CONTENTS

COMPANY INFORMATION

Board of Directors

Mr. Mohammed Faruque	Chairman
Mr. Zahid Faruque	Chief Executive / Managing Director
Mr. Iqbal Faruque	Director
Mr. Akbarali Pesnani	Director
Mr. Azam Faruque	Director
Mr. Muhammad Nawaz Tishna (NIT)	Director
Mr. Iftikhar Ahmad Bashir (NIT)	Director
Mr. Javaid Anwar (NIT)	Director

Company Secretary
Mr. Abid A. Vazir

Audit Committee

Mr. Mohammed Faruque	Chairman
Mr. Iqbal Faruque	Member
Mr. Akbarali Pesnani	Member

Auditors
Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Legal Adviser
K.M.S. Law Associates

Bankers
ABN Amro Bank
Allied Bank of Pakistan Ltd.
Bank Al-Habib Ltd.
Citibank, N.A.
Habib Bank Ltd.
MCB Bank Ltd.
National Bank of Pakistan
NIB - NDLC IFIC Bank Ltd.
Standard Chartered Bank Ltd.
Soneri Bank Ltd.
Union Bank Ltd.
United Bank Ltd.

Registered Office
Modern Motors House
Beaumont Road
Karachi-75530.

Factory
Village Lakrai
P.O. Box 28
Nowshera.

Sales Office
1st Floor, Betani Arcade
Jamrud Road
Peshawar.

Regional Office
3, Sunder Das Road
Lahore.

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

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 24th Annual General Meeting of the Company will be held on Monday, October 24, 2005 at 10:00 a.m. at the Registered Office of the Company at Modern Motors House, Beaumont Road, Karachi to transact the following business:

ORDINARY BUSINESS

1. To receive and consider the Audited Accounts of the Company for the year ended June 30, 2005 and the Reports of the Directors and the Auditors thereon.

2. To consider and approve the payment of cash dividend @ 30% (Rs. 3/- per share) for the financial year ended June 30, 2005 as recommended by the Board of Directors.

3. To approve the issuance of bonus shares @ 25% i.e. in the ratio of one (1) bonus share for every four (4) shares held.

4. To appoint the Auditors for the year 2005/06 and to fix their remuneration.

5. To transact any other business with the permission of the Chair.

SPECIAL BUSINESS

6. To consider and approve investment in a joint venture company (associated company) to establish a 148 MW Hydro Power Project at Madian, in compliance with the provisions of Section 208 of the Companies Ordinance, 1984. It is, therefore, proposed that the following resolution be passed as and by way of a Special Resolution.

   Resolved that pursuant to Section 208 of the Companies Ordinance, 1984, the Board of Directors of the company be and is hereby authorized to make investment of up to Rs. 2.50 billion in the equity of a joint venture company of Cherat Cement Co. Ltd., Shirazi Investments Pvt. Ltd. and Faruque Private Ltd. to establish a 148 MW Hydro Power Project at Madian and to provide Corporate Guarantee(s), if required; that the Board of Directors of the company and the Company Secretary be and are hereby authorized to do all acts, deeds and things that may be necessary or required to give effect to the above resolution.

7. To consider and approve loan/advance and/or guarantee facilities of up to Rs. 200 million to M/s. Mirpurkhas Sugar Mills Ltd., an associated company, in compliance with the provisions of Section 208 of the Companies Ordinance, 1984. It is, therefore, proposed that the following resolution be passed as and by way of a Special Resolution.

   Resolved that pursuant to Section 208 of the Companies Ordinance, 1984, the Board of Directors of the company be and is hereby authorized to provide loan/advance and/or guarantee facilities of up to Rs. 200 million to M/s. Mirpurkhas Sugar Mills Ltd., an associated company, at a mark up rate of 0.40% above the borrowing cost of the company for a period of three (3) years, repayable as and when required by the company from time to time; that the Board of Directors of the company and the Company Secretary be and are hereby authorized to do all acts, deeds and things that may be necessary or required to give effect to the above resolution.

   It is further resolved that the Memorandum of Association of the company be and is hereby amended by inserting the following clause under section III:

   76) To make equity investment and/or to provide loan and/or advance to associated companies and/or guarantee their obligation(s) in accordance with the provisions of the Companies Ordinance, 1984 and other applicable laws.

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

By Order of the Board of Directors

Abid A. Vazir
Company Secretary

Karachi: September 15, 2005

NOTES:

1. The register of members of the company will be closed from Tuesday, October 11, 2005 to Monday, October 24, 2005 (both days inclusive) and no transfers will be registered during that time. Shares received in order at the Registered Office of the company at the close of business on Monday, October 10, 2005 will be treated in time for the entitlement of 30% cash dividend and 25% bonus shares. The payment of dividend will be made on the existing paid-up capital of Rs. 664,904,400/-.

2. A member of the company eligible to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend and vote in his/her stead. Proxies to be effective must be in writing and must be received by the company 48 hours before the meeting.

3. The shareholders of the company whose shares are registered in their account/sub-account with Central Depository System (CDS) are requested to bring original computerized National Identity Card along with their account number in CDS and participant's ID number for verification. In case of appointment of proxy by such account holders and sub-account holders, the guidelines as contained in the 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 of the company are requested to send copy of their computerized National Identity Card along with the folio number at the Registered Office of the company.

Ordinary Business – Item no. 3

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

Resolved that a sum of Rs. 166,226,100 be capitalized out of the un-appropriated profits of the company for the year 2004/05 to issue at par 16,622,610 ordinary shares of Rs. 10 each. Such shares shall be distributed as bonus shares to those members whose names appear in the register of members of the company on October 11, 2005 @ 25% (1 share for every existing 4 shares held); that the new shares shall rank pari passu with the existing shares of the company for all purposes; that fraction shares arising thereof shall be disregarded and whole shares representing such fractions shall be disposed off in such manner as the Directors of the company think fit and the proceeds shall be distributed in due proportion among the members of the company entitled thereto in accordance with their respective rights; that the Chairman of the Company - Mr. Mohammed Faruque, Chief Executive - Mr. Zahid Faruque, and Directors - Mr. Iqbal Faruque, Mr. Akbarali Pesnani and Mr. Azam Faruque be and are hereby authorized to sign the new share certificates and the common seal of the company may be affixed in the presence of any two of the said Directors; that the above Directors be and are hereby authorized to give effect to this resolution and to do all such acts, deeds and things that may be necessary or required for the issuance, allotment or distribution of ordinary shares.

STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

This statement sets out material facts concerning the Special Businesses to be transacted at the 24th Annual General Meeting of the company to be held on October 24, 2005.

The approval of the Members of the company will be sought for.

6) Investment in joint venture company (associated company)

Cherat Cement has received Letter of Interest from Private Power and Infrastructure Board (P.P.I.B.) for establishing a 148 MW Hydro Power Project at Madian, Swat, N.W.F.P. in collaboration with Shirazi Investments Pvt. Ltd. and Faruque Private Ltd. Subject to the approval of the shareholders, the company intends to invest up to Rs. 2.50 billion, which would include equity investment in the proposed joint venture company and meeting the preliminary expenses related to the project. The company also intends to provide corporate guarantee(s), if required.

As required under SRO no. 865(1) 2000 dated December 6, 2000, the details of this investment are stated below:

(i)	**Name of investee company or associated undertaking**	The proposed company is in the process of formation.
(ii)	**Nature, amount and extent of investment**	Cherat Cement intends to make an equity investment in the proposed company. The total amount of the investment will be up to Rs. 2.50 billion. Corporate guarantee(s), if required, will also be provided.
(iii)	**Average Market Price and Break up value of shares intended to be purchased**	The proposed hydro power company has not been incorporated yet.
(iv)	**Price at which shares will be purchased**	The shares of the proposed hydro power company will be purchased at the face value of Rs. 10 per share.
(v)	**Earnings per share and Current Ratio of investee company**	The proposed company has not yet commenced operations.
(vi)	**Source of funds from where shares will be purchased**	The investment in the proposed hydro power company will be made by Cherat Cement from its own resources and/or from bank borrowings.
(vii)	**Period of investment**	This will be a long-term investment by Cherat Cement.
(viii)	**Purpose of investment**	The purpose of investment is to establish a 148 MW Hydro Power Project Company in Madian, Swat, N.W.F.P. in joint venture with Shirazi Investments Pvt. Ltd. and Faruque Private Ltd. The earnings from the project will enhance and diversify the income of Cherat Cement.
(ix)	**Benefits likely to accrue to the Company and its shareholders from the investment**	Earnings from cement sector are cyclical and can be volatile at times. Whereas, power projects usually provide a regular stream of income. The earnings from the proposed hydro power project will not only enhance but also smoothen the earnings of Cherat Cement.
(x)	**Common Directors**	The proposed company is in the process of formation and names of directors have not yet been decided.

7) **Loan/advance and/or guarantee facilities to an associated company:**

As is evident from the financial statements of the company for the year 2004/05 that Cherat Cement Co. Ltd. is in a sound financial position and can use this to its advantage. Being the flagship company of the Ghulam Faruque Group, Cherat Cement would like to provide loan/advance and/or guarantee facilities of up to Rs. 200 million to Mirpurkhas Sugar Mills Ltd. to facilitate the company in getting competitive financing rates.

Subject to the approval of the shareholders, the Board of Directors of Cherat Cement intends to provide loan/advance and/or guarantee facilities of up to Rs. 200 million to M/s. Mirpurkhas Sugar Mills Ltd., an associated company.

As required under SRO no. 865(1) 2000 dated December 6, 2000, the details of this financing arrangement are stated below:

(i)	**Name of borrower company or associated undertaking together with the amount of loan/advance and/or guarantee.**	- Mirpurkhas Sugar Mills Limited - Up to Rs. 200,000,000/- (Rupees two hundred million only)
(ii)	**Rate of interest to be charged on each loan and advance together with particulars of collateral/ security to be obtained from borrower.**	0.40% above the rate at which the lending company i.e. Cherat Cement Co. Ltd. has obtained its own financing. No security is considered necessary as both companies are under common management control.
(iii)	**Period for which this loan and advance will be made.**	Up to a maximum period of three (3) years.
(iv)	**Terms of repayment or any other terms of loan and advance.**	The loan and/or advance is repayable within a period of three (3) years or as and when required by Cherat Cement from time to time.
(v)	**Purpose of loan/advance and/or guarantee**	The purpose of loan/advance and/or guarantee is to facilitate M/s. Mirpurkhas Sugar Mills Ltd. in meeting its financial requirements.
(vi)	**Benefits likely to accrue to the Company and its shareholders from loan and advance**	The investing company i.e. Cherat Cement Co. Ltd. and its shareholders will be benefited as the proposed investment will fetch a return of 0.40% over and above the mark-up rate at which Cherat Cement Co. Ltd. has borrowed. Further, the surplus funds will not remain idle and will be invested in a most efficient manner. Also, the funds will remain at the disposal of the investing company as the loan and/or advance is repayable on demand.
(vii)	**Common Directors**	- Mr. Mohammed Faruque - Mr. Akbarali Pesnani

The particulars of M/s. Mirpurkhas Sugar Mills Ltd. (borrowing company) are as under:

Date of Incorporation	May 27, 1964
Date of Commencement of Commercial Operation	July 8, 1964
Financial Position as per published Financial Statements for the nine months period ended June 30, 2005	
Profit after tax	Rs. 61.68 million
Assets	Rs. 1,036.66 million
Equity	Rs. 131.96 million
Current Ratio	0.94 : 1
Earnings per share	Rs. 9.65 per share
Dividend per share	Nil
Break up value per share	Rs. 21 per share

DIRECTORS' REPORT TO THE MEMBERS FOR THE YEAR ENDED JUNE 30, 2005

The directors are pleased to place before you the financial results of the company along with the audited accounts for the year ended June 30, 2005.

OVERVIEW

The economy of Pakistan continued to grow at an impressive pace during the year 2004/05, as the GDP of the country touched 8.4%. Due to investor-friendly policies of the present government, sharp rise was witnessed in the export of goods and robust growth was recorded in almost all significant medium and large-scale industries of the country.

Cement sector, which is one of the major drivers of the economy, contributed significantly towards the growth of the national economy. During the year under review, the capacity utilization of the local cement industry reached 91% compared to 81% last year. Cement demand continued to grow at a rate of 20% and cement sales on aggregate rose to 16 million tons.

PERFORMANCE OF THE COMPANY

The performance of the company during the year under review remained satisfactory. On the back of an increase in the demand for cement, both in local as well as Afghan market, the capacity utilization of the company was 100% for the year. However, due to capacity constraints, sale of cement could only register a nominal increase. The after tax profitability of the company touched a record Rs. 512.30 million for the current year.

Production

The company continued to produce quality cement to meet the demand of its loyal customers both domestically as well as in Afghanistan. However, owing to capacity constraints, the production of clinker and cement declined by 24,900 tons and 10,045 tons respectively during the year under review.

The comparative production figures of clinker and cement are stated under:

	2004/05 (in tons)	2003/04 (in tons)	Variance
• Clinker	**749,100**	774,000	**(3%)**
• Cement	**791,518**	801,563	**(1%)**

Sales and dispatches

Commencement of work on several infrastructural and developmental projects and improvement in the social and economic environment of the country coupled with increase in the pace of reconstruction efforts in Afghanistan, resulted in an increase in the off-take of cement of the company. During the year under review, the company dispatched 607,346 tons of cement locally, up from 598,054 tons sold last year. Sales to Afghanistan dropped by 6,420 tons to 184,963 tons during the year, due to production constraints. However, the company continued to enjoy strong brand loyalty in Afghanistan and was also able to attract a premium on its selling price.

	2004/05 (in tons)	2003/04 (in tons)	Variance
• Local sales	607,346	598,054	**2%**
• Export sales	184,963	191,383	**(3%)**
	792,309	789,437	**1%**

Operating performance

The year 2004/05 witnessed a rise of 15% in the turnover of the company, as net sales increased by Rs. 315.57 million to Rs. 2,400.53 million. While domestic prices rose modestly, export prices increased significantly during the course of the year. Despite appreciation in input costs that adversely affected the cost of goods sold, gross profitability margin of the company increased to 36% as compared to 34% in the corresponding period last year. After taking into consideration various expenses and government taxes, the company earned an impressive after tax profit of Rs. 512.30 million during the current year, registering a rise of 20%.

The summarized operating performance of the company for the current year and that of last year is as follows:

	2004/05 (Rs. in million)	2003/04 (Rs. in million)	Variance
Net sales	**2,400.53**	2,084.96	**15%**
Cost of sales	**1,544.12**	1,369.79	**13%**
Gross Profit	**856.41**	715.17	**20%**
Expenses & taxes	**344.11**	289.48	**19%**
Net Profit	**512.30**	425.69	**20%**

DIVIDEND FOR THE YEAR

At their meeting held on September 15, 2005, the Board of Directors of the company has proposed a cash dividend @ 30% (Rs. 3/- per share) for the year ended June 30, 2005.

Further, the Board of Directors has also proposed the issuance of bonus shares @ 25% i.e. in the ratio of one (1) share for every four (4) shares held through capitalization of Rs. 166,226,100 out of free reserves of the company. The said bonus shares shall not be entitled for dividend declared for the year ended June 30, 2005. However, the final dividend has not been recognized in the accounts as explained in note no. 2.3 to the financial statements.

The approval of the members for the Cash Dividend and Bonus Shares will be obtained at the Annual General Meeting to be held on October 24, 2005.

EXPANSION OF PRODUCTION CAPACITY

In order to cope with an increased demand for cement and to overcome the capacity constraint, the company embarked on a project to increase the plant capacity by 800 tons per day. The expansion of capacity will ensure uninterrupted supply of cement to the loyal customers of the company. The increased capacity is expected to come online by March 2006.

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, except for the change as stated in note 2.3 to the financial statements, in the 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 code of corporate governance, as detailed in the listing regulations.
- Key operating and financial data for last six (6) years in summarized form is annexed.
- 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, 2005.

- Provident Fund	Rs. 110.202 million
- Gratuity Fund	Rs. 83.018 million

- In the year 2004/05, the Board of Directors of the company held six (6) meetings. The attendance record of each director is as follows:

Name of Director	Meetings Attended
Mr. Mohammed Faruque	5
Mr. Zahid Faruque	6
Mr. Iqbal Faruque	6
Mr. Akbarali Pesnani	4
Mr. Azam Faruque	6
Mr. Muhammad Nawaz Tishna	5
Mr. Anis Wahab Zuberi *	5
Mr. Iftikhar Ahmad Bashir	3
Mr. Javaid Anwar *	1

* *Mr. Anis Wahab Zuberi resigned from the Board on 6th May 2005. In his place, Mr. Javaid Anwar was co-opted as Director.*

- The pattern of shareholding is annexed.
- During the year, Mr. Zahid Faruque purchased 1,000 shares of the company.
- The Earnings per share (EPS) improved from Rs. 6.40 per share in the previous year to Rs. 7.70 per share during the current year.

FUTURE PROSPECTS

There has been a steady rise in the demand for cement in the country. This growth trend is expected to continue in the foreseeable future due to greater focus by the government on the development of infrastructure in the country and implementation of economic, social and corporate reforms. On the export sales front, it is hoped that reconstruction activities will pick up pace in Afghanistan, which will lead to a higher capacity utilization for the company.

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 having business relationship with us, our dealers and customers for their continued support, cooperation and trust they have reposed in us. We would also like to share our deepest appreciation for our team of executives, managers, supervisors and other employees, for their dedication, loyalty and hard work.

On behalf of the Board of Directors

Mohammed Faruque
Chairman

Karachi: September 15, 2005

VISION

To be a premier manufacturing concern engaged in the nation building through optimum utilization of resources for the benefit of its stakeholders.

MISSION

To build on our core competencies by making regular investment in the field of technology to bring about improvements in the quality of our product. We strive to develop an organization having a strong team of dedicated professionals with satisfied customers and shareholders.

CORE VALUES

§ Achieve excellence in business

§ Sustain development through technological advancements

§ Commitment to quality

§ Continuous development of work force

§ Compliance to the practices of ISO 9001:2000

STATEMENT OF COMPLIANCE WITH 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, Lahore and Islamabad 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 six non-executive directors, of whom three are 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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. A casual vacancy occurring on the Board on May 6, 2005 was filled up by the directors 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 signed by the employees of the Company.

6. The Board has developed a vision/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 other executive directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose 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, who are all non-executive directors of the company.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has set-up an effective internal audit function.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. 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 15, 2005

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 15, 2005

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH 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, 2005 prepared by the Board of Directors of Cherat Cement Company Limited to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges 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, for the year under review.

Ford Rhodes Sidat Hyder & Co.

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

KARACHI: September 15, 2005

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 in the field of cement production to produce cement 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. Recognize 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

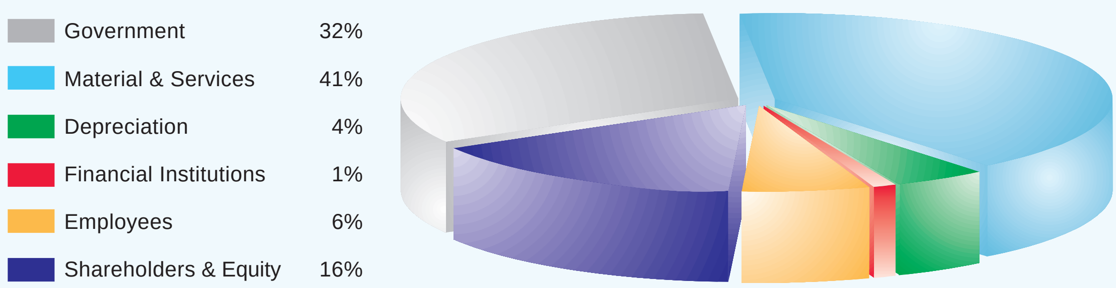
To fulfill all statutory requirements of the Government and its regulatory bodies and follow relevant and applicable laws of the country.

Environmental Protection

To protect environment and ensure health and safety of the work force and well-being of the people living in the adjoining areas of our plant.

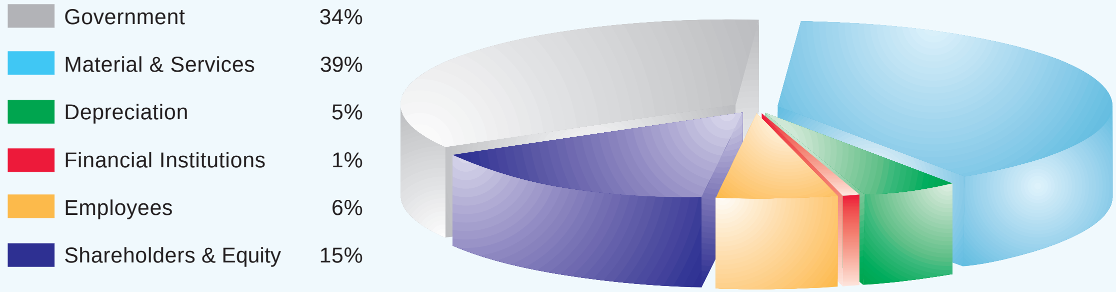
We recognize the need for working with optimum efficiency to attain desired levels of performance. We endeavor to conduct our business with honesty and integrity and produce and supply cement with care and competence, so that customers receive the quality they truly deserve.

WEALTH GENERATED AND DISTRIBUTED DURING 2004/2005

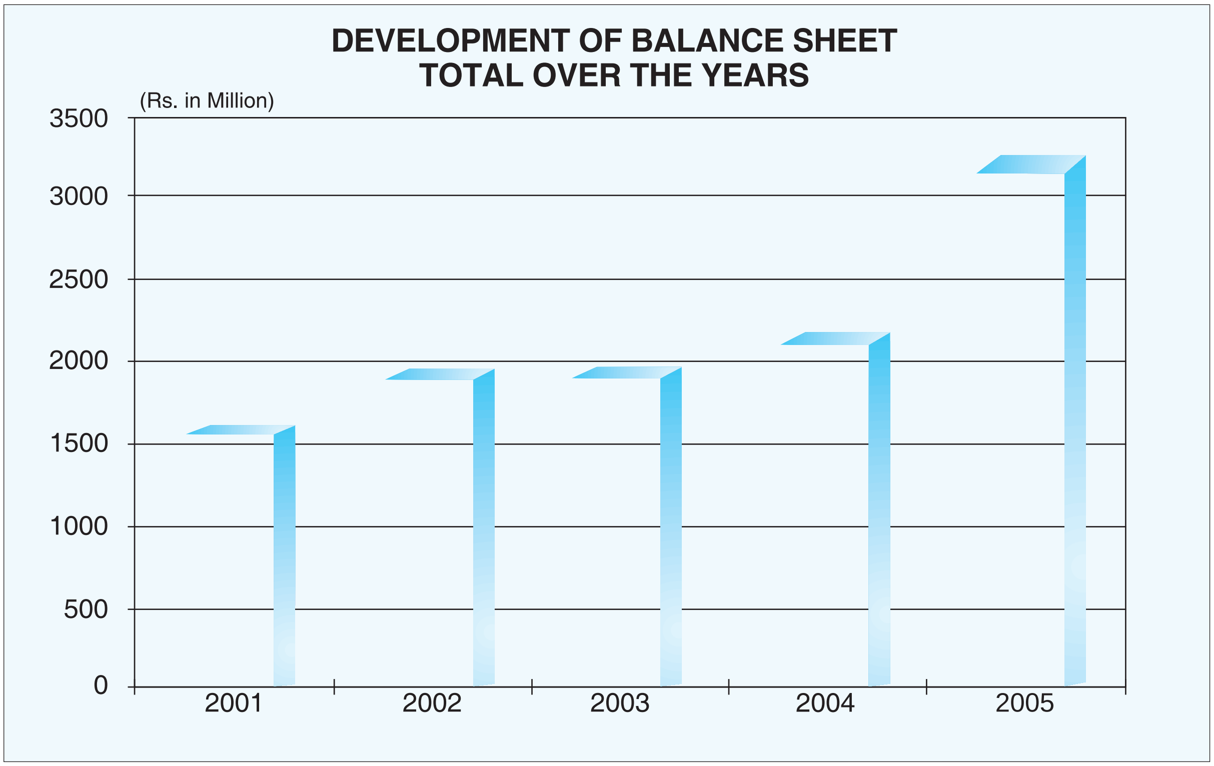


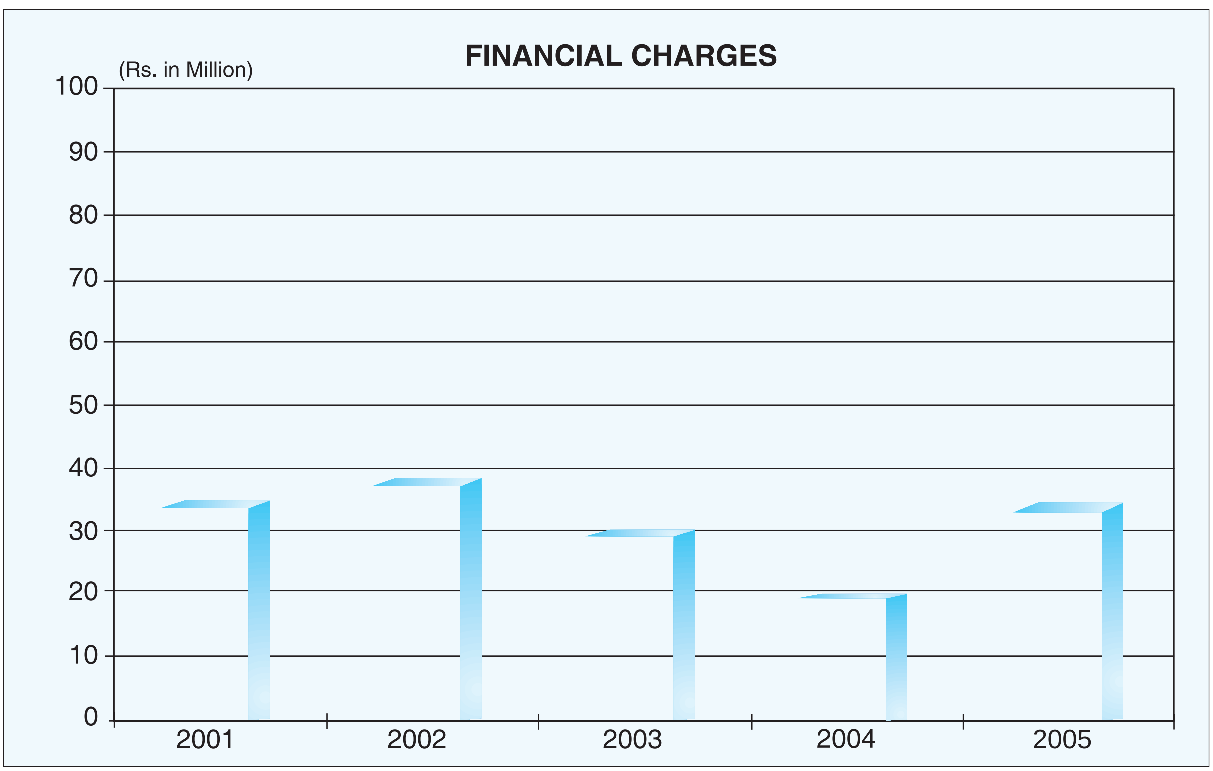
Total revenue Rs. 3,230.196 million

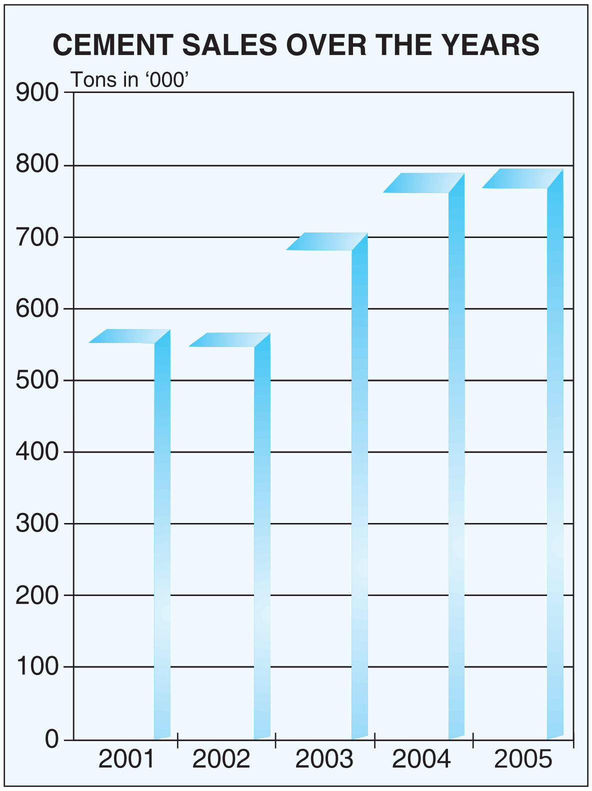
WEALTH GENERATED AND DISTRIBUTED DURING 2003/2004

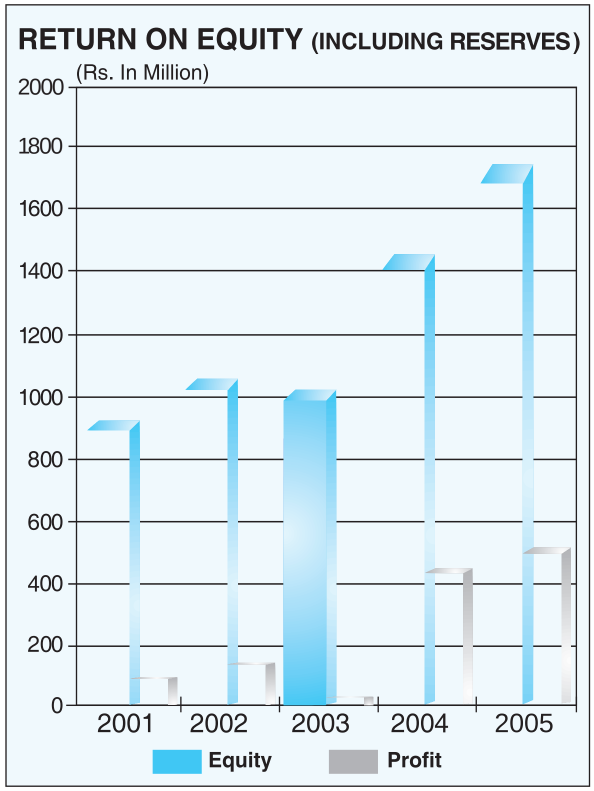


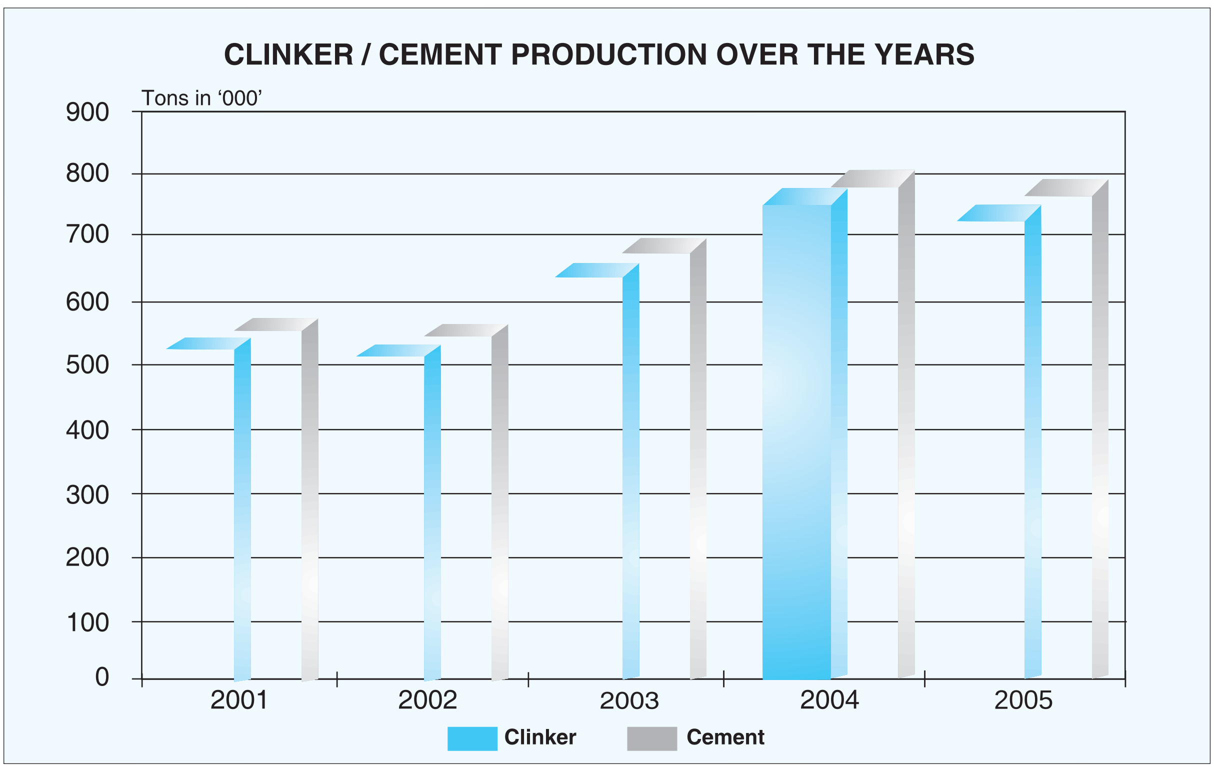
Total revenue Rs. 2,913.572 million


DEVELOPMENT OF BALANCE SHEET TOTAL OVER THE YEARS
(Rs. in Million)
3500
3000
2500
2000
1500
1000
500
0
2001
2002
2003
2004
2005


FINANCIAL CHARGES
(Rs. in Million)
100
90
80
70
60
50
40
30
20
10
0
2001
2002
2003
2004
2005


CEMENT SALES OVER THE YEARS
Tons in '000'
900
800
700
600
500
400
300
200
100
0
2001
2002
2003
2004
2005


RETURN ON EQUITY (INCLUDING RESERVES)
(Rs. In Million)
2000
1800
1600
1400
1200
1000
800
600
400
200
0
2001
2002
2003
2004
2005
Equity
Profit


CLINKER / CEMENT PRODUCTION OVER THE YEARS
Tons in '000'
900
800
700
600
500
400
300
200
100
0
2001
2002
2003
2004
2005
Clinker
Cement

YEARWISE STATISTICAL SUMMARY

	2005	2004 (Restated)	2003	2002	2001	2000	1999
						(Tons in '000')	
Clinker Production	749	774	656	528	538	498	505
Cement Production	792	802	693	555	566	521	535
Cement despatched	792	789	706	555	564	523	532
ASSETS EMPLOYED						(Rs. in million)	
Tangible Fixed Assets	1,773	1,252	1,276	1,135	881	973	1,069
Investment and long-term loan,	18	17	19	101	12	12	11
Advances & Deposits	28	-	-	-	-	-	-
Derivative financial assets	1,384	913	601	664	713	742	665
Current Assets							
Total Assets employed	**3,203**	**2,182**	**1,896**	**1,900**	**1,606**	**1,727**	**1,745**
FINANCED BY							
Shereholders equity	1,742	1,432	1,007	1,063	908	929	887
Long-term Liabilities	829	210	312	66	35	73	185
Deferred Liabilities	167	170	170	175	178	188	167
Derivative Financial Liabilities	15	-	-	-	-	-	-
Current Liabilities	450	370	407	596	485	537	506
Total Funds Invested	**3,203**	**2,182**	**1,896**	**1,900**	**1,606**	**1,727**	**1,745**
TURN OVER & PROFIT							
Turn over (net)	2,401	2,085	1,508	1,423	1,342	2,153	1,932
Operating Profit/(Loss)	718	592	59	202	130	328	112
Profit before taxation	684	574	25	177	124	287	52
Profit after taxation	512	426	10	138	75	162	58
Cash dividend	199	213	66	120	96	120	96
Stock Dividend	166	133	-	-	-	-	-
Transfer to Reserves	-	-	-	5	-	25	-
Transfer from Reserves	-	-	30	-	-	-	-

RATIO ANALYSIS ON ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2005

		2005	2004 (Restated)
	Profitability:		
1	Gross Profit (percentage)	35.68	34.30
2	Operating Profit (percentage)	29.91	28.43
3	Profit Before Tax (percentage)	28.49	27.51
4	Net Profit After Tax (percentage)	21.34	20.42
5	Net Profit to average Share Holder's Equity (percentage)	32.27	33.98
6	E.P.S (Before Tax)	10.29	10.78
7	E.P.S (After Tax)	7.70	6.40
8	Net Profit to Total Assets (Average after tax) (percentage)	14.64	9.98
9	Increase in Sales (Net percentage)	15.14	38.29
10	Raw & Packing Material % of Net Sales	9.75	12.84
11	Labour % of Net Sales	5.68	5.84
12	Other Cost of Sales Expenses % of Net Sales	48.90	47.01
13	Raw & Packing Material as % of Cost of Sales	15.15	19.55
14	Administrative Expenses % of Net Sales	2.63	2.67
15	Distribution Expenses % of Net Sales	1.92	1.77
16	Tax % of Net Sales	7.15	7.10
17	Finance Cost % of Net Sales	1.42	0.92
	Short Term Solvency:		
1	Working Capital Ratio	3.08	2.47
2	Acid Test Ratio	2.88	2.25
3	Working Capital Turnover (Net Sales) times	2.57	3.84
4	Inventory Turnover / Times	18.34	21.26
	Overall Valuation and Assessment:		
1	Number of Times Interest Cover (before tax profit)	21.10	31.01
2	Return on Equity after tax (Average in percentage)	32.27	33.98
3	Book Value Per Share	26.21	26.93
4	Long Term Debts to Equity Ratio (in percentage)	32.21	12.76

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **CHERAT CEMENT COMPANY LIMITED** as at **June 30, 2005** 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 except for the changes as stated in notes 2.3 to the financial statements with which we concur;

   ii) the expenditure incurred during the year was for the purpose of the company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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, 2005** 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 & Co

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

KARACHI: September 15, 2005

BALANCE SHEET AS AT JUNE 30, 2005

	Note	2005	2004 (Restated)
		---------- (Rupees `000) ----------	
ASSETS			
NON-CURRENT ASSETS			
Tangible fixed assets – Property, plant and equipment	3	**1,773,455**	1,251,707
Long-term investments	4	**7,694**	7,516
Long-term loans	5	**6,510**	6,595
Long-term security deposits		**2,601**	3,061
Derivative financial assets	15	**28,045**	-
		1,818,305	1,268,879
CURRENT ASSETS			
Assets held for disposal	6	**-**	489
Stores, spare parts and loose tools	7	**523,169**	421,347
Stock-in-trade	8	**88,498**	79,931
Loans and advances	9	**9,739**	9,214
Trade deposits and short-term prepayments	10	**7,885**	12,383
Other receivables	11	**4,362**	1,041
Current portion of long-term investments	4	**-**	2,378
Cash and bank balances	12	**750,842**	386,410
		1,384,495	913,193
TOTAL ASSETS		**3,202,800**	2,182,072
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital 150,000,000 (2004: 80,000,000) ordinary shares of Rs. 10/- each		**1,500,000**	**800,000**
Issued, subscribed and paid-up capital	13	**664,905**	531,924
Reserves	14	**1,077,566**	900,494
		1,742,471	1,432,418
NON-CURRENT LIABILITIES			
Long-term financings	15	**812,500**	187,500
Liabilities against assets subject to finance lease	16	**1,172**	6,813
Long-term deposits	17	**14,221**	15,170
Deferred taxation	18	**167,372**	170,327
Derivative financial liabilities	15	**15,241**	-
		1,010,506	379,810
CURRENT LIABILITIES			
Trade and other payables	19	**249,281**	200,815
Current maturity of long-term liabilities	20	**80,641**	100,719
Provision for taxation – net		**109,045**	59,593
Unpaid and unclaimed dividend		**10,856**	8,717
		449,823	369,844
CONTINGENCIES AND COMMITMENTS	21		
TOTAL EQUITY AND LIABILITIES		**3,202,800**	2,182,072

The annexed notes from 1 to 40 form an integral part of these financial statements.

ZAHID FARUQUE
CHIEF EXECUTIVE

AZAM FARUQUE
DIRECTOR

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2005

	Note	2005	2004
		---------- (Rupees `000) ----------	
Turnover – net	22	**2,400,530**	2,084,955
Cost of sales	23	**(1,544,122)**	(1,369,785)
Gross profit		**856,408**	715,170
Distribution cost	24	**(46,202)**	(36,967)
Administrative expenses	25	**(63,023)**	(55,768)
Other operating expenses	26	**(53,864)**	(42,406)
Other operating income	27	**24,718**	12,752
Operating profit		**718,037**	592,781
Finance cost	28	**(34,030)**	(19,113)
Net profit before taxation		**684,007**	573,668
Taxation			
Current			
- for the year		**(178,408)**	(147,405)
- prior year		**-**	(994)
Deferred			
- for the year		**6,701**	427
	29	**(171,707)**	(147,972)
Net profit after taxation		**512,300**	425,696
Earnings per share – Basic and diluted (Restated)	30	**Rs. 7.70**	Rs. 6.40

The annexed notes from 1 to 40 form an integral part of these financial statements.

ZAHID FARUQUE
CHIEF EXECUTIVE

AZAM FARUQUE
DIRECTOR

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2005

	Note	2005	2004
		---------- (Rupees `000) ----------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**684,007**	573,668
Adjustments:			
Depreciation	3.1.2 & 3.2.2	**143,019**	139,371
Return on investments	27	**(293)**	(4,981)
Gain on disposal of property, plant and equipment	3.1.3 & 27	**(2,304)**	(317)
Finance cost	28	**34,030**	19,113
Exchange loss – net		**210**	239
Dividend income	27	**(1,296)**	(2,160)
Assets held for disposal written-off		**489**	-
		173,855	151,265
Operating profit before working capital changes		**857,862**	724,933
(Increase) / decrease in current assets			
Assets held for disposal		**-**	911
Stores, spare parts and loose tools		**(101,822)**	(156,356)
Stock-in-trade		**(8,567)**	(30,994)
Loans and advances		**(525)**	(2,062)
Trade deposits and short-term prepayments		**4,498**	(3,884)
Other receivables		**(730)**	(38)
		(107,146)	(192,423)
		750,716	532,510
Increase / (decrease) in current liabilities			
Short-term finance		**-**	(73,127)
Trade and other payables		**30,556**	7,144
		30,556	(65,983)
Cash generated from operations		**781,272**	466,527
Income tax paid		**(128,956)**	(38,958)
Finance cost paid		**(14,656)**	(25,902)
Net cash generated from operating activities		**637,660**	401,667
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to operating property, plant and equipment	3.1.1	**(211,488)**	(37,841)
Sale proceeds of operating property, plant and equipment	3.1.3	**4,691**	952
Capital work-in-progress		**(455,666)**	(77,827)
Long-term loans		**85**	(1,578)
Sale proceeds of investments		**(308)**	95,606
Dividend received	27	**1,296**	2,160
Long-term security deposits		**460**	618
Net cash used in investing activities		**(660,930)**	(17,910)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term financings- net		**625,000**	(37,500)
Finance lease payments	16.1	**(25,719)**	(22,070)
Long-term deposits		**(949)**	(196)
Dividend paid		**(210,630)**	(66,242)
Net cash generated from / (used in) financing activities		**387,702**	(126,008)
Net increase in cash and cash equivalents		**364,432**	257,749
Cash and cash equivalents at the beginning of the year		**386,410**	128,661
Cash and cash equivalents at the end of the year		**750,842**	386,410

The annexed notes from 1 to 40 form an integral part of these financial statements.

ZAHID FARUQUE
CHIEF EXECUTIVE

AZAM FARUQUE
DIRECTOR

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2005

	Issued, subscribed and paid-up capital	RESERVES									Total
		CAPITAL RESERVES			REVENUE RESERVES				Total		
		Capital reserve	Reserve for issue of bonus shares	Sub-total	General reserve	Unrea-lised gain	Unappro-priated profit	Sub-total			
	(Rupees `000)										
Balance as at July 01, 2003 (as previously reported)	531,924	50,900	-	50,900	420,000	-	3,898	423,898	474,798		1,006,722
Effect of change in accounting policy (Note 2.3.1)											
Final dividend for the year ended June 30, 2003	-	-	-	-	-	-	66,491	66,491	66,491		66,491
Appropriation for general reserve for the year ended June 30, 2003	-	-	-	-	30,000	-	(30,000)	-	-		-
Balance as at July 01, 2003 (restated)	531,924	50,900	-	50,900	450,000	-	40,389	490,389	541,289		1,073,213
Final dividend for the year ended June 30, 2003	-	-	-	-	-	-	(66,491)	(66,491)	(66,491)		(66,491)
Appropriation for general reserve for the year ended June 30, 2003	-	-	-	-	(30,000)	-	30,000	-	-		-
Profit after taxation for the year ended June 30, 2004	-	-	-	-	-	-	425,696	425,696	425,696		425,696
Balance as at June 30, 2004 (restated)	531,924	50,900	-	50,900	420,000	-	429,594	849,594	900,494		1,432,418
Balance as at July 01, 2004 (as previously reported)	531,924	50,900	132,981	183,881	420,000	-	83,844	503,844	687,725		1,219,649
Effect of change in accounting policy (Note 2.3.1)											
Final dividend for the year ended June 30, 2004	-	-	-	-	-	-	212,769	212,769	212,769		212,769
Reserve for issue of bonus shares	-	-	(132,981)	(132,981)	-	-	132,981	132,981	-		-
Balance as at July 01, 2004 (restated)	531,924	50,900	-	50,900	420,000	-	429,594	849,594	900,494		1,432,418
Final dividend for the year ended June 30, 2004	-	-	-	-	-	-	(212,769)	(212,769)	(212,769)		(212,769)
Bonus shares issued during the year	132,981	-	-	-	-	-	(132,981)	(132,981)	(132,981)		-
Effect of recognition of fair value of derivative financial instruments net of deferred tax	-	-	-	-	-	10,522	-	10,522	10,522		10,522
Profit after taxation for the year ended June 30, 2005	-	-	-	-	-	-	512,300	512,300	512,300		512,300
Balance as at June 30, 2005	**664,905**	**50,900**	**-**	**50,900**	**420,000**	**10,522**	**596,144**	**1,026,666**	**1,077,566**		**1,742,471**

The annexed notes from 1 to 40 form an integral part of these financial statements.

ZAHID FARUQUE
CHIEF EXECUTIVE

AZAM FARUQUE
DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

1. CORPORATE INFORMATION

The company was incorporated in Pakistan as a public company limited by shares in the year 1981. Its main business activity is manufacturing, selling and marketing of cement. The company started commercial production in May 1985 and is listed on Karachi, Lahore and Islamabad Stock Exchanges.

The registered office of the company is situated at Modern Motors House, Beaumont Road, Karachi.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the 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 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 the 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 certain inventories which are valued at net realisable value, derivatives including interest rates swaps and forward exchange contracts, which are valued at fair value.

2.3 Changes in Accounting Policies

2.3.1 Change required as per revised Fourth Schedule to the Companies Ordinance, 1984

During the year, the SECP substituted the Fourth Schedule to the Companies Ordinance, 1984, which is effective for the financial year ended on or after July 05, 2004. This has resulted in the change in accounting policy pertaining to recognition of dividend and other appropriations declared subsequent to the year end. Dividend and other appropriations of profit are now recognised in the period in which these are declared. Till the previous year, dividends declared and appropriations made after the balance sheet date but before the authorisation of financial statements for issue, were recognised as of the balance sheet date. The change in accounting policy has been accounted for retrospectively and comparative information has been restated in accordance with the benchmark treatment specified in IAS – 8 (Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies). Had there been no change in the accounting policy, the unappropriated profit would have been lower by Rs. 365.697 million (2004: Rs. 345.750 million) and reserves would have been lower by Rs. 199.471 million (2004: Rs. 212.769 million) and current liabilities would have been higher by Rs. 199.471 million (2004: Rs. 212.769 million). The effect of change in accounting policy has been reflected in the statement of changes in equity and comparative information is restated. This change in accounting policy has not resulted in any change in the profit after tax for the current year and prior years.

2.3.2 Borrowing costs

Effective July 01, 2004, the company changed its policy with respect to borrowing costs to expense out all borrowing costs in the period in which they are incurred to bring it in line with the benchmark treatment defined by IAS – 23, “Borrowing Costs”. Previously the company had a policy to capitalise such costs which were directly attributable to the acquisition and construction of assets and incurred during those periods, the activities necessary to prepare such assets for their intended use and were in progress.

The change in the policy is applied prospectively and the resulting adjustments are included in net profit or loss for the year, and comparative information is not restated for the said change as the same is not considered material.

Had the policy not been changed, the finance cost for the year would have been lower by Rs. 18.480 million.

2.4 **Fixed assets and depreciation**

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. Full year's depreciation is charged on additions during the year while no depreciation is charged on assets disposed off.

Maintenance and repairs are charged to income as and when incurred. Major renewals and improvements which increases 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 value may not be recoverable. If such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to the recoverable amount.

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 per owned assets.

2.5 **Investments**

2.5.1 **In associates**

Investments in associates are stated at cost less provision for impairment, if any, in the value of such investments.

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 initially recognised at cost and are subsequently carried at amortised cost.

2.6 **Assets held for disposal**

These are stated at estimated net realisable value.

2.7 **Stores, spare parts and loose tools**

These are valued at lower of average cost and estimated net realisable value 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.

2.8 **Stock-in-trade**

Stock-in-trade is valued at the lower of cost and estimated net realisable value.

Cost signifies in relation to:

Raw and packing material	-	Purchase cost on average basis
Finished goods and work-in-process	-	Cost of direct material, labour and proportion of manufacturing overheads.

Net realisable value 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.

2.9 Financial Instruments

All financial assets and liabilities are recognised at the time when the company becomes party to the contractual provisions of the instrument and 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 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.

2.9.1 Financial Assets

All financial assets are initially recognised at cost which is the fair value of the consideration given. Subsequent to initial recognition, financial assets are carried at fair value except for financial assets originated by the company, held to maturity investments or any financial assets whose fair value cannot be reliably measured.

Financial assets are derecognised when the contractual right under the instrument are released, expired or surrendered.

2.9.2 Financial Liabilities

All financial liabilities are initially recognised at cost, which is the fair value of the consideration received at initial recognition. After initial recognition financial liabilities held for trading are carried at fair value and all other financial liabilities are measured at amortised cost.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expired.

2.10 Foreign currency translations

Transactions in foreign currencies are translated to Pak Rupee 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 Derivative financial instruments

The company uses derivative financial instruments such as forward exchange contracts and interest rate swaps to hedge its risks associated with foreign currency borrowings and effects on cash flows of any fluctuations in interest rates. 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. The fair value of interest rate swap contracts is estimated by reference to market value for similar instruments.

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 of remaining period of hedge, if material, is taken to profit and loss account, being considered fair value hedge.

Hedge accounting is discontinued when the hedging instrument is expired or is 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.

2.12 Borrowing costs

Borrowing costs are recognised as an expense in the period in which these are incurred (Refer Note 2.3.2).

2.13 Cash and cash equivalents

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

2.14 Revenue recognition

2.14.1 Sale of goods

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

2.14.2 Other operating income

Return on held to maturity investments is recognised on accrual basis using effective yield method.

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

Other revenues are accounted for on accrual basis.

2.15 Staff retirement benefits

2.15.1 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.

2.15.2 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 percent of basic salary.

2.16 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.

2.17 Taxation

2.17.1 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 exemption available, if any or minimum taxation at the rate of one-half percent of the turnover whichever is higher. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime.

2.17.2 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 asset is 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 are 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.

2.18 Related party transactions

The company enters into transactions with associated companies and other related parties on arm's length basis using admissible valuation method and the related price is determined accordingly.

	Note	2005	2004
		-------------(Rupees '000)--------------	
3. PROPERTY, PLANT AND EQUIPMENT			
Operating property, plant and equipment	3.1	**1,227,052**	1,119,332
Assets subject to finance lease	3.2	**12,910**	54,548
Capital work-in-progress	3.3	**533,493**	77,827
		1,773,455	1,251,707

3.1 Operating property, plant and equipment

3.1.1 The following is a statement of operating assets:

Description	Cost as at July 01, 2004	Additions/ (Deletions) / *Transfers	Cost as at June 30, 2005	Accumulated depreciation as at July 01, 2004	Adjustment for depreciation on (Disposals) / *Transfers	Depreciation for the year	Accumulated depreciation as at June 30, 2005	Book value as at June 30, 2005	Rate % per annum
	------------ (Rupees '000) ------------								
Freehold land	1,605	-	1,605	-	-	-	-	1,605	-
Leasehold land	6,255	-	6,255	-	-	-	-	6,255	-
Building on leasehold land	310,723	1,892	312,615	217,660	-	9,213	226,873	85,742	5-10
Plant and machinery	2,350,078	203,830 - *50,000	2,603,908	1,391,432	- - *13,333	119,914	1,524,679	1,079,229	10
Power and other installations	42,534	83	42,617	35,062	-	848	35,910	6,707	10
Motor vehicles	18,681	2,856 (5,986) *5,721	21,272	9,878	- (3,656) *3,378	2,334	11,934	9,338	20
Quarry, factory and laboratory equipment	140,353	157	140,510	111,421	-	4,341	115,762	24,748	15
Furniture and fittings	25,223	464 (31)	25,656	15,827	- (22)	998	16,803	8,853	10-20
Office equipment	6,446	593	7,039	4,219	-	403	4,622	2,417	10-20
Computers	35,871	1,613 (145)	37,339	32,938	- (97)	2,340	35,181	2,158	33.33
2005	**2,937,769**	**211,488 (6,162) *55,721**	**3,198,816**	**1,818,437**	**- (3,775) *16,711**	**140,391**	**1,971,764**	**1,227,052**	
2004	2,894,719	37,841 (1,723) *6,932	2,937,769	1,683,359	(1,088) - *3,895	132,271	1,818,437	1,119,332	

	Note	2005	2004
		---------- (Rupees `000) ----------	
3.1.2 The depreciation for the year has been allocated as follows:			
Manufacturing overheads	23	**136,725**	128,792
Distribution cost	24	**1,547**	1,226
Administrative expenses	25	**2,119**	2,253
		140,391	132,271

3.1.3 Disposal of operating property, plant and equipment

Description	Cost	Book Value	Sale Proceeds	Gain/ (Loss)	Mode of Disposal	Sold to	
	------------- (Rupees `000)			--------------			
Motor vehicles							
Kia Spectra ADQ-300	859	440	442	2	Tender	Syed Imran Asif	Karachi
Toyota Corolla ABW-010	740	194	380	186	Negotiation	Mr. Khursheed Anwar	Karachi
Mercedes Benz ADK-101	3,750	1,536	1,600	64	Tender	Syed Ejaz Hashim	Karachi
Suzuki Mehran ABP-354	304	71	175	104	Tender	Mr. Wasim Mirza	Karachi
	5,653	2,241	2,597	356			
Aggregate of assets disposed-off having book value below Rs. 50,000 each							
Motor vehicles	333	89	1,964	1,875			
Furniture and fittings	31	9	5	(4)			
Computers	145	48	125	77			
	509	146	2,094	1,948			
	6,162	2,387	4,691	2,304			

3.2 Assets subject to finance lease

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

Description	Cost as at July 01, 2004	* (Transfers)	Cost as at June 30, 2005	Accumulated depreciation as at July 01, 2004	Adjustment for depreciation on * Transfers	Depreciation for the year	Accumulated depreciation as at June 30, 2005	Book value as at June 30, 2005	Rate % per annum
	------------------				(Rupees '000)			------------------	
Plant and machinery	50,000	*(50,000)	-	13,333	*(13,333)	-	-	-	10
Quarry equipment	15,590	-	15,590	6,016	-	1,436	7,452	8,138	15
Vehicles	16,073	*(5,721)	10,352	7,766	*(3,378)	1,192	5,580	4,772	20
2005	**81,663**	***(55,721)**	**25,942**	**27,115**	***(16,711)**	**2,628**	**13,032**	**12,910**	
2004	88,595	*(6,932)	81,663	23,910	*(3,895)	7,100	27,115	54,548	

	Note	2005	2004
		---------- (Rupees `000)	----------
3.2.2 The depreciation for the year has been allocated as follows:			
Manufacturing overheads	23	**2,203**	5,983
Distribution cost	24	**113**	343
Administrative expenses	25	**312**	774
		2,628	7,100

3.3 Capital work-in-progress

	2005	2004
Civil works	**5,823**	-
Plant and machinery	**517,626**	-
Furniture and fittings	**-**	72
Advance against capital expenditure – plant and machinery	**9,900**	76,589
– vehicles	**-**	1,166
– building	**144**	-
	533,493	77,827

4. LONG-TERM INVESTMENTS

	Note	2005	2004
		(Rupees `000)	
In an associated company / related party – quoted – carried at cost			
Cherat Papersack Limited			
288,000 (2004: 240,000) fully paid ordinary shares of Rs. 10/- each			
Market value Rs. 20.232 million (2004: Rs. 21.120 million)			
Equity held 5.88% (2004: 5.88%)	4.1	**2,800**	2,800
Held to maturity investment			
US Dollar Bonds	4.2	**4,894**	7,094
Less: Current maturity		**-**	2,378
		4,894	4,716
		7,694	7,516

4.1 This investment was held under safe custody of a Commercial Bank as of the balance sheet date.

4.2 Represents US Dollar Bonds having redemption value of Rs. 4.894 million (2004: Rs. 7.094 million). The above investment carries mark-up at a rate of 2 percent above the LIBOR and will mature by May 2008. These are pledged with a commercial bank against credit facilities.

5. LONG-TERM LOANS - considered good

	Note	2005	2004
		(Rupees `000)	
Due from:			
Executives	5.1, 5.2 & 33.3	**1,265**	5,839
Employees	5.2	**8,383**	2,956
		9,648	8,795
Less: Due within one year shown under current loans and advances	9	**3,138**	2,200
		6,510	6,595

5.1 Reconciliation of carrying amount of loans to executives

Opening balance as at July 01, 2004	Adjustment (Ref. note 33.3)	Disbursement	Repayment	Closing balance as at June 30, 2005
(Rupees `000)				
5,839	(5,650)	1,359	(283)	1,265

5.2 Represents car and other loans provided as per the company's employee loan policy. These loans carry mark-up upto 9.5 percent per annum (2004: upto 7 percent per annum) and are repayable within 3 to 6 years. The maximum aggregate amount due from executives at the end of any month during the year was Rs. 1.366 million (2004: Rs. 5.839 million). These advances are secured against the provident fund balance of respective employees.

6. ASSETS HELD FOR DISPOSAL

	2005	2004
	(Rupees `000)	
Carrying value as at July 01	**489**	1,400
Less: Written down during the year	**489**	-
Disposals during the year	**-**	911
	489	911
	-	489

6.1 Represents quarry equipment related stores and spare parts held for disposal in consequence of the outsourcing of limestone extraction process by the company.

	Note	2005	2004
		---------- (Rupees `000) ----------	
7. STORES, SPARE PARTS AND LOOSE TOOLS			
Stores		**310,023**	214,014
Spare parts		**198,807**	201,323
Loose tools		**542**	378
		509,372	415,715
Add: Stores and spare parts in transit		**13,797**	5,632
		523,169	421,347
8. STOCK-IN-TRADE			
Raw and packing material	23	**27,371**	16,573
Work-in-process	23	**33,426**	38,388
Finished goods	23	**27,701**	24,970
		88,498	79,931
9. LOANS AND ADVANCES			
Current portion of loans due from:			
Executives		**302**	1,435
Employees		**2,836**	765
	5	**3,138**	2,200
Advances – unsecured, considered good			
Suppliers		**6,601**	7,014
		9,739	9,214
10. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS			
Trade deposits		**3**	3
Short-term prepayments			
Excise duty		**4,248**	9,958
Others		**3,634**	2,422
		7,882	12,380
		7,885	12,383
11. OTHER RECEIVABLES			
Accrued return on investments		**3,044**	453
Octroi		**17**	17
Receivable from staff gratuity fund	11.1	**692**	-
Others		**609**	571
		4,362	1,041

11.1 Actuarial valuation of the scheme was carried out as of June 30, 2005. The amount recognised in the balance sheet is as follows:

	2005	2004
	---------- (Rupees `000) ----------	
Staff Gratuity Fund		
Present value of the defined benefit obligation	**76,326**	65,469
Fair value of plan assets	**(83,018)**	(76,555)
Unrecognised actuarial gain	**6,000**	18,802
(Asset) / liability recognised in the accounts	**(692)**	7,716
Expenses recognised		
Current service cost	**3,829**	3,661
Interest cost	**5,892**	3,484
Expected return on plan assets	**(6,890)**	(4,285)
Actuarial gain recognised	**(1,239)**	-
Expenses recognised in the income statement	**1,592**	2,860
Reconciliation for the year		
Opening net liability	**7,716**	16,356
Expenses as above	**1,592**	2,860
Contribution paid	**(10,000)**	(11,500)
Closing net (asset) / liability	**(692)**	7,716
Actual return on plan assets		
Expected return on plan assets	**6,890**	4,285
Actuarial gain on plan assets	**4,940**	23,830
Actual return on plan assets	**11,830**	28,115

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

	2005	2004
- Discount rate	10% per annum	9% per annum
- Expected rate of increase in salaries	10% per annum	9% per annum
- Expected rate of return on investments	10% per annum	9% per annum

12. CASH AND BANK BALANCES

		2005	2004
		---------- (Rupees `000) ----------	
With banks in:			
Current accounts		**88,282**	95,236
PLS accounts	12.1	**12,373**	216,008
Deposit accounts	12.2	**650,000**	75,000
		750,655	386,244
Cash in hand		**187**	166
		750,842	386,410

12.1 Effective mark-up rate in respect of PLS accounts ranges from 2 to 4 percent per annum (2004: 1 to 3 percent per annum).

12.2 These represent short term deposits of fixed maturities maintained with banks. The rate of profit on these deposits ranges from 8.25 to 9.6 percent per annum.

13. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Fully paid ordinary shares of Rs. 10/- each

Number of shares 2005	Number of shares 2004		2005	2004
			(Rupees `000)	
19,842,000	19,842,000	**Issued for cash**	**198,420**	198,420
		Issued as fully paid bonus shares		
28,290,352	28,290,352	- Opening balance	**282,904**	282,904
13,298,088	-	- Issued during the year	**132,981**	-
41,588,440	28,290,352		**415,885**	282,904
61,430,440	48,132,352		**614,305**	481,324
5,060,000	5,060,000	**Shares issued for consideration other than cash on amalgamation**	**50,600**	50,600
66,490,440	53,192,352		**664,905**	531,924

13.1 Following is the detail of shares held by the associated companies:

Name of associated companies	2005	2004
	(Number of shares)	
Faruque (Private) Limited	**9,539,382**	7,171,036
Mirpurkhas Sugar Mills Limited	**2,704,350**	2,508,280
Greaves Pakistan (Private) Limited	**1,223,706**	978,965
Cherat Papersack Limited	**153,906**	123,125
	13,621,344	10,781,406

14. RESERVES

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

15. LONG-TERM FINANCINGS – SECURED

	Mode and commencement of repayment	Security	2005	2004	Rate (%)
			----- (Rupees '000) -----		
Term Finance from commercial banks					
Term Finance – I	Eight bi-annual installments commencing from February 2004	First pari-passu charge on plant and machinery.	**125,000**	175,000	Six months KIBOR + 1%
Term Finance – II	Eight bi-annual installments commencing from February 2004	First pari-passu charge on plant and machinery.	**62,500**	87,500	Six months KIBOR + 1%
			187,500	262,500	
Plant Expansion Loans from commercial banks					
Tranche – I	Eight bi-annual installments commencing from January 2007	First pari-passu charge on plant and machinery	**350,000**	-	6 months KIBOR + 0.7%
Tranche – II	Eight bi-annual installments commencing from March 2007	First pari-passu charge on plant and machinery	**350,000**	-	6 months KIBOR + 0.7%
			700,000	-	
			887,500	262,500	
Less: Current Maturity			**75,000**	75,000	
			812,500	187,500	

The company has entered into two stage interest rate swap agreements with commercial banks against the cash flow risk of interest rate fluctuations with respect to future financial cost on both tranches of plant expansion loans. These swaps are considered to be hedging instruments for the same items and are considered to be an effective hedge.

Following are the details and fair values of such derivative financial instruments:

Hedged item – Plant Expansion Loans	Pay	Receive	Notional Amount	Derivative Asset – Fair Value	Derivative Liability – Fair Value
			--------- (Rupees '000) --------		
Tranche – I					
First interest rate swap	EURIBOR + 4.85%	KIBOR	**350,000**	14,707	-
Second interest rate swap effective July 31, 2005	Fixed 2.93%	EURIBOR	**350,000**	-	7,821
Tranche – II					
First interest rate swap	EURIBOR + 5%	KIBOR	**350,000**	13,338	-
Second interest rate swap effective September 30, 2005	Fixed 2.90%	EURIBOR	**350,000**	-	7,420
				28,045	15,241

Derivative assets and liabilities are disclosed in non-current assets and liabilities and their corresponding effect is taken to unrealised gains / (losses) in equity – net of deferred tax.

16. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

16.1 This represents finance leases entered into with leasing companies for equipment and vehicles. The total lease rentals due under the various lease agreements aggregate to Rs. 7.218 million (2004: Rs. 35.444 million) and are payable in equal quarterly installments. Taxes, repairs, replacement and insurance costs are to be borne by the lessee. In case of termination of agreement, the lessee has to pay the entire rent for unexpired period. Financing rates of approximately 9 to 11 percent per annum have been used as discounting factor. Purchase options can be exercised by the lessee, paying 5 percent of the leased amount. The movement in the finance lease liability is as follows:

	2005		2004	
	Minimum Lease Payments	Present Value	Minimum Lease Payments	Present Value
	(Rupees `000)			
Within one year	**5,999**	**5,641**	28,226	25,719
After one year but not more than five years	**1,219**	**1,172**	7,218	6,813
Total minimum lease payments	**7,218**	**6,813**	35,444	32,532
Less: Amount representing finance cost	**405**	**-**	2,912	-
Present value of minimum lease payments	**6,813**	**6,813**	32,532	32,532
Less: Current portion	**5,641**	**5,641**	25,719	25,719
	1,172	**1,172**	6,813	6,813

17. LONG-TERM DEPOSITS – UNSECURED

	Note	2005	2004
		(Rupees `000)	
Dealers	17.1	**12,174**	13,208
Suppliers and contractors	17.2	**2,047**	1,962
		14,221	15,170

17.1 This represents interest-free security deposits from dealers which are repayable / adjustable on cancellation or withdrawal of dealership.

17.2 This represents interest-free security deposits from suppliers and contractors which are repayable / adjustable after the satisfactory execution of the agreements.

18. DEFERRED TAXATION

Represents the tax effect of temporary differences relating to:

	2005	2004
	(Rupees `000)	
Accelerated tax depreciation allowance	**218,068**	194,713
Leased assets	**2,133**	7,705
Provisions	**(2,035)**	(2,035)
	218,166	200,383
Less: Temporary differences not expected to reverse in view of applicability of final tax regime	**54,540**	30,056
	163,626	170,327
Net deferred tax effect of recognition of fair value of derivative financial instruments directly taken to equity	**3,746**	-
	167,372	170,327

19. TRADE AND OTHER PAYABLES

	Note	2005	2004
		(Rupees `000)	
Creditors		**12,956**	10,698
Accrued liabilities			
Accrued interest / mark-up			
Foreign currency loan		**13,266**	12,883
Long-term loans – secured		**22,440**	4,065
Short-term finance – secured		**10**	78
Finance lease		**57**	454
Other accrued liabilities			
Salaries payable		**2,251**	1,489
Bonus payable		**7,040**	5,575
Staff benefits payable		**21,517**	15,711
Accrued expenses		**5,944**	12,464
		72,525	52,719
Other liabilities			
Advances from customers		**92,725**	42,763
Staff provident fund		**62**	55
Retention money		**631**	433
Payable to staff gratuity fund	11.1	**-**	7,716
Insurance payable		**1,189**	16,922
Workers' Profits Participation Fund	19.1	**36,527**	30,628
Workers' Welfare Fund		**10,004**	8,272
Sales tax payable		**8,399**	17,424
PSI marking fee		**5,813**	5,813
Royalty and excise duty		**7,190**	5,338
Others		**1,260**	2,034
		163,800	137,398
		249,281	200,815

19.1 Workers' Profits Participation Fund

	Note	2005	2004
Balance as at July 01		**30,628**	1,328
Interest thereon	28	**160**	38
		30,788	1,366
Less: Payments during the year		**30,788**	1,366
		-	-
Contribution for the year		**36,527**	30,628
		36,527	30,628

20. CURRENT MATURITY OF LONG-TERM LIABILITIES

	Note	2005	2004
Long-term financings	15	**75,000**	75,000
Liabilities against assets subject to finance lease	16.1	**5,641**	25,719
		80,641	100,719

21. CONTINGENCIES AND COMMITMENTS

21.1 Contingencies

		Note	2005	2004
21.1.1	Claim pending adjudication by Honourable High Court of Peshawar against marking fee for the period from July 01, 1985 to June 30, 1997		**8,019**	8,019
21.1.2	Tax contingency	29	**4,320**	4,320

	Note	2005	2004
		---------- (Rupees `000) ----------	
21.2 Commitments			
21.2.1 Contracts for capital expenditure in relation to project for enhancement of production capacity		**306,465**	319,630
21.2.2 Guarantee issued by a commercial bank on behalf of the company		**8,500**	8,500
21.2.3 Letters of credit issued by commercial banks		**119,361**	145,244

22. TURNOVER – NET

	Note	2005	2004
Local sales net of trade discounts and volume rebate		**2,663,922**	2,466,754
Less: Sales tax	22.1	**350,238**	364,679
Excise duty		**454,710**	451,186
		804,948	815,865
		1,858,974	1,650,889
Export sales net of trade discounts		**541,556**	434,066
		2,400,530	2,084,955

22.1 Includes an amount of Rs. 0.645 million (2004: Rs. 7.465 million) paid under CBR's notification SRO 520 (I)/ 2005 dated June 06, 2005.

23. COST OF SALES

	Note	2005	2004
Raw and packing material consumed			
Opening stock		**16,573**	26,436
Purchases		**244,739**	257,900
		261,312	284,336
Closing stock	8	**(27,371)**	(16,573)
		233,941	267,763
Duty drawback on exports		**(10,574)**	(10,793)
		223,367	256,970
Manufacturing overheads			
Salaries, wages and benefits	23.1	**136,245**	121,858
Stores and spare parts consumed		**101,404**	83,035
Fuel and power		**854,750**	718,048
Rent, rates and taxes		**30,736**	32,906
Insurance		**26,358**	29,491
Vehicle running expenses		**10,031**	8,958
Travelling and conveyance		**1,347**	1,619
Printing and stationery		**752**	535
Legal and professional charges		**2,685**	7,511
Laboratory expenses		**1,459**	2,290
Depreciation	3.1.2 & 3.2.2	**138,928**	134,775
Repairs and maintenance		**10,451**	8,657
Communication expenses		**963**	1,049
Miscellaneous manufacturing overheads		**2,314**	2,025
Stores written-off		**101**	915
		1,541,891	1,410,642
Work-in-process			
Opening		**38,388**	14,905
Closing	8	**(33,426)**	(38,388)
Cost of goods manufactured		**1,546,853**	1,387,159
Finished goods			
Opening		**24,970**	7,596
Closing	8	**(27,701)**	(24,970)
		1,544,122	1,369,785

23.1 Salaries, wages and benefits include Rs. 4.362 million (2004: Rs. 5.093 million) in respect of staff retirement benefits.

	Note	2005	2004
		---------- (Rupees `000) ----------	

24. DISTRIBUTION COST

	Note	2005	2004
Salaries, wages and benefits	24.1	**27,274**	20,843
Travelling and conveyance		**640**	585
Staff training expenses		**274**	132
Vehicle running expenses		**1,490**	1,178
Communication		**1,722**	2,089
Printing and stationery		**452**	474
Rent, rates and taxes		**1,436**	1,070
Utilities		**2,111**	1,834
Repairs and maintenance		**647**	599
Insurance		**330**	284
Advertisement		**2,571**	1,007
Entertainment		**51**	39
Depreciation	3.1.2 & 3.2.2	**1,660**	1,569
Export expenses		**4,134**	3,649
License and subscription		**64**	493
Miscellaneous		**1,346**	1,122
		46,202	36,967

24.1 Salaries, wages and benefits include Rs. 1.213 million (2004: Rs. 1.174 million) in respect of staff retirement benefits.

25. ADMINISTRATIVE EXPENSES

	Note	2005	2004
Salaries, wages and benefits	25.1	**34,256**	33,310
Travelling and conveyance		**3,809**	3,011
Vehicles running expenses		**2,520**	2,160
Communication		**1,738**	1,542
Printing and stationery		**1,693**	1,529
Rent, rates and taxes		**3,495**	1,278
Utilities		**2,126**	1,356
Repairs and maintenance		**1,913**	2,284
Legal and professional charges		**2,510**	2,272
Insurance		**626**	587
Subscription		**3,018**	2,117
Advertisement		**1,249**	284
Staff training expenses		**547**	100
Entertainment		**560**	546
Depreciation	3.1.2 & 3.2.2	**2,431**	3,027
Miscellaneous		**532**	365
		63,023	55,768

25.1 Salaries, wages and benefits include Rs. 1.434 million (2004: Rs. 1.542 million) in respect of staff retirement benefits.

26. OTHER OPERATING EXPENSES

	Note	2005	2004
Workers' Profits Participation Fund		**36,527**	30,628
Workers' Welfare Fund		**10,004**	8,272
Donations	26.1	**5,851**	1,574
Auditors' remuneration	26.2	**1,099**	1,612
Exchange loss on translation of held to maturity investment		**-**	277
Loss on disposal of assets held for disposal		**-**	43
Exchange loss		**383**	-
		53,864	42,406

26.1 Recipients of donation do not include any donee in whom any Director or his spouse had any interest.

	Note	2005	2004
		---------- (Rupees `000) ----------	

26.2 Auditors' Remuneration

Audit fee		**300**	300
Tax, corporate and other services		**736**	1,270
Out of pocket expenses		**63**	42
		1,099	1,612

27. OTHER OPERATING INCOME

Return on Foreign Exchange Bearer Certificates		**-**	4,643
Return on US Dollar Bonds		**293**	338
Profit on PLS and deposit accounts with banks		**12,982**	2,091
		13,275	7,072
Gain on disposal of property, plant and equipment	3.1.3	**2,304**	317
Dividend income from an associated company		**1,296**	2,160
Scrap sales		**3,791**	1,400
Exchange gain on translation of held to maturity investment		**173**	38
Miscellaneous income		**3,879**	1,765
		24,718	12,752

28. FINANCE COST

Mark-up on long-term financings		**29,856**	12,577
Finance cost on lease arrangements		**2,112**	4,696
Mark-up on short-term running finance and bank charges		**1,902**	1,802
Interest on WPPF	19.1	**160**	38
		34,030	19,113

29. TAXATION

The assessments of the company for and upto the tax year 2004 have been completed. However, the department has filed an appeal before the Income Tax Appellate Tribunal (ITAT), for assessment year 2002-2003, in respect of certain disallowances that resulted in an additional tax demand of Rs. 4.320 million. The management considers that the outcome of the appeal would be favourable and hence no provision has been made in the financial statements.

29.1 Relationship between accounting profit and tax expense

	2005	2004
	---------- (Rupees `000) ----------	
Profit before taxation	**684,007**	573,668
Tax charge on profit at the rate of 35 percent	**239,402**	200,783
Tax effects of permanent differences	**(693)**	1,447
Tax effects of income subject to lower rate of tax	**(389)**	(648)
Tax effects on finalisation of assessments relating to prior years	**-**	(6,064)
Effect of change in estimate of future taxable income under final tax regime	**(19,373)**	(11,674)
Tax effects of income appearing under final tax regime	**(47,240)**	(36,024)
Others	**-**	152
Tax expense for the year	**171,707**	147,972

Average effective tax rate on accounting profit is 25.1 percent (2004: 25.8 percent)

	2005	2004
30. EARNINGS PER SHARE – Basic and diluted		Restated for the effect of bonus shares
Net profit for the year after tax (Rs. `000)	**512,300**	425,696
Weighted average number of ordinary shares in issue during the year	**66,490,440**	66,490,440
Earnings per share	**Rs. 7.70**	Rs. 6.40

31. FINANCIAL INSTRUMENTS

31.1 Yield / Mark-up rate risk

The company's exposure to interest rate risk and the effective rates on its financial assets and liabilities as of June 30, 2005 are summarised as follows:

	2005					2004				
	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	**-**	**4,894**	**4,894**	**-**	**4,894**	-	7,094	7,094	-	7,094
Long-term loans	**3,138**	**6,510**	**9,648**	**-**	**9,648**	2,200	6,595	8,795	-	8,795
Long-term security deposits	**-**	**-**	**-**	**2,601**	**2,601**	-	-	-	3,061	3,061
Derivative financial assets	**-**	**28,045**	**28,045**	**-**	**28,045**	-	-	-	-	-
Loans and advances	**-**	**-**	**-**	**6,601**	**6,601**	-	-	-	7,014	7,014
Deposits	**-**	**-**	**-**	**3**	**3**	-	-	-	3	3
Other receivables	**-**	**-**	**-**	**4,345**	**4,345**	-	-	-	1,024	1,024
Cash and bank balances	**662,373**	**-**	**662,373**	**88,469**	**750,842**	291,008	-	291,008	95,402	386,410
	665,511	**39,449**	**704,960**	**102,019**	**806,979**	293,208	13,689	306,897	106,504	413,401
Financial liabilities:										
Long-term financings	**75,000**	**812,500**	**887,500**	**-**	**887,500**	75,000	187,500	262,500	-	262,500
Liabilities against assets subject to finance lease	**5,641**	**1,172**	**6,813**	**-**	**6,813**	25,719	6,813	32,532	-	32,532
Long-term deposits	**-**	**-**	**-**	**14,221**	**14,221**	-	-	-	15,170	15,170
Derivative financial liabilities	**-**	**15,241**	**15,241**	**-**	**15,241**	-	-	-	-	-
Trade and other payables	**-**	**-**	**-**	**136,619**	**136,619**	-	-	-	125,624	125,624
Unpaid and unclaimed dividend	**-**	**-**	**-**	**10,856**	**10,856**	-	-	-	8,717	8,717
	80,641	**828,913**	**909,554**	**161,696**	**1,071,250**	100,719	194,313	295,032	149,511	444,543

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

31.2 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 does not have exposure to credit risk, as the company receives advance against sales.

31.3 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 facility of Rs. 720 million (2004: Rs. 320 million).

31.4 Foreign exchange risk management

Foreign currency risk arises mainly where investments, receivables, loans and payables are denominated in foreign currencies. As at the balance sheet date, the carrying value of assets exposed to exchange risk is Rs. 4.894 million (2004: Rs. 7.094 million). The company occasionally enters into foreign exchange forward contracts to minimise foreign currency risks.

31.5 Fair value of financial instruments

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

32. UNAVAILED SHORT-TERM FINANCING FACILITIES

As of the balance sheet date the company has aggregate unavailed running finance facilities of Rs. 720 million (2004: Rs. 320 million) from commercial banks. These arrangements are generally for a period of twelve months and are renewable. The facilities are secured by way of hypothecation of stock, stores and spare parts, book debts and demand promissory notes and pledge of investments.

33. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2005			2004		
	Chief Executive	Director	Executives	Chief Executive	Directors	Executives
	(Rupees `000)					
Managerial remuneration	**3,487**	**3,282**	**29,400**	2,812	5,626	58,429
Housing allowance	**437**	**540**	**7,959**	437	1,452	18,198
Retirement benefits	**450**	**370**	**3,276**	360	624	6,864
Utilities	**398**	**311**	**1,757**	399	523	3,512
Leave fare	**-**	**185**	**1,657**	-	312	3,502
	4,772	**4,688**	**44,049**	4,008	8,537	90,505
Number	**1**	**1**	**24**	1	2	166

33.1 The chief executive, a director and an executive have been provided with furnished accommodation. Further, the chief executive, certain directors and executives are also provided with the use of company maintained cars, telephone facility, utilities and some other facilities, which are reimbursed at actual to the extent of their entitlements.

33.2 The aggregate amount charged in the financial statements for the year for fee to 6 directors amounted to Rs. 0.052 million (2004: 5 directors - Rs. 0.034 million).

33.3 Due to revision in Fourth Schedule, the definition of executive has been changed. As per the new definition, executive means employee; other than the chief executive and director, whose basic salary exceeds five hundred thousand rupees in the financial year. Previously, the threshold of basic salary was one hundred thousand rupees.

	2005	2004
	(Metric Tons)	
34. CAPACITY – Clinker		
Installed capacity	**750,000**	750,000
Actual production	**749,100**	774,000

35. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise related group companies, associated 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, amounts due from executives and remuneration of directors and executives are disclosed in the relevant notes. Other material transactions with related parties are given below:

Relationship	Nature of transactions	2005	2004
		(Rupees '000)	
Associated companies	Purchase of explosives	**10,871**	12,576
	Purchase of packing material	**175,445**	188,206
	Dividend received	**1,296**	2,160
	Dividend paid	**43,533**	12,727
	Other services	**2,300**	2,308
	Royalty	**9,889**	11,706
	Insurance premium	**19,454**	20,324
Other related parties	Contribution to staff provident and gratuity funds	**15,312**	16,449

In addition, certain actual administrative expenses are being shared amongst associated undertakings.

Pattern of shareholding as at June 30, 2005

No. of shareholders	Shareholding From	Shareholding To	Shares held	Percentage
600	1	100	23,908	0.0360
1,183	101	500	323,372	0.4863
579	501	1,000	414,948	0.6241
1,067	1,001	5,000	2,591,057	3.8969
380	5,001	10,000	2,631,532	3.9578
179	10,001	15,000	2,243,372	3.3740
128	15,001	20,000	2,086,279	3.1377
49	20,001	25,000	1,098,249	1.6517
25	25,001	30,000	688,466	1.0354
44	30,001	35,000	1,371,261	2.0623
12	35,001	40,000	453,801	0.6825
5	40,001	45,000	214,242	0.3222
19	45,001	50,000	929,594	1.3981
5	50,001	55,000	262,391	0.3946
7	55,001	60,000	402,766	0.6058
4	60,001	65,000	249,287	0.3749
2	65,001	70,000	135,312	0.2035
2	70,001	75,000	144,447	0.2172
3	75,001	80,000	231,034	0.3475
2	95,001	100,000	194,926	0.2932
4	100,001	105,000	412,266	0.6200
1	105,001	110,000	108,975	0.1639
1	115,001	120,000	120,000	0.1805
1	120,001	125,000	125,000	0.1880
1	130,001	135,000	132,900	0.1999
1	135,001	140,000	139,218	0.2094
3	140,001	145,000	427,382	0.6427
1	145,001	150,000	146,570	0.2204
3	150,001	155,000	457,713	0.6884
1	160,001	165,000	162,500	0.2444
1	165,001	170,000	167,327	0.2517
2	170,001	175,000	347,613	0.5228
2	180,001	185,000	366,674	0.5514
1	195,001	200,000	197,291	0.2967
1	200,001	205,000	200,327	0.3013
1	215,001	220,000	220,000	0.3309
1	220,001	225,000	225,000	0.3384
1	265,001	270,000	266,250	0.4004
1	300,001	305,000	304,450	0.4579
1	310,001	315,000	311,250	0.4681
1	340,001	345,000	343,750	0.5170
1	345,001	350,000	350,000	0.5264
1	355,001	360,000	356,250	0.5358
1	360,001	365,000	361,557	0.5438
1	450,001	455,000	454,831	0.6841
1	455,001	460,000	458,995	0.6903
1	795,001	800,000	800,000	1.2032
1	880,001	885,000	881,720	1.3261
1	965,001	970,000	969,500	1.4581
1	1,220,001	1,225,000	1,223,706	1.8404
1	1,345,001	1,350,000	1,347,251	2.0262
1	2,210,001	2,215,000	2,211,725	3.3264
1	2,395,001	2,400,000	2,395,310	3.6025
1	2,545,001	2,550,000	2,549,725	3.8347
1	2,700,001	2,705,000	2,704,350	4.0673
1	9,535,001	9,540,000	9,539,382	14.3470
1	18,010,001	18,015,000	18,013,438	27.0918
4,341			**66,490,440**	**100.0000**

Categories of Shareholders as at June 30, 2005

Categories	No. of shareholders	Shares held	Percentage
Individuals	4,208	18,983,664	28.5510
Financial Institutions	30	18,994,092	28.5667
Insurance Companies	10	2,780,150	4.1813
Joint Stock Companies	63	17,057,529	25.6541
Modarabas	2	12,968	0.0195
Modarabas Management Co.	1	7,875	0.0118
Mutual Fund	1	132,900	0.1999
Investment Companies	9	6,699,592	10.0760
Others	17	1,821,670	2.7397
	4,341	**66,490,440**	**100.0000**

Pattern of Shareholding as at June 30, 2005
Additional Information

Shareholders' Category	Shares Held
Associated Companies	
Faruque (Private) Limited	9,539,382
Mirpurkhas Sugar Mills Limited	2,704,350
Greaves Pakistan (Private) Limited	1,223,706
Cherat Papersack Limited	153,906
Government Institutions	
National Bank of Pakistan (Trustee of NIT)	18,013,438
National Investment Trust Limited	19,562
National Investment Trust Ltd. (Admin. Fund)	30,320
Directors, Chief Executive and their spouses	
Mr. Mohammed Faruque	7,250
Mr. Zahid Faruque	361,557
Mr. Iqbal Faruque	8,125
Mr. Akbarali Pesnani	31,250
Mr. Azam Faruque	167,327
Mrs. Nighat Faruque w/o. Mr. Mohammed Faruque	142,195
Mrs. Asmat Faruque w/o. Mr. Zahid Faruque	78,187
Mrs. Sakina Pesnani w/o. Mr. Akbarali Pesnani	30,453
Mrs. Samia Faruque w/o. Mr. Azam Faruque	19,843
Executive (1)	134,141
Banks, Development Finance Institutions, Non-banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds	10,564,257
Shareholders holding 10% or more voting interest	
Faruque (Private) Limited	9,539,382
National Bank of Pakistan (Trustee of NIT)	18,013,438

CHERAT CEMENT

CHERAT CEMENT COMPANY LIMITED

Ghulam Faruque Group

TWENTY FORTH ANNUAL GENERAL MEETING 2005

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 Registered 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 CEMENT COMPANY 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 24th Annual General Meeting of the Company to be held on Monday, 24th October 2005 at 10:00 a.m. and at any adjournment thereof.

WITNESS :
(1) Signature ______________________
Name______________________
Address______________________
____
NIC or Passport No.______________________

(2) Signature ______________________
Name______________________
Address______________________
____
NIC or Passport No.______________________

Signature of Shareholder ______________

Please affix five rupees revenue stamp

Date: 2005

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)