382,208	6.51
1	430,001	435,000	432,000	7.35
1	600,001	605,000	601,920	10.25
851			5,875,200	100.00

Categories of Shareholders as at June 30, 2006

Categories	No. of Shareholders	Shares held	Percentage
Individuals	820	2,755,597	46.90
Financial Institutions	3	191,616	3.26
Insurance Companies	6	777,331	13.23
Joint Stock Companies	15	1,746,985	29.73
Modaraba	1	3,600	0.06
Investment Companies	3	394,563	6.72
Others	3	5,508	0.09
	851	5,875,200	100.00

**Pattern of Shareholding as at June 30, 2006
Additional Information**

Shareholders' Category	Shares Held
<u>Associated companies</u>	
Faruque (Private) Limited	601,920
Cherat Cement Company Limited	345,600
Mirpurkhas Sugar Mills Limited	259,200
Greaves Pakistan (Private) Limited	432,000
<u>Government Institution</u>	
National Bank of Pakistan (Trustee of NIT)	190,800
<u>Directors and Chief Executive</u>	
Mr. Mohammed Faruque	3,600
Mr. Amer Faruque	12,672
Mr. Iqbal Faruque	3,600
Mr. Ahmad Faruque	2,808
Mr. Mahmood Faruque	36,504
Mr. Akbarali Pesnani	21,600
Mr. Aslam Faruque	10,080
Mr. Shehryar Faruque	19,728
Mr. Arif Faruque	84,614
<u>Directors' and Chief Executive's spouses</u>	
Mrs. Nighat Faruque W/o. Mr. Mohammed Faruque	64,108
Mrs. Chaman Faruque W/o. Mr. Mahmood Faruque	29,520
Mrs. Sakina Pesnani W/o. Mr. Akbarali Pesnani	272
Mrs. Amina Faruque W/o. Mr. Amer Faruque	24,480
<u>Executives</u>	
Banks, Development Finance Institutions, Non-banking Finance Institutions, Insurance Companies Modarabas and Mutual Funds	1,176,310
<u>Shareholders holding 10% or more voting interest</u>	
Faruque (Private) Limited	601,920



CHERAT PAPERSACK LIMITED



17th ANNUAL GENERAL MEETING 2006

Registered Folio/
Participant's ID No. &
A/c. No.

No. of Shares held

PROXY FORM

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.

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 17th Annual General Meeting of the Company to be held on Friday, October 20, 2006 at 9:30 a.m. and at any adjournment thereof.

WITNESS :

(1) Signature

Name

Address

NIC or Passport No.

Signature of
Shareholder

Please affix
five rupees
revenue
stamp

(2) Signature

Name

Address

NIC or Passport No.

Date: 2006

NOTE : SECP's 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. 1 of 2000

Sub : GUIDELINES FOR ATTENDING GENERAL MEETINGS 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 regulations, 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 Regulations, 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)