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## CHERAT PAPERSACK LIMITED



### COMPANY INFORMATION

#### Board of Directors

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

#### Audit Committee

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

#### Chief Financial Officer

Mr. Yasir Masood

#### Company Secretary

Mr. Abid A. Vazir

#### Auditors

Ford Rhodes Sidat Hyder & Co.  
Chartered Accountants

#### Legal Advisor

K.M.S. Law Associates

#### Bankers

ABN Amro Bank (Pakistan) Ltd.  
Allied Bank Ltd.  
Bank Al Habib Ltd.  
Habib Bank Ltd.  
MCB Bank Ltd.  
National Bank of Pakistan  
Soneri Bank Ltd.  
Standard Chartered Bank (Pakistan) Ltd.

#### Registered Office

1<sup>st</sup> Floor, Betani Arcade  
Jamrud Road  
Peshawar.

#### Factory

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

#### Regional Office

3, Sunder Das Road  
Lahore.

#### Head Office

Modern Motors House  
Beaumont Road  
Karachi-75530.

#### Islamabad Office

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

**DIRECTORS' REVIEW**

The Board of Directors is pleased to place before you the un-audited financial results of the company for the nine months period ended March 31, 2008.

**Overview**

Higher dispatches by the cement industry ensured increase in the sales volumes of paper bags produced by the company. Despite slow down in economic activities in general and of the cement sector in particular during most of the period under review, there was 20% rise in the quantity of bags sold and 44% increase in the after tax profitability of the company compared to the corresponding period last year.

**Production & Dispatches**

The company produced 101.06 million bags, reflecting an increase of 17.95 million bags from the corresponding period last year. Similarly, quantity of bags sold also increased by 16.92 million bags to 100.45 million bags during the period under review compared to the same period last year.

	<b>Up to March 2008 (No. of bags)</b>	<b>Up to March 2007 (No. of bags)</b>	<b>Variance</b>
▪ <b>Production</b>	101,060,499	83,111,000	22%
▪ <b>Dispatches</b>	100,452,999	83,533,500	20%

**Operating Performance**

During the nine months under review, there was an improvement in the sales revenue of the company from the corresponding period last year on account of rise in sales volume and adjustment in selling price, made necessary by a significant rise in the importation cost of kraft paper and appreciation of Euro currency. However, the support of our supplier – M/s. Mondi Packaging ensured regular supply of kraft paper at competitive rates. After taking into consideration various expenses and taxes, the company was able to register an after tax profit of Rs. 62.53 million showing an increase of Rs. 19.11 million over the same period last year.

Operating results of the company for the nine months of the current year and that of the corresponding period last year are highlighted below:

	<b>Up to March 2008 (Rs. in million)</b>	<b>Up to March 2007 (Rs. in million)</b>	<b>Variance</b>
<b>Net sales</b>	<b>1,260.24</b>	<b>832.34</b>	<b>51%</b>
Cost of sales	<u>1,124.90</u>	<u>727.29</u>	55%
<b>Gross profit</b>	<b>135.34</b>	<b>105.05</b>	<b>29%</b>
Expenses & taxes	<u>72.81</u>	<u>61.63</u>	18%
<b>Net profit</b>	<b><u>62.53</u></b>	<b><u>43.42</u></b>	<b>44%</b>



**Expansion Plans**

We wish to inform our shareholders that work on enhancing the production capacity of the company through acquisition of another tuber and bottomer and expansion of current civil structures at the factory is progressing smoothly and is expected to finish on schedule.

**Future Prospects**

Prospects of the papersack industry are directly linked with the demand for cement, which is expected to remain strong in the coming days. Although, rising trade deficit may have a negative impact on the future growth prospects of the industry, we are quite hopeful that the new government will be able to take appropriate measures to address this issue. After expansion of production capacity, the company will be well positioned to fulfill the additional demand for paper bags from the cement industry. In order to meet the challenge of rising prices of quality imported kraft paper in the international markets, the company has taken measures to effectively manage its inventory.

We take this opportunity to urge the government to reduce duty on kraft paper in the upcoming federal budget to remove the anomaly in its import duty currently at 15% and polypropylene granules at 5% to provide a level playing field to all cement bag manufacturers to ensure healthy competition.

**Acknowledgment**

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

**On behalf of the Board of Directors**

**Amer Faruque**  
Chief Executive

**Karachi: April 24, 2008**

**CHERAT PAPERSACK LIMITED****INTERIM CONDENSED BALANCE SHEET  
AS AT MARCH 31, 2008**

	Note	March 31, 2008 ----- (Rupees '000) ----- (Unaudited)	June 30, 2007 ----- (Rupees '000) ----- (Audited)
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Tangible fixed assets – Property, plant and equipment	4	170,877	152,484
Long-term investments		52,602	50,181
Long-term loans		1,272	914
Long-term deposits		176	176
		<u>224,927</u>	<u>203,755</u>
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools		13,711	13,605
Stock-in-trade	5	888,024	513,143
Trade debts		160,210	106,236
Loans and advances		1,695	3,915
Trade deposits and short-term prepayments		564	1,105
Other receivables		22,011	8,524
Cash and bank balances		12,271	19,998
		<u>1,098,486</u>	<u>666,526</u>
<b>TOTAL ASSETS</b>		<u><b>1,323,413</b></u>	<u><b>870,281</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital 10,000,000 (June 30, 2007: 10,000,000) ordinary shares of Rs.10/- each		<u>100,000</u>	<u>100,000</u>
Issued, subscribed and paid-up capital		73,440	58,752
Reserves		349,256	315,841
		<u>422,696</u>	<u>374,593</u>
<b>NON-CURRENT LIABILITIES</b>			
Long-term financing		37,500	50,000
Deferred taxation		26,464	26,449
		<u>63,964</u>	<u>76,449</u>
<b>CURRENT LIABILITIES</b>			
Short-term running finance	6	512,087	121,458
Trade and other payables	7	281,352	266,106
Accrued mark-up		7,644	2,205
Current maturity of long-term financing		25,000	25,000
Taxation – net		10,670	4,470
		<u>836,753</u>	<u>419,239</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	8		
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>1,323,413</b></u>	<u><b>870,281</b></u>

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

**AMER FARUQUE**  
CHIEF EXECUTIVE

**IQBAL FARUQUE**  
DIRECTOR

**CHERAT PAPERSACK LIMITED****INTERIM CONDENSED  
PROFIT AND LOSS ACCOUNT (UNAUDITED)  
FOR THE PERIOD ENDED MARCH 31, 2008**

	Note	Period ended		Quarter ended	
		March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
----- (Rupees '000) -----					
<b>Turnover – net</b>	9	<b>1,260,239</b>	832,342	<b>444,342</b>	325,260
Cost of sales	10	(1,124,899)	(727,295)	(407,994)	(271,806)
<b>Gross profit</b>		<b>135,340</b>	105,047	<b>36,348</b>	53,454
Distribution cost		(12,755)	(11,669)	(4,722)	(4,077)
Administrative expenses		(7,026)	(5,572)	(2,394)	(1,784)
Other operating expenses		(7,780)	(5,897)	(1,821)	(3,235)
Other operating income		7,204	5,614	2,367	1,920
<b>Operating profit</b>		<b>114,983</b>	87,523	<b>29,778</b>	46,278
Finance cost		(20,693)	(22,790)	(9,220)	(8,981)
<b>Profit before taxation</b>		<b>94,290</b>	64,733	<b>20,558</b>	37,297
<b>Taxation</b>					
Current		(31,745)	(4,167)	(6,771)	(1,619)
Deferred		(15)	(17,145)	170	(10,798)
		(31,760)	(21,312)	(6,601)	(12,417)
<b>Profit after taxation</b>		<b>62,530</b>	43,421	<b>13,957</b>	24,880
<b>Earnings per share – Basic and diluted (restated)</b>	11	<b>Rs. 8.51</b>	Rs. 5.91	<b>Rs. 1.90</b>	Rs. 3.39

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

  
**AMER FARUQUE**  
CHIEF EXECUTIVE

  
**IQBAL FARUQUE**  
DIRECTOR

**CHERAT PAPERSACK LIMITED****INTERIM CONDENSED  
CASH FLOW STATEMENT (UNAUDITED)  
FOR THE PERIOD ENDED MARCH 31, 2008**

	Period ended	
	March 31, 2008	March 31, 2007
	----- (Rupees '000) -----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	94,290	64,733
<b>Adjustments:</b>		
Depreciation	9,788	10,422
Gain on disposal of operating property, plant and equipment	(326)	(14)
Finance cost	20,693	22,790
Dividend income from a related party	(221)	(192)
Return on long-term investments	(5,098)	(4,319)
	24,836	28,687
Operating profit before working capital changes	119,126	93,420
<b>(Increase) / decrease in current assets</b>		
Stores, spare parts and loose tools	(106)	(1,452)
Stock-in-trade	(374,881)	(176,543)
Trade debts	(53,974)	2,900
Loans and advances	2,220	276
Trade deposits and short-term prepayments	541	314
Other receivables	(13,487)	6,027
	(439,687)	(168,478)
	(320,561)	(75,058)
<b>Increase / (decrease) in current liabilities</b>		
Trade and other payables	15,233	58,764
Cash used in operations	(305,328)	(16,294)
Income tax paid	(25,545)	(408)
<b>Net cash used in operating activities</b>	(330,873)	(16,702)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to operating property, plant and equipment	(3,816)	(795)
Sale proceeds of operating property, plant and equipment	543	15
Capital work-in-progress	(24,582)	(118)
Long-term loans	(358)	-
Dividend received from a related party	221	192
<b>Net cash used in investing activities</b>	(27,992)	(706)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Finance cost paid	(15,254)	(19,238)
Dividend paid	(11,737)	(8,768)
Short-term running finance	390,629	29,102
Long-term loan paid	(12,500)	(12,500)
<b>Net cash generated from / (used in) financing activities</b>	351,138	(11,404)
<b>Net decrease in cash and cash equivalents</b>	(7,727)	(28,812)
<b>Cash and cash equivalents at the beginning of the period</b>	19,998	39,170
<b>Cash and cash equivalents at the end of the period</b>	12,271	10,358

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

**AMER FARUQUE**  
CHIEF EXECUTIVE

**IQBAL FARUQUE**  
DIRECTOR

**CHERAT PAPERSACK LIMITED****INTERIM CONDENSED  
STATEMENT OF CHANGES IN EQUITY (UNAUDITED)  
FOR THE PERIOD ENDED MARCH 31, 2008**

	Issued, subscribed and paid-up capital	RESERVES				Total Reserves	Total
		Capital reserve – share premium	REVENUE RESERVES				
			General reserve	Fair value gain / (loss) on available-for- sale securities	Unappropriated profit		
(Rupees '000)							
<b>Balance as at July 01, 2006</b>	58,752	6,800	180,000	8,408	49,875	245,083	303,835
Cash dividend for the year ended June 30, 2006 @ Rs. 1.5 per share	-	-	-	-	(8,813)	(8,813)	(8,813)
Fair value change on available- for-sale securities	-	-	-	(2,051)	-	(2,051)	(2,051)
Profit for the period from July 01, 2006 to March 31, 2007	-	-	-	-	43,421	43,421	43,421
<b>Balance as at March 31, 2007</b>	<u>58,752</u>	<u>6,800</u>	<u>180,000</u>	<u>6,357</u>	<u>84,483</u>	<u>277,640</u>	<u>336,392</u>
<b>Balance as at July 01, 2007</b>	58,752	6,800	180,000	8,403	120,638	315,841	374,593
Cash dividend for the year ended June 30, 2007 @ Rs. 2 per share	-	-	-	-	(11,750)	(11,750)	(11,750)
Issue of bonus shares @ 25% i.e. 1 share for every 4 shares	14,688	-	-	-	(14,688)	(14,688)	-
Fair value change on available-for- sale securities	-	-	-	(2,677)	-	(2,677)	(2,677)
Profit for the period from July 01, 2007 to March 31, 2008	-	-	-	-	62,530	62,530	62,530
<b>Balance as at March 31, 2008</b>	<u>73,440</u>	<u>6,800</u>	<u>180,000</u>	<u>5,726</u>	<u>156,730</u>	<u>349,256</u>	<u>422,696</u>

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

  
**AMER FARUQUE**  
CHIEF EXECUTIVE

  
**IQBAL FARUQUE**  
DIRECTOR





**NOTES TO THE INTERIM CONDENSED  
FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE PERIOD ENDED MARCH 31, 2008**

**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 1<sup>st</sup> Floor, Betani Arcade, Jamrud Road, Peshawar.

**2. BASIS OF PREPARATION**

These interim condensed financial statements are unaudited and are being submitted to the shareholders as required under Section 245 of the Companies Ordinance, 1984 and have been prepared in accordance with the requirements of the International Accounting Standard - 34 "Interim Financial Reporting" as applicable in Pakistan. These should be read in conjunction with the financial statements of the Company for the year ended June 30, 2007.

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**March 31,                  June 30,  
2008                                  2007  
----- (Rupees '000) -----**

**4. TANGIBLE FIXED ASSETS – PROPERTY, PLANT AND EQUIPMENT**

Operating property, plant and equipment	<b>146,295</b>	152,484
Capital work-in-progress - civil works	<b>24,582</b>	-
	<u><b>170,877</b></u>	<u>152,484</u>

**4.1 Additions during the period / year**

Leasehold land	<b>1,512</b>	-
Vehicle	<b>2,069</b>	472
Furniture and fittings	<b>24</b>	25
Equipment	<b>127</b>	114
Computers	<b>84</b>	323
	<u><b>3,816</b></u>	<u>934</u>

**4.2 Disposal during the period / year – at book value**

Vehicle	<u><b>217</b></u>	<u>1</u>
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# CHERAT PAPERSACK LIMITED



	March 31, 2008	June 30, 2007
	----- (Rupees '000) -----	
<b>5. STOCK-IN-TRADE</b>		
Raw material		
In hand	458,611	248,979
In bonded warehouse	283,293	197,705
In transit	<u>102,517</u>	<u>37,951</u>
	844,421	484,635
Finished goods	<u>43,603</u>	<u>28,508</u>
	<u><u>888,024</u></u>	<u><u>513,143</u></u>
<b>6. SHORT-TERM RUNNING FINANCE – Secured</b>	<u>512,087</u>	<u>121,458</u>

This represents utilised portion of running finance facilities aggregating Rs. 754 million (June 30, 2007: Rs. 485 million) obtained from various commercial banks. These carry mark-up ranging from 3 months KIBOR + 0.6% to 1% per annum. The facilities are secured against registered pari passu hypothecation charge over stocks and book debts for Rs. 944 million and hypothecation charge of Rs. 73 million on all present and future plant and machinery of the Company.

	March 31, 2008	June 30, 2007
	----- (Rupees '000) -----	
<b>7. TRADE AND OTHER PAYABLES</b>	<u>281,352</u>	<u>266,106</u>

Included herein are bills payable, amounting to Rs. 252.602 million (June 30, 2007: Rs. 246.490 million) in respect of imported raw material.

	March 31, 2008	June 30, 2007
	----- (Rupees '000) -----	
<b>8. CONTINGENCIES AND COMMITMENTS</b>		
8.1 Letters of credit issued by commercial banks	<u>397,127</u>	<u>282,834</u>
8.2 Duties payable on bonded stock and stock in transit	<u>58,625</u>	<u>34,027</u>
8.3 Civil works at site	<u>18,000</u>	<u>-</u>

	Period ended		Quarter ended	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
	----- (Rupees '000) -----			
<b>9. TURNOVER – NET</b>	<u>1,260,239</u>	<u>832,342</u>	<u>444,342</u>	<u>325,260</u>

Included herein are (a) local sales, net of trade discounts and volume rebate, amounting to Rs. 1,253.376 million (March 31, 2007: Rs. 829.202 million); and (b) export sales, net of trade discounts, amounting to Rs. 6.863 million (March 31, 2007: Rs. 3.140 million).



## CHERAT PAPERSACK LIMITED



Ghulam Faruque  
Group

	Period ended		Quarter ended	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
	----- (Rupees '000) -----			
<b>10. COST OF SALES</b>				
Opening stock – finished goods	28,508	21,844	39,050	36,515
Cost of goods manufactured	1,139,994	724,925	412,547	254,765
	<u>1,168,502</u>	<u>746,769</u>	<u>451,597</u>	<u>291,280</u>
Closing stock – finished goods	(43,603)	(19,474)	(43,603)	(19,474)
	<u>1,124,899</u>	<u>727,295</u>	<u>407,994</u>	<u>271,806</u>
<b>11. EARNINGS PER SHARE – Basic and diluted - (restated)</b>				
Profit after taxation (Rupees '000)	<u>62,530</u>	43,421	<u>13,957</u>	24,880
Weighted average number of ordinary shares in issue during the period	<u>7,344,000</u>	7,344,000	<u>7,344,000</u>	7,344,000
Earnings per share – Basic and diluted- (restated for the effect of bonus shares)	<u>Rs. 8.51</u>	Rs. 5.91	<u>Rs. 1.90</u>	Rs. 3.39

	Period ended	
	March 31, 2008	March 31, 2007
	----- (Bags '000) -----	
<b>12. CAPACITY</b>		
Installed capacity for the year	160,000	160,000
Actual production for the period ended	101,060	83,111

### 13. RELATED PARTY DISCLOSURES

Related parties comprise of group companies, staff benefits funds, 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 transaction	Period ended		Quarter ended	
		March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
		----- (Rupees '000) -----			
Group companies	Sale of goods	230,976	155,065	90,262	61,415
	Services received	6,411	4,465	2,305	1,913
	Software consultancy charges	1,364	990	455	330
	Dividend received	221	192	-	-
	Dividend paid	3,278	2,458	-	-
Director	Remuneration	3,150	3,150	1,050	1,050
Executives	Remuneration	7,124	4,625	2,375	1,652
Other related parties	Contribution to Staff Provident and Gratuity Funds	2,689	856	2,218	282
	Insurance premium	2,961	2,092	1,320	697

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



**14. CORRESPONDING FIGURES**

No material corresponding figures have been rearranged.

**15. DATE OF AUTHORISATION FOR ISSUE**

These interim condensed financial statements were authorized for issue on April 24, 2008 by the Board of Directors of the Company.

**16. GENERAL**

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

**AMER FARUQUE**  
CHIEF EXECUTIVE

**IQBAL FARUQUE**  
DIRECTOR