

annualreport
2010

extraordinary
portland
cement

Cherat Cement
Company Limited
A Ghulam Faruque Group Company



extraordinary idea

OPC, i.e. Ordinary Portland Cement, is the most common type of cement in general use around the world.

Portland cement was developed from natural cements made in Britain in the early part of the nineteenth century, and its name is derived from its similarity to Portland stone, a type of building stone that was quarried on the Isle of Portland in Dorset, England.

Joseph Aspdin, a British bricklayer from Leeds, in 1824 was granted a patent for a process of making a cement which he called Portland cement. His cement was an artificial cement similar in properties to the material known as "Roman cement" (patented in 1796 by James Parker) and his process was similar to that patented in 1822 and used since 1811 by James Frost who called his cement "British Cement".

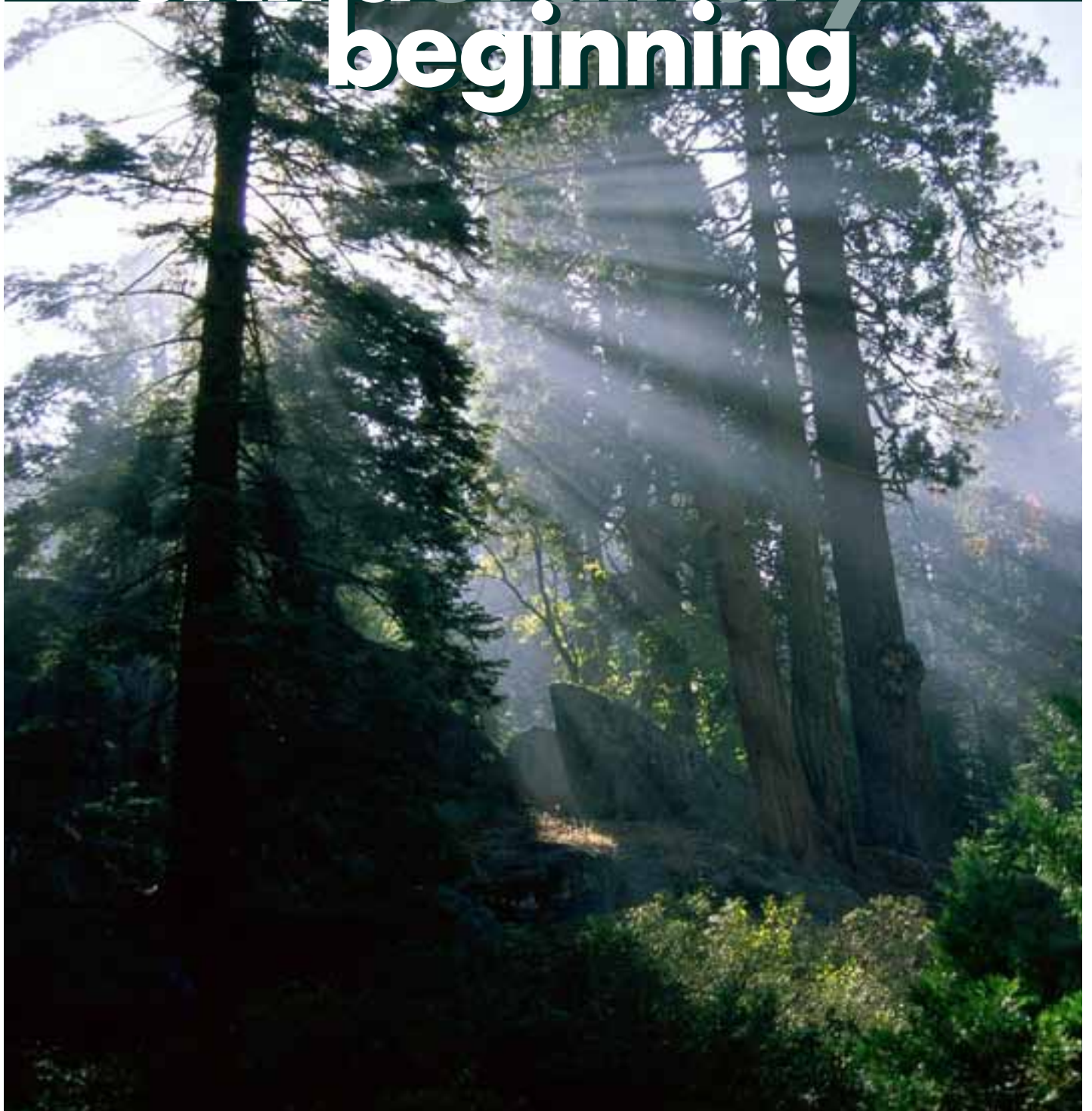
Aspdin's son William, in 1843, made an improved version of this cement and he initially called it "Patent Portland Cement" although he had no patent. In 1848 William Aspdin further improved his cement and in 1853 he moved to Germany where he was involved in cement making. Many people have claimed to have made the first Portland cement in the modern sense, but it is generally accepted that it was first manufactured by William Aspdin at Northfleet, England in about 1842.



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extraordinary beginning





Modern plant & high standards

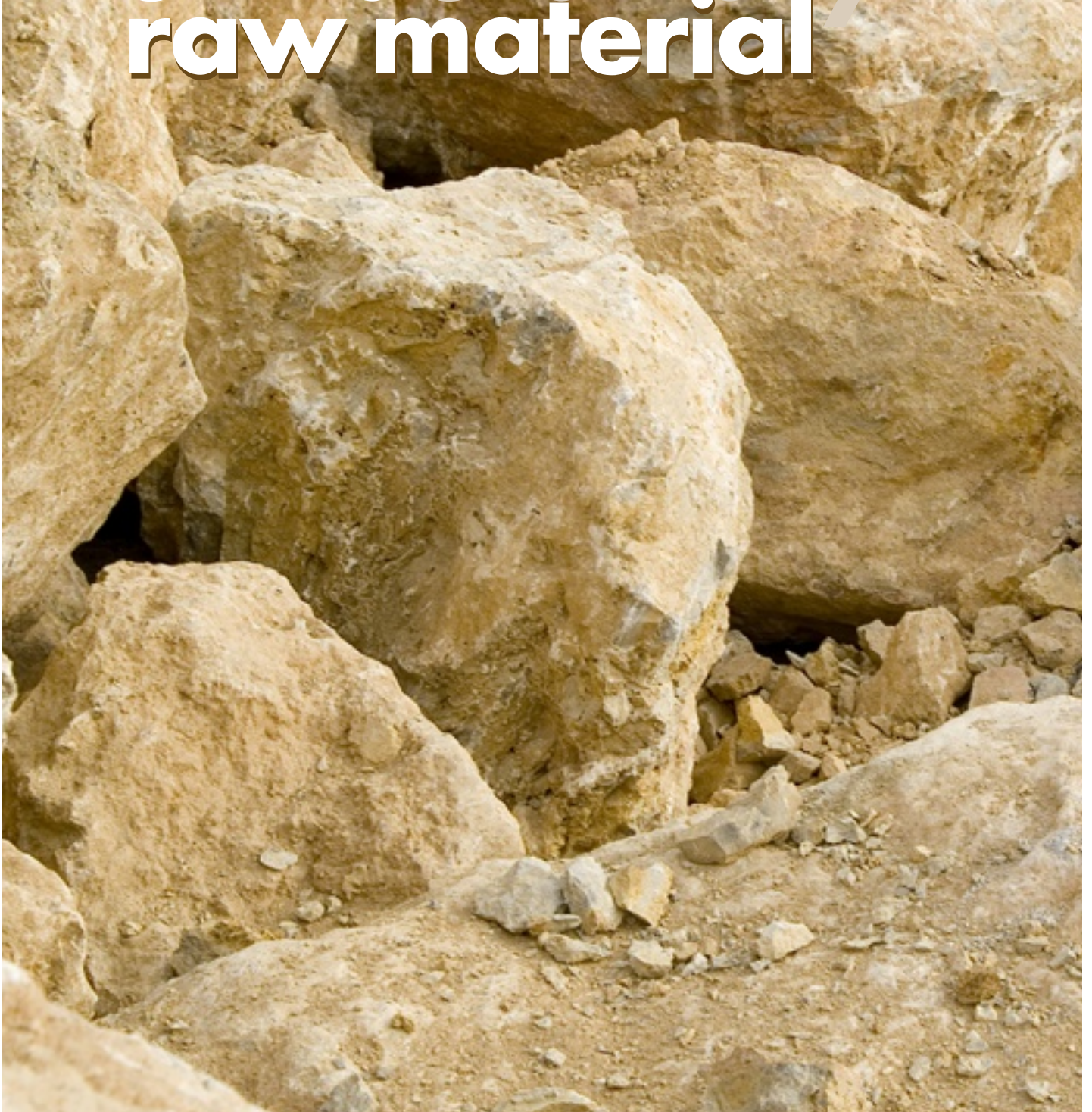
Cherat Cement was conceived to be an extraordinary company and product. A company that would meet and exceed industry standards.

The plant site, located at the foothills of the limestone rich Cherat Hills, was selected many years before the factory was actually put up.

The factory equipment and technology was the finest available.

With the team in place, when the factory commenced operations, Cherat Cement was Pakistan's first factory to produce the highest international standard cement, BSS: 12 (1978).

**extraordinary
raw material**





Highgrade limestone

The Cherat Hills of Khyber Pakhtunkhwa skirt the Nowshera region. These limestone hills eroded by the elements of time lay bare of any flora or fauna also could not provide for the villages that dot the foothills.

However, for Cherat, these hills promised a future not only for the Company but for the communities around. The high grade limestone provided the ideal raw material to manufacture the grade of cement ambitioned.

extraordinary technology



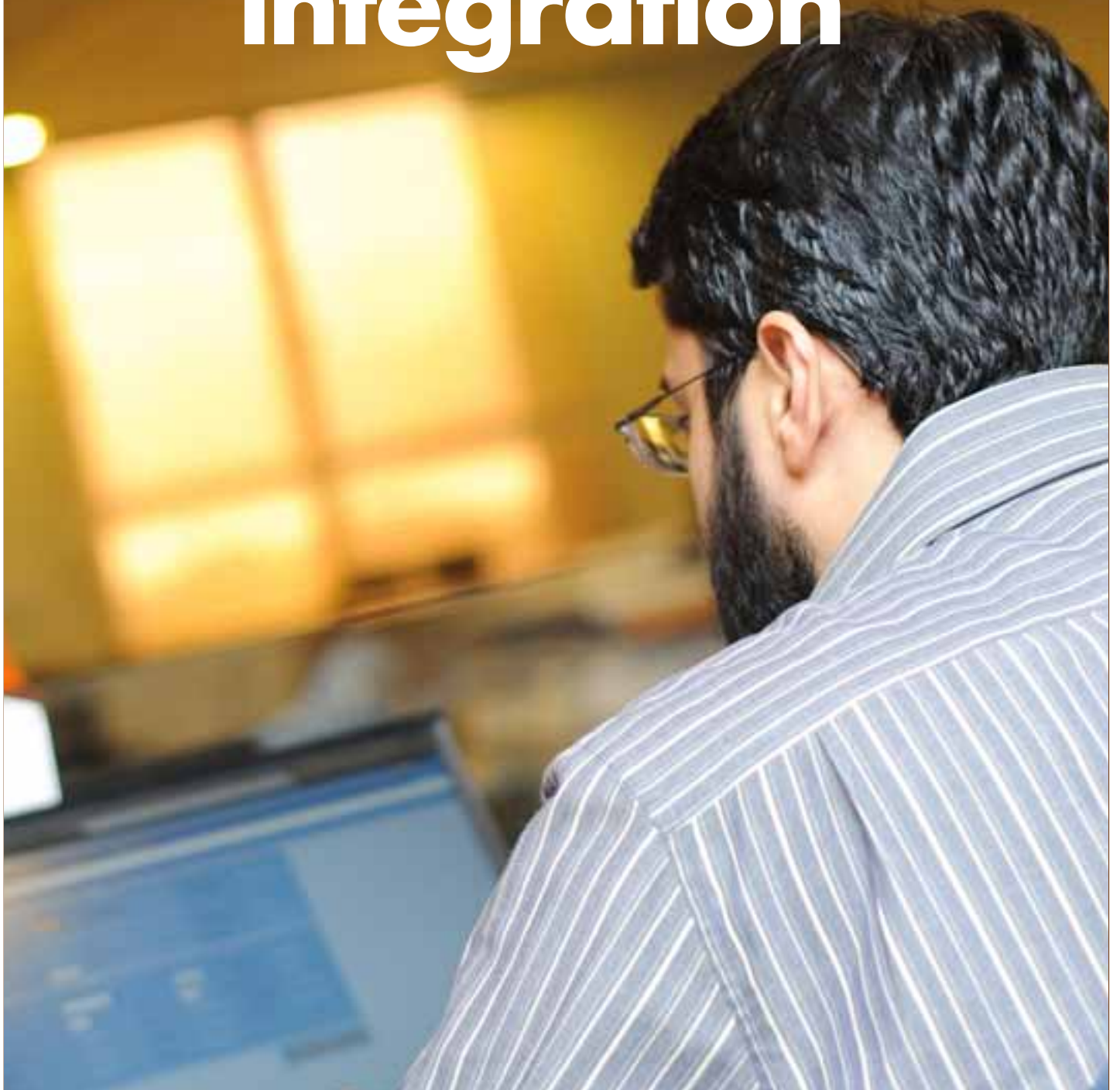


Waste heat recovery

It is Cherat's effort to run a clean and profitable company. By installing the Waste Heat Recovery System the Company is able to reduce its dependency on fuel and protect the environment.

In this way Cherat not only makes manufacturing more profitable for its stakeholders but also invests in keeping the earth productive for future generations.

extraordinary integration





SAP Business Innovation

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

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

Vision

Growth through the best value creation
for the benefit of all stakeholders

Mission

Invest in projects that will optimize the
risk-return profile of the Company.

Achieve Excellence in business.

Maintain competitiveness by
leveraging technology.

Continuously develop our
human resource.

To be regarded by investors as amongst the
best blue-chip stocks in the country.

Strategic Objectives

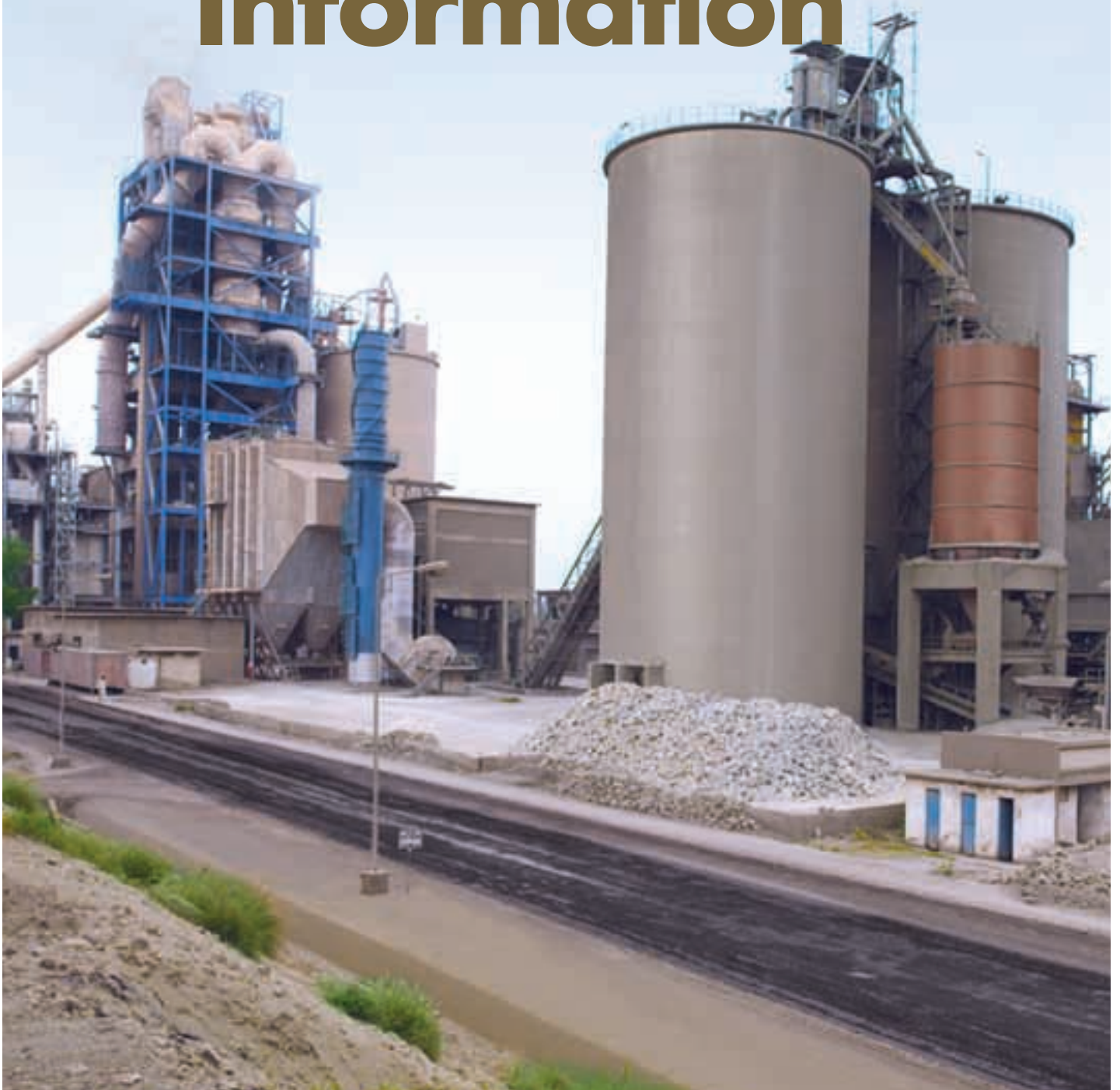
We strive to improve the efficiency of our operations through continuous innovation. We intend to grow through expansion of our core business and through opportunities for diversification. It is our endeavour to create value for our shareholders by maximizing the risk adjusted return on our investments. We intend to achieve customer satisfaction by way of providing our clients a cost effective, quality product.

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

Core Values

Always deliver the best quality product to our customers.
Maintain the highest level of integrity, honesty and ethics.
Use technology to continuously improve our processes.
Develop the capability of our workforce on an ongoing basis.
Safeguard the interests of all our stakeholders.

Company Information



Company information

Board of Directors

Mr. Mohammed Faruque	Chairman
Mr. Azam Faruque	Chief Executive
Mr. Akbarali Pesnani	Director
Mr. Arif Faruque	Director
Mr. Tariq Faruque	Director
Mr. Shehryar Faruque	Director
Mr. Javaid Anwar (NIT)	Director
Mr. Aamir Amin (NIT)	Director

Chief Financial Officer

Mr. Yasir Masood

Company Secretary

Mr. Abid A. Vazir

Audit Committee

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

Registered Office:

Modern Motors House, Beaumont Road
Karachi 75530 Pakistan

Factory:

Village Lakrai, P.O. Box 28, Nowshera

Sales Offices:

Peshawar:
1st Floor, Betani Arcade, Jamrud Road

Lahore:
3, Sunder Das Road

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

Auditors

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Legal Advisor

K.M.S. Law Associates

Bankers

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

Share Registrar

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

*N*otice of Annual General Meeting

Notice is hereby given that the 29th Annual General Meeting of the Company will be held on Tuesday, October 26, 2010 at 2:00 p.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, 2010 and the Reports of the Directors and the Auditors thereon.
2. To appoint Auditors for the year 2010/11 and to fix their remuneration.
3. To transact any other business with the permission of the Chair.

By Order of the Board of Directors
Abid A. Vazir
Company Secretary

Karachi: September 8, 2010

NOTES:

1. The register of members of the company will be closed from Tuesday, October 12, 2010 to Tuesday, October 26, 2010 (both days inclusive) and no transfers will be registered during that time. Shares received in order at the Office of the Registrar of the company M/s. Central Depository Company of Pakistan Limited (CDC), CDC House, 99-B, Block 'B' S.M.C.H.S., Main Shahrah-e-Faisal, Karachi-74400 at the close of business on Monday, October 11, 2010 will be treated in time for the purpose of Annual General Meeting.
2. A member of the company eligible to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend and vote in his/her stead. Proxies to be effective must be in writing and must be received by the company 48 hours before the Meeting.
3. Shareholders of the company whose shares are registered in their account/sub-account with Central Depository System (CDS) are requested to bring original 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 January 26, 2000 are to be followed.
4. The shareholders of the company are requested to immediately notify the Share Registrar of the company of any change in their addresses.

**STATUS OF SPECIAL RESOLUTION PASSED
IN EARLIER ANNUAL GENERAL MEETING****Investment in joint venture company - Madian Hydro Power Ltd.**

We wish to update that the feasibility study of Madian Hydro Power has been completed. The same has also been approved by the PPIB. However, law and order situation in the project area remains a major concern. Major injection of capital in the form of equity investment will be made at the time of initiation of construction work on the project.

Board of Directors



● Mr. Tariq Faruque
Director

● Mr. Arif Faruque
Director

● Mr. Shehryar Faruque
Director

● Mr. Mohammed Faruque
Chairman



● Mr. Akbarali Pesnani
Director

● Mr. Azam Faruque
Chief Executive

● Mr. Aamir Amin
Director (NIT)

● Mr. Javaid Anwar
Director (NIT)



Directors' Report to the Members

for the year ended June 30, 2010

The Board of Directors presents the annual report of the company along with the audited accounts for the year ended June 30, 2010.

OVERVIEW

The year 2009/10 concluded with a 9.3% increase in the demand for cement as sales volume of the industry touched 34.19 million tons. Private sector led construction initiatives resulted in a reasonable growth of over 14% in domestic sales. However, export sales remained stagnant at almost last year's levels mainly because of slow down in exports through Karachi.

In the year under review, the net turnover of the company declined by 24% i.e. Rs. 1,098 million from last year. The reduction in turnover was on account of significant decline in the selling price of cement due to excess production capacity in the industry and the resultant price competition amongst the manufacturers. This had a negative impact on the financial performance of the company during the year 2009/10.

Production:

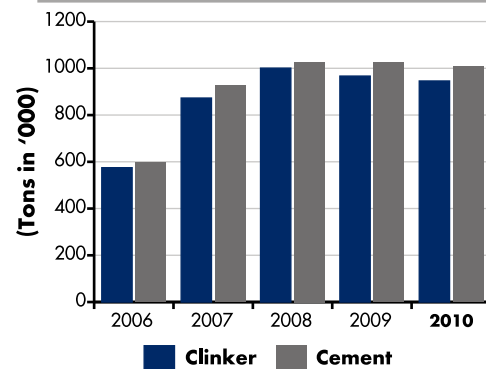
Comparative production figures of clinker and cement are provided under:

	2009/10	2008/09
	(in tons)	
• Clinker	946,410	967,100
• Cement	1,008,750	1,024,956

Industry Sales



Clinker and Cement Production:



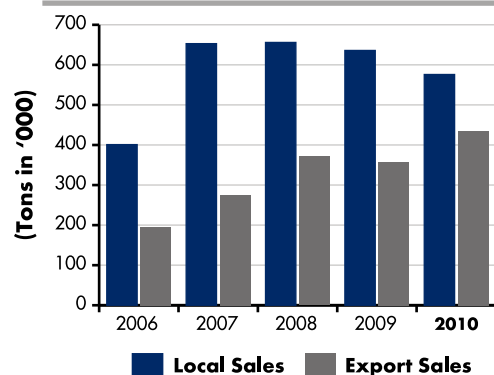
For the year 2009/10, the clinker capacity utilization remained at 95% due to plant shutdown for kiln repair and commissioning of WHR plant. This resulted in decline in clinker production by 20,690 tons while cement production dropped by 16,206 tons from last year. The production schedule was regularly reviewed and whenever required, adjusted by the company taking into consideration the demand for cement and the prevailing sales price.

Sales & Marketing:

Comparative figures of domestic and export sales are provided under:

	2009/10	2008/09
	(in tons)	
• Local sales	575,914	665,790
• Export sales	434,683	357,010
	1,010,597	1,022,800

Company Sales Sector Wise



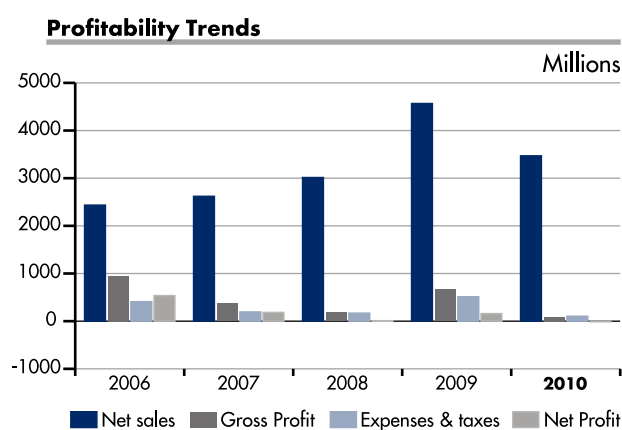
Because of its strong brand recognition and presence in major markets, the company was able to dispatch all it produced during the year under review. While local dispatches declined by 89,876 tons, export sales mainly to Afghanistan rose by 77,673 tons from the corresponding period last year. As a strategic decision, the company concentrated more on the Afghan market as Cherat brand attracts strong brand loyalty and gets a premium. During the year, the ratio of sales to the domestic and export markets was 57% and 43%, respectively. The company also managed to increase its export of cement to India through Wagah border.

Financial Performance:

During the year 2009/10, the sales revenue of the company declined by Rs. 1,098 million to Rs. 3,469 million from last year, reflecting a drop of 24%. Depressed cement prices owing to availability of surplus capacity and resultant price competition was the main reason for decline in turnover. Rise in costs of various input items was also witnessed in the period, which added further pressure on the margins. However, there was some reduction in the cost of production following the successful commissioning of the Waste Heat Recovery (WHR) plant and electricity connection from WAPDA towards the end of the third quarter of the year. The production cost was also contained by significant increase in use of tyres and local coal. Nevertheless, the reduction in selling prices of cement was much more than the fall in production costs. During the year, there was an increase in finance cost attributed to the WHR project and WAPDA connection which cost over a billion rupees. However, the finance cost was restricted by arranging Export Refinancing Facility, which resulted in substantial savings. For the year 2009/10, the company recorded deferred tax asset amounting to Rs. 308 million because of major capitalization during the year. As a result, the company registered an after tax loss of Rs. 13.75 million during the year under review.

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

	2009/10	2008/09
	(Rs. in million)	
Net sales	3,469.11	4,567.41
Cost of sales	3,379.94	3,896.65
Gross Profit	89.17	670.76
Expenses & taxes	102.92	511.47
Net (Loss) / Profit	(13.75)	159.29



WASTE HEAT RECOVERY PLANT

Energy constitutes a major portion of the cost of production for cement plants. In order to address the issue of rising production costs to achieve sustainable competitive advantage, and protect the local environment from harmful gases, the company had decided to install a Waste Heat Recovery System. We are pleased to inform you that the WHR plant has been successfully installed and commissioned. The installation of WHR plant will not only result in substantial savings in costs by providing cheap power but will also entitle the company to carbon credits, which was a major consideration for investment in this project.

MADIAN HYDRO POWER

The feasibility study of Madian Hydro Power has been completed and approved by the PPIB. However, law and order situation in the project area remains a major concern.

Directors' Report to the Members

for the year ended June 30, 2010

ERP SYSTEM

The company had last year entered into a contract with IBM Pakistan to implement SAP - ERP system to further streamline its business processes and improve system controls. The decision was also aimed at further sharpening the decision making capabilities and analytical skills of the management. We are pleased to inform you that the company has implemented all modules within a record time. It has been hailed in the industry circles as one of the fastest successful implementation of SAP ERP system by a company in Pakistan. The use of SAP will allow the company to further leverage its capabilities by analyzing the impact of its decisions and enhance its efficiencies to the next level.

CORPORATE SOCIAL RESPONSIBILITY

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



Subsequent to the year under review, the country was hit by unprecedented floods, which caused wide spread devastation to the lives and properties of the people of Pakistan. Responsive to the sufferings of the people in this hour of grief, the company launched relief efforts in different areas of Nowshera and Mardan, which are some of the worst affected. Cooked food, drinking water, dry rations, life-saving medicines, tents, clothes and other related items were provided on a daily basis in the relief camps. The company has earmarked an amount of Rs. 5 million for carrying out the relief activities. The employees of the company also contributed their one day salary to the cause. The company has always stood by the people of Pakistan in their hour of need and shall always continue to do so.



SAFETY, HEALTH AND ENVIRONMENT

Being a responsible corporate citizen, the company remained committed to continuous improvement in Health and Safety aspects. The production facility remained fully compliant with industry standards and safety requirements and there was no occupational accident to our staff. Furthermore, the installation of WHR will help improve the environment in the areas surrounding the factory. The company strongly believes that its environmental responsibilities extend beyond its own boundaries.

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

- The financial statements prepared by the company fairly present its state of affairs, the results of operations, cash flows and changes in equity.
- Proper books of account have been maintained by the company.
- Appropriate accounting policies have been consistently applied in 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 of corporate governance, as detailed in the listing regulations.
- Key operating and financial data for last six (6) years in summarized form is annexed.
- The company has been paying dividends regularly. However, it could not do so for the year 2007/08 and 2008/09 on account of liquidity constraints and financial commitments.
- 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 30th June 2010:

• Provident Fund	Rs. 285,018,170
• Gratuity Fund	Rs. 88,501,010



Directors' Report to the Members

for the year ended June 30, 2010

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

Name of Director	Meetings Attended
• Mr. Mohammed Faruque	3
• Mr. Akbarali Pesnani	4
• Mr. Azam Faruque	5
• Mr. Shehryar Faruque *	1
• Mr. Arif Faruque	3
• Mr. Javaid Anwar	4
• Mr. Iftikhar Ahmad Bashir	4
• Mr. Aamir Amin	4
• Mr. Tariq Faruque *	2

* During the year, Mr. Shehryar Faruque retired as a director and in his place, Mr. Tariq Faruque was elected.

- Pattern of shareholding is annexed with the report.
- No trading in the shares of the Company was made by the Chief Executive, Directors, Chief Financial Officer and Company Secretary and their spouses and minor children during the year, except for 10,420 shares gifted by Mr. Mohammed Faruque to his children.
- Loss/Earnings per share (EPS) during the year was Re. (0.14) as against Rs. 1.67 last year.

CONTRIBUTION TO NATIONAL EXCHEQUER

The company contributed around Rupees one billion to the government treasury in shape of taxes, excise duty, income tax and sales tax.

FUTURE PROSPECTS

Challenging business environment in the country because of economic uncertainty, security situation and energy crisis have hampered the industrial growth in the country. Fiscal constraints resulting from economic challenges have forced the government to slash the development budget and tighten monetary policy during last few years, which has had an impact on the development activities in the country. There is a strong correlation between the Public Sector Development Programme (PSDP) and domestic sales of cement as the PSDP contains healthy allocation for infrastructural development. The demand for cement may remain affected in the first quarter due to monsoon and devastating floods in the country. However, it is likely to pickup soon thereafter as rehabilitation work will be carried out, which will benefit the Company. Furthermore, other regional export markets like Afghanistan are also expected to remain attractive for the Company. Because of its strategic location, the Company is well positioned to benefit from the growing requirement for cement in Afghanistan.

We take this opportunity to urge the government to take necessary measures to stimulate the demand for cement in the country by utilizing the development funds allocated under the federal budget and initiate major infrastructure and housing projects especially for rehabilitation of the affectees of the recent floods. It is urged to also provide incentives to the cement sector by reducing its tax burden, which is one of the highest in any industry. The government should also take measures to restore investors' confidence and also take steps to facilitate exports through land and sea routes in order to earn the much-needed foreign exchange.

Given the scale of reconstruction effort required in Khyber Pakhtunkhwa to rehabilitate the affectees, we are hopeful that growth momentum will pick up and will lead to increase in the domestic demand for cement. The government is urged to extend facilities like reduced interest rates and exemption in income tax to the cement industry just like it has done for other industries affected by the law and order situation in Khyber Pakhtunkhwa province.

APPOINTMENT OF AUDITORS

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

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 all our staff for their dedication, loyalty and hard work.

Karachi: September 8, 2010

On behalf of the Board of Directors


Mohammed Faruque
Chairman

Key Management

Management Team



Factory Management



Finance Team





Sales Office
Islamabad



Sales Office
Peshawar



Sales Office
Lahore

Statement of Compliance

with the Best Practices of the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, 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, three of whom 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred on the Board during the year.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and has been circulated to all employees of the Company.
6. The Board has developed vision and mission statement/overall corporate strategy and significant policies of the Company.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Directors of Cherat Cement Co. Ltd. are professionally qualified and experienced persons and are well aware of their duties and responsibilities. Further, an orientation course for Directors was arranged by the Company to apprise Directors of their duties and responsibilities.
10. The Board has approved the appointment of CFO, Company Secretary and Head of Internal Audit including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and Executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It presently comprises of three members, of whom two are non-executive directors of the company.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The Related Party transactions have been placed before the Audit Committee and approved by the Board of Directors alongwith pricing methods for such transactions.
21. We confirm that all other material principles contained in the Code of Corporate Governance have been complied with.

On behalf of the Board of Directors



Mohammed Faruque
Chairman

Karachi: September 08, 2010

*S*tatement 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 08, 2010

Review Report to the Members

on statement of compliance with the Best Practices
of the Code of Corporate Governance



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

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

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

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

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement of internal controls covers all risk and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii) of Listing Regulation No. 35 notified by the Karachi Stock Exchange (Gurantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2010.


Chartered Accountants

Audit Engagement Partner: Riaz A. Rehman Chamdia

KARACHI: September 08, 2010

Statement of Ethics and Business Practices

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

Product Quality

Regularly update ourselves with technological advancements in the field of cement production to produce cement under the 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 goods or services, obtain quotations from various sources.

Conflict of Interest

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

Adherence to Laws of the Land

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

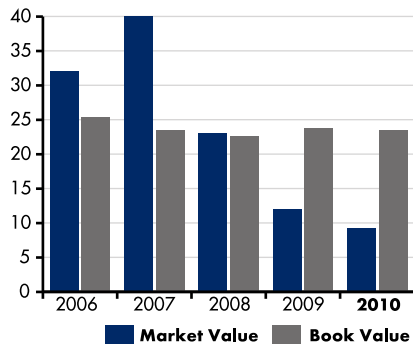
Environmental Protection

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.

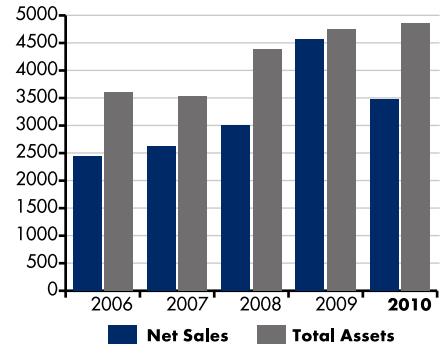
We recognize the need for working with optimum efficiency to attain desired levels of performance. We endeavor to conduct our business with honesty and integrity, and to produce and supply cement with care and competence so that customers receive the quality they truly deserve.

Progress Graphs

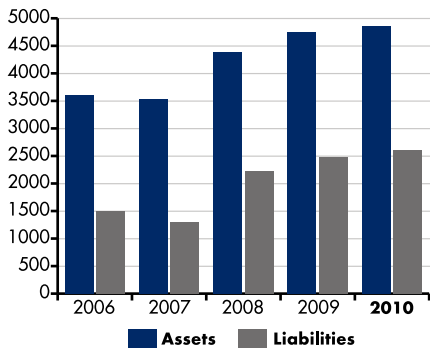
Value Per Share of The Company



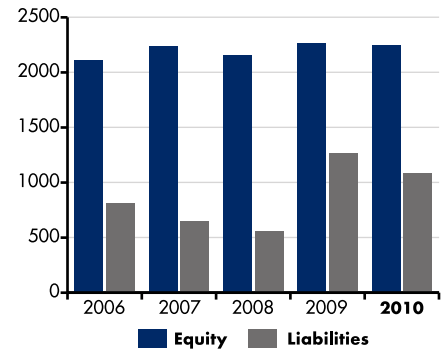
Sales to Total Assets



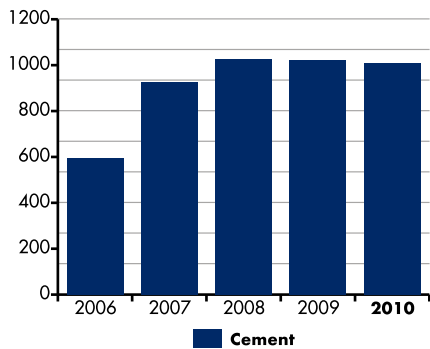
Assets & Liabilities



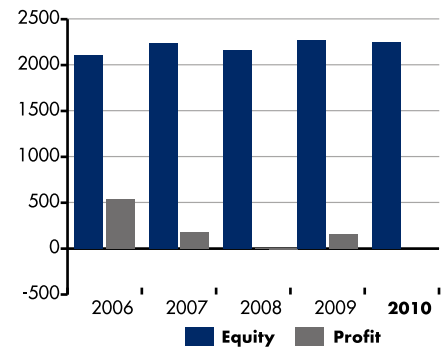
Equity and Long Term Liabilities



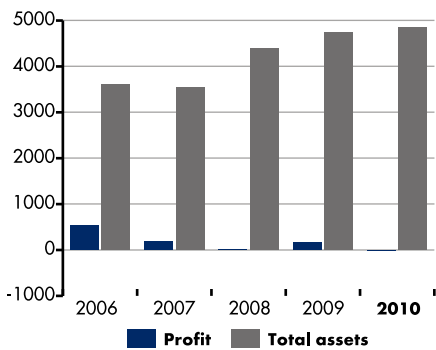
Cement Sales



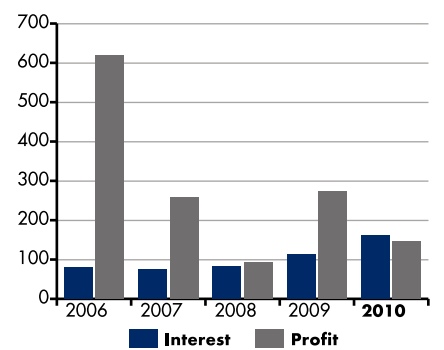
Return on Equity



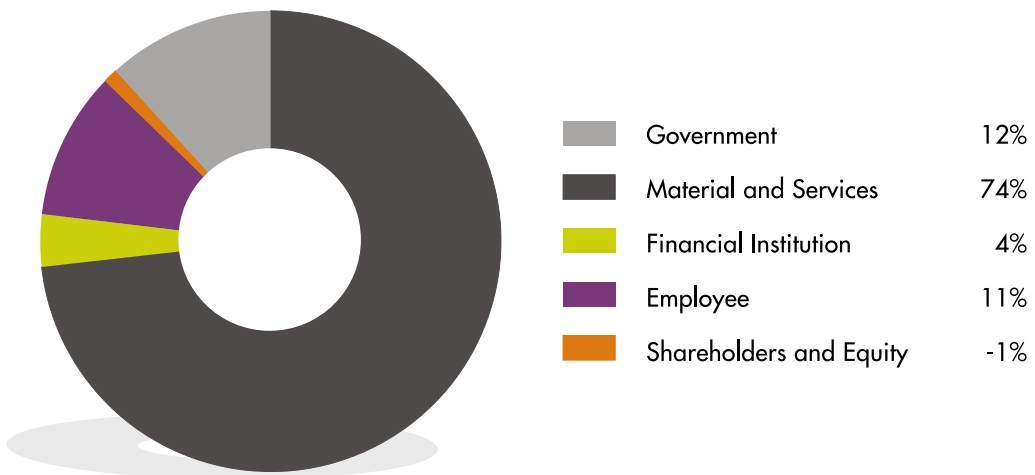
Net Profit to Total Assets



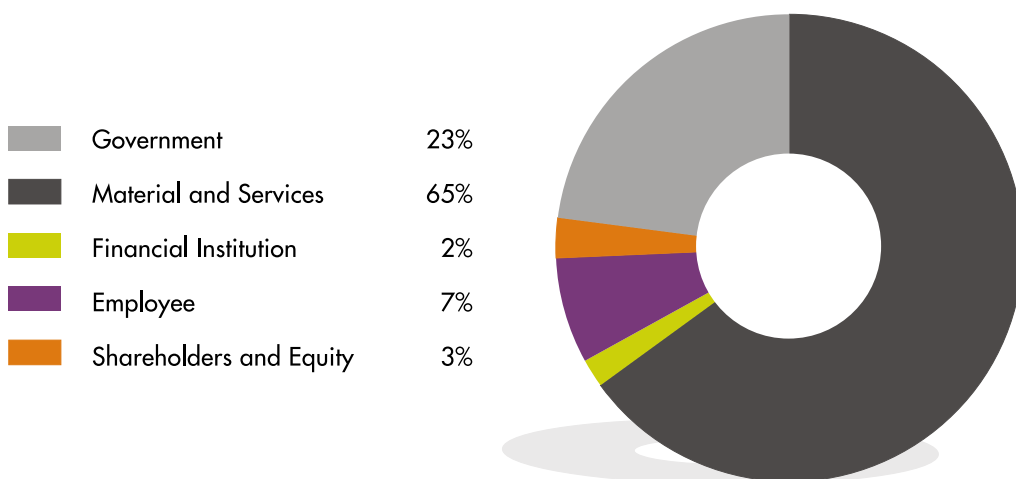
Interest Cover



Wealth Distribution during 2009-10



Wealth Distribution during 2008-09



Year-Wise Statistical Summary

	2010	2009	2008	2007	2006	2005	2004
	(Tons in '000)						
Clinker Production	946	967	1,001	873	575	749	774
Cement Production	1,009	1,025	1,027	926	598	792	802
Cement despatched	1,011	1,023	1,027	928	596	792	789
	(Rs. in million)						
ASSETS EMPLOYED							
Property, plant and equipment	3,446	3,258	2,522	2,197	2,270	1,773	1,252
Intangible assets	20	6	-	-	-	-	-
Investment and long-term loan, Advances, Deposits & Deferred Tax	150	122	111	71	33	18	17
Derivative financial assets	2	14	29	25	41	28	-
Current Assets	1,239	1,343	1,720	1,240	1,268	1,384	913
Total Assets employed	4,857	4,743	4,382	3,533	3,612	3,203	2,182
FINANCED BY							
Shareholders equity	2,246	2,268	2,158	2,236	2,113	1,742	1,432
Long-term Liabilities	989	1,100	393	452	664	829	210
Deferred Liabilities	-	304	233	303	319	167	170
Derivative Financial Liabilities	-	-	-	-	-	15	-
Current Liabilities	1,622	1,071	1,598	542	516	450	370
Total Funds Invested	4,857	4,743	4,382	3,533	3,612	3,203	2,182
TURN OVER & PROFIT							
Turn over (net)	3,469	4,567	3,014	2,620	2,436	2,401	2,085
Operating Profit/(Loss)	(136)	371	25	323	799	718	592
Profit / (Loss) before taxation	(297)	257	(56)	247	719	684	574
Profit after taxation	(14)	159	10	184	538	512	426
Cash dividend	-	-	-	96	83	199	213
Stock Dividend	-	-	-	-	125	166	133

Ratio Analysis

	2010	2009
Profitability:		
1 Gross Profit (percentage)	2.57	14.69
2 Operating Profit / (loss) (percentage)	(3.93)	8.13
3 Profit / (loss) Before Tax (percentage)	(8.57)	5.63
4 Net Profit / (loss) After Tax (percentage)	(0.40)	3.49
5 Net Profit / (loss) to Average Share Holder's Equity (percentage)	(0.61)	7.20
6 E.P.S (Before Tax)	(3.11)	2.69
7 E.P.S (After Tax)	(0.14)	1.67
8 Net Profit to Total Assets (Average after tax) (percentage)	1.50	1.79
9 Increase / (Decrease) in Sales (Net percentage)	(24.05)	51.55
10 Raw & Packing Material % of Net Sales	17.58	13.69
11 Labour % of Net Sales	8.84	6.20
12 Other Cost of Sales Expenses % of Net Sales	71.01	65.42
13 Raw & Packing Material as % of Cost of Sales	18.05	16.05
14 Administrative Expenses % of Net Sales	3.21	2.54
15 Distribution Cost % of Net Sales	3.71	2.07
16 Tax % of Net Sales	(8.18)	2.14
17 Finance cost % of Net Sales	4.64	2.50
Short Term Solvency:		
1 Current Ratio	0.76	1.25
2 Acid Test Ratio	0.64	0.99
3 Inventory Turnover / Times	14.03	15.97
Overall Valuation and Assessment:		
1 Number of Time Interest Earned	(0.85)	3.25
2 Return on Equity after tax (Average in percentage)	(0.61)	7.20
3 Book Value Per Share	23.50	23.73
4 Long Term Debts to Equity Ratio	30.57	32.66

Auditors' Report to The Members



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

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

We have audited the annexed balance sheet of **Cherat Cement Company Limited** (the Company) as at **30 June 2010** and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change, as stated in note 2.3 to the financial statements, with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, Statement of Comprehensive Income, cash flow statement and statement of changes in equity together with the notes forming part thereof, conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at **30 June 2010** and of the loss, the comprehensive income, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Audit Engagement Partner: Riaz A. Rehman Chaudhary

Karachi: September 08, 2010

Balance Sheet

as at June 30, 2010

	Note	2010	2009
(Rupees '000)			
ASSETS			
NON-CURRENT ASSETS			
Fixed Assets			
Property, plant and equipment	4	3,445,941	3,258,357
Intangible asset	5	20,013	5,880
		3,465,954	3,264,237
Long-term investments	6	122,104	114,157
Long-term loans and advances	7	5,068	6,597
Long-term security deposits		17,145	1,415
Derivative financial assets	8	1,935	13,673
Deferred taxation	9	5,730	-
		151,982	135,842
		3,617,936	3,400,079
CURRENT ASSETS			
Stores, spare parts and loose tools	10	931,555	899,546
Stock-in-trade	11	201,186	280,588
Loans and advances	12	11,329	12,267
Trade deposits and short-term prepayments	13	2,627	60,201
Other receivables	14	25,467	16,437
Short-term investments	15	114	153
Taxation - net		13,553	13,550
Cash and bank balances	16	53,652	60,689
		1,239,483	1,343,431
		4,857,419	4,743,510
TOTAL ASSETS			
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital	17	955,801	955,801
Reserves	18	1,290,164	1,312,603
		2,245,965	2,268,404
NON-CURRENT LIABILITIES			
Long-term financing	19	976,400	1,087,500
Long-term deposits	20	12,637	12,737
Deferred taxation	9	-	303,875
		989,037	1,404,112
CURRENT LIABILITIES			
Trade and other payables	21	303,019	283,625
Accrued mark-up	22	82,255	97,860
Short-term running finance	23	1,114,128	502,437
Current maturity of long-term financing	19	111,100	175,000
Unclaimed dividend		11,915	12,072
		1,622,417	1,070,994
CONTINGENCIES AND COMMITMENTS			
	24		
		4,857,419	4,743,510
TOTAL EQUITY AND LIABILITIES			

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


Mohammed Faruque
 Chairman


Azam Faruque
 Chief Executive

Profit & Loss Account

for the year ended June 30, 2010

	Note	2010	2009
(Rupees '000)			
Turnover - net	25	3,469,111	4,567,409
Cost of sales	26	(3,379,937)	(3,896,647)
Gross profit		89,174	670,762
Distribution costs	27	(128,620)	(94,767)
Administrative expenses	28	(111,220)	(115,816)
Other operating expenses	29	(2,615)	(96,664)
		(242,455)	(307,247)
Other operating income	30	16,800	7,775
Operating (loss) / profit		(136,481)	371,290
Finance costs	31	(160,917)	(114,357)
(Loss) / profit before taxation		(297,398)	256,933
Taxation			
Current - for the year		(25,531)	(16,883)
- prior years		1,332	(5,756)
Deferred	32	307,842	(75,007)
		283,643	(97,646)
(Loss) / profit after taxation		(13,755)	159,287
(Loss) / earnings per share - basic	33	Re. (0.14)	Rs. 1.67

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


Mohammed Faruque
 Chairman


Azam Faruque
 Chief Executive

Statement of Comprehensive Income

for the year ended June 30, 2010

	2010	2009
	(Rupees '000)	
(Loss) / profit after taxation	(13,755)	159,287
Other comprehensive Income:		
Unrealized loss on hedging instruments	(7,502)	(17,522)
Income tax relating to hedging instruments	1,761	3,720
	(5,741)	(13,802)
Fair value loss on available-for-sale securities	(2,943)	(35,187)
	(8,684)	(48,989)
Total comprehensive income for the year - net of tax	(22,439)	110,298

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


Mohammed Faruque
 Chairman


Azam Faruque
 Chief Executive

Cash Flow Statement

for the year ended June 30, 2010

	Note	2010	2009
(Rupees '000)			
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit before taxation		(297,398)	256,933
Adjustment for:			
Depreciation	4.1.3	219,114	195,917
Amortisation	5	870	-
Unrealized fair value loss on short-term Investments	30	39	421
Gain on disposal of operating property, plant and equipment	4.1.4	(486)	(3,214)
Finance cost	31	160,917	114,357
Exchange (gain) / loss	29	(141)	70,453
Share of loss in joint venture	6.1.2	110	51
Dividend income	30	-	(648)
		380,423	377,337
		83,025	634,270
(Increase) / decrease in current assets			
Stores, spare parts and loose tools		(32,009)	404,175
Stock-in-trade		79,402	(73,097)
Loans and advances		938	(3,988)
Trade deposits and short-term prepayments		57,574	(9,983)
Other receivables		(9,030)	55,391
		96,875	372,498
		179,900	1,006,768
Increase / (decrease) in current liabilities			
Trade and other payables		19,394	(673,474)
Cash generated from operations		199,294	333,294
Income tax paid		(24,202)	(23,664)
Net cash generated from operating activities		175,092	309,630
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to operating property, plant and equipment	4.1.1	(1,419,549)	(278,004)
Sale proceeds of operating property, plant and equipment	4.1.4	4,997	5,936
Capital work-in-progress	4.2	1,008,340	(656,952)
Intangible asset acquired	5	(15,003)	(5,880)
Long-term loans and advances		1,529	235
Investment in joint venture	6.1	(11,000)	(46,217)
Dividend received	30	-	648
Long-term security deposits		(15,730)	-
Net cash used in investing activities		(446,416)	(980,234)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term financing		(175,000)	707,000
Long-term deposits		(100)	(639)
Short-term running finance		611,691	5,563
Dividend paid		(157)	(169)
Finance costs paid		(172,147)	(45,991)
Net cash generated from financing activities		264,287	665,764
Net decrease in cash and cash equivalents		(7,037)	(4,840)
Cash and cash equivalents at the beginning of the year		60,689	65,529
Cash and cash equivalents at the end of the year	16	53,652	60,689

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


Mohammed Faruque
 Chairman


Azam Faruque
 Chief Executive

Statement of Changes in Equity

for the year ended June 30, 2010

	RESERVES								Total
	Issued subscribed and paid-up capital	Capital Reserve	Revenue Reserves				Sub total	Total	
			General Reserve	Unrealized gain / (loss) on hedging instruments net of tax	Fair value gain / (loss) on available-for-sale securities	Unappropriated profit			
(Rupees '000)									
Balance as at July 01, 2008	955,801	50,900	420,000	20,116	51,908	659,381	1,151,405	1,202,305	2,158,106
Profit for the year	-	-	-	-	-	159,287	159,287	159,287	159,287
Other comprehensive income	-	-	-	(13,802)	(35,187)	-	(48,989)	(48,989)	(48,989)
Total comprehensive income for the year	-	-	-	(13,802)	(35,187)	159,287	110,298	110,298	110,298
Balance as at June 30, 2009	955,801	50,900	420,000	6,314	16,721	818,668	1,261,703	1,312,603	2,268,404
Balance as at July 01, 2009	955,801	50,900	420,000	6,314	16,721	818,668	1,261,703	1,312,603	2,268,404
Loss for the year	-	-	-	-	-	(13,755)	(13,755)	(13,755)	(13,755)
Other comprehensive income	-	-	-	(5,741)	(2,943)	-	(8,684)	(8,684)	(8,684)
Total comprehensive income for the year	-	-	-	(5,741)	(2,943)	(13,755)	(22,439)	(22,439)	(22,439)
Balance as at June 30, 2010	955,801	50,900	420,000	573	13,778	804,913	1,239,264	1,290,164	2,245,965

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


Mohammed Faruque
 Chairman


Azam Faruque
 Chief Executive

Notes to the Financial Statements

for the year ended June 30, 2010

1 CORPORATE INFORMATION

Cherat Cement Company Limited (the Company) was incorporated in Pakistan as a public company limited by shares under the Company Act, 1913 (now the Companies Ordinance, 1984) in the year 1981. Its main business activity is manufacturing, marketing and sale 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 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Accounting convention

These financial statements have been prepared on the basis of historical cost convention except for derivative financial instruments, investments at fair value through profit and loss and available for sale investments that have been measured at fair value in accordance with IAS 39 "Financial Instruments Recognition and Measurement".

2.3 Changes in accounting policies and disclosures

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

IAS-1 - Presentation of Financial Statements (Revised)
IFRS-7 - Financial Instruments: Disclosures (Amended)

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

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

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

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. The fair value measurement disclosures are presented in note 34.5 to the financial statements. The liquidity risk disclosures are not significantly impacted by the amendments and are also presented in note 34.3 to the financial statements.

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

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

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

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

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

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

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

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

2.6 **Significant accounting judgments and estimates**

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

*N*otes to the Financial Statements for the year ended June 30, 2010

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

2.6.1 **Staff retirement benefits**

Certain actuarial assumptions have been adopted as disclosed in note 21.1 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect gains and losses in those years. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates.

2.6.2 **Interest in a Joint Venture**

The Company has an interest in a joint venture which is a jointly controlled entity. The Company combines its share and recognizes its interest in the joint venture using the equity method.

After application of the equity method, the company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its joint venture. The Company determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the income statement.

Under equity method, the investment in joint venture is carried in the balance sheet at cost plus post acquisition changes in the Company's share of net assets of the joint venture. Profit and loss account reflects the share of the results of operation of joint venture. Unrealized gains and losses resulting from transactions between the Company and joint venture are eliminated to the extent of the interest in joint venture.

Financial statements of the joint venture are prepared for same reporting period as the Company using consistent accounting policies in line with that of the Company.

It is estimated that cost of the project would be recovered as disclosed in note 6.1.3.

2.6.3 **Operating property, plant and equipment**

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

2.6.4 **Taxation**

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

2.6.5 **Deferred**

Deferred tax is provided in full using the balance sheet liability method on all temporary differences arising at the balance sheet date, between the tax bases of the assets and the liabilities and their carrying amounts. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which these can be utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by 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. Deferred tax is charged or credited to income.

2.6.6 **Derivative hedging instruments designated as cash flow hedge**

The Company reviews the fair value of interest rate swaps at each reporting date based on the discounted value of future cash flows.

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

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

2.6.8 **Contingencies**

The assessment of the contingencies inherently involves the exercise of significant judgement as the outcome of the future events can not be predicted with certainty. The Company, based on the availability of the latest information, estimates the value of contingent assets and liabilities which may differ on the occurrence / non-occurrence of the uncertain future event(s).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 **Property, plant and equipment**

3.1.1 **Owned assets**

Property, plant and equipment except land and capital work-in-progress are stated at cost less accumulated depreciation and impairment loss, if any. 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 using the straight-line method at the rates mentioned in the note 4 to the financial statements.

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

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

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

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

3.1.2 **Assets subject to finance lease**

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

3.2 **Intangible assets**

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

*N*otes to the Financial Statements for the year ended June 30, 2010

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

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

3.3 **Investments**

3.3.1 **Interest in a Joint Venture**

The Company has an interest in a joint venture which is a jointly controlled entity. The Company combines its share and recognizes its interest in the joint venture using the equity method.

After application of the equity method, the company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its joint venture. The Company determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the income statement.

Under equity method, the investment in joint venture is carried in the balance sheet at cost plus post acquisition changes in the Company's share of net assets of the joint venture. Profit and loss account reflects the share of the results of operation of joint venture. Unrealized gains and losses resulting from transactions between the Company and joint venture are eliminated to the extent of the interest in joint venture.

Financial statements of the joint venture are prepared for same reporting period as the Company using consistent accounting policies in line with that of the Company.

3.3.2 **Available-for-sale securities**

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

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

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

3.3.3 **Held-to-maturity investments**

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

3.3.4 **Designated investments at fair value through profit or loss**

Designated investments at fair value through profit or loss are initially recognized at fair value. Subsequently, these are measured at fair value whereas effects of changes in fair value are taken to the profit and loss account.

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

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

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

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

3.5 **Stock-in-trade**

Stock-in-trade is valued at lower of moving average cost and estimated NRV except for goods-in-transit which are stated at cost comprising invoice values plus other charges incurred thereon.

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
Stock in transit	- Invoice value plus other charges paid thereon

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

3.6 **Trade debts**

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

3.7 **Trade and other payables**

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

3.8 **Financial instruments**

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

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

3.9 **Foreign currency translations**

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

3.10 **Cash and cash equivalents**

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

*N*otes to the Financial Statements for the year ended June 30, 2010

3.11 Revenue recognition

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

3.11.1 Sale of goods

Revenue from sales is recognized upon passage of title to the customers that generally coincides with physical delivery. It is recorded at net of trade discounts and volume rebates.

3.11.2 Other operating income

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

3.12 Staff retirement benefits

3.12.1 Gratuity scheme

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

Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized actuarial gains or losses exceed ten 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 recognized over the expected remaining working lives of the employees participating in the scheme.

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

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

3.12.2 Provident fund

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

3.13 Provisions

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

3.14 Taxation

3.14.1 Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or

tax rates expected to apply to the profit for the year if enacted after taking into account tax credits, rebates and exemptions, if any. The tax charge as calculated above is compared with 0.5% of turnover tax, calculated at applicable tax rates under section 113 of the Income Tax Ordinance 2001 and under final tax regime, whichever is higher is provided in the financial statements. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

3.14.2 **Deferred**

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

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

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

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

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit and loss account.

3.14.3 **Sales tax**

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

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

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

3.15 **Derivative financial instruments**

The Company 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 estimated 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 recognized directly in equity net of related deferred tax.

Notes to the Financial Statements

for the year ended June 30, 2010

When the hedged commitment results in the recognition of an asset or a liability, then, the associated gains or losses previously recognized in equity are included in the initial measurement of the acquisition cost or other carrying amount of an asset or a liability. Effect 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 recognized in equity is kept until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the period.

3.16 Offsetting of financial assets and liabilities

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

3.17 Borrowing costs

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

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

3.18 Related party transactions

Related party transactions are carried out on commercial terms, as approved by the Board, substantiated as given in note 36 to the financial statements.

3.19 Dividend and appropriation to reserves

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

3.20 Functional and presentation currency

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

	Note	2010	2009	
(Rupees '000)				
4	Property, plant and equipment			
	Operating property, plant and equipment	4.1	3,431,219	2,235,295
	Capital work-in-progress	4.2	14,722	1,023,062
			<u>3,445,941</u>	<u>3,258,357</u>

4.1 Operating property, plant and equipment

4.1.1 Following is a statement of operating assets:

2010 Description	COST			DEPRECIATION				Book value as at June 30, 2010	Depreciation rate % per annum
	As at July 01, 2009	Additions / (disposals)	As at June 30, 2010	As at July 01, 2009	Adjustment on disposals	For the year	As at June 30, 2010		
(Rupees '000)									
Freehold land	1,605	-	1,605	-	-	-	-	1,605	-
Leasehold land	7,065	-	7,065	-	-	-	-	7,065	-
Building on leasehold land	411,264	93,969	505,233	261,711	-	13,610	275,321	229,912	7.5
Plant and machinery	3,984,414	1,190,045	5,174,459	2,144,773	-	158,537	2,303,310	2,871,149	5 to 7.5
Power and other installations	49,160	70,595	119,755	40,059	-	3,312	43,371	76,384	10-20
Furniture and fittings	33,779	4,522 (150)	38,151	21,171	- (116)	1,355	22,410	15,741	10-20
Quarry, factory and laboratory equipment	329,939	38,128	368,067	177,387	-	26,060	203,447	164,620	10-20
Motor vehicles	92,327	17,748 (9,266)	100,809	37,571	- (4,789)	12,709	45,491	55,318	20
Office equipment	9,814	310	10,124	5,475	-	720	6,195	3,929	10-20
Computers	50,443	4,232	54,675	46,368	-	2,811	49,179	5,496	33.33
	4,969,810	1,419,549 (9,416)	6,379,943	2,734,515	(4,905)	219,114	2,948,724	3,431,219	

2009 Description	COST			DEPRECIATION				Book value as at June 30, 2009	Depreciation rate % per annum
	As at July 01, 2008	Additions / (disposals)	As at June 30, 2009	As at July 01, 2008	Adjustment on disposals	For the year	As at June 30, 2009		
(Rupees '000)									
Freehold land	1,605	-	1,605	-	-	-	-	1,605	-
Leasehold land	7,065	-	7,065	-	-	-	-	7,065	-
Building on leasehold land	409,464	1,800	411,264	249,684	-	12,027	261,711	149,553	7.5
Plant and machinery	3,749,825	234,589	3,984,414	2,004,572	-	140,201	2,144,773	1,839,641	7.5
Power and other installations	48,724	436	49,160	39,024	-	1,035	40,059	9,101	10-20
Furniture and fittings	31,908	1,897 (26)	33,779	19,911	- (13)	1,273	21,171	12,608	10-20
Quarry, factory and laboratory equipment	322,551	7,388	329,939	151,066	-	26,321	177,387	152,552	10-20
Motor vehicles	76,188	26,077 (9,938)	92,327	33,013	- (7,493)	12,051	37,571	54,756	20
Office equipment	7,459	2,989 (634)	9,814	5,451	- (370)	394	5,475	4,339	10-20
Computers	47,615	2,828	50,443	43,753	-	2,615	46,368	4,075	33.33
	4,702,404	278,004 (10,598)	4,969,810	2,546,474	(7,876)	195,917	2,734,515	2,235,295	

Notes to the Financial Statements

for the year ended June 30, 2010

	Note	2010	2009
(Rupees '000)			
4.1.2 Reconciliation of carrying amount:			
Carrying amount at beginning of the year		2,235,295	2,155,930
Additions during the year		1,419,549	278,004
Depreciation for the year		(219,114)	(195,917)
Disposals during the year at carrying amount		(4,511)	(2,722)
		3,431,219	2,235,295
4.1.3 The depreciation for the year has been allocated as follows:			
Cost of sales	26	208,837	186,020
Distribution costs	27	4,455	4,393
Administrative expenses	28	5,822	5,504
		219,114	195,917

4.1.4 Disposal of operating property, plant and equipment

Description	Cost	Book Value	Sale Proceeds	Gain / (Loss)	Mode of Disposal	Particulars of buyers

Vehicles

Honda Motor Cycle CD-70 KDW-8335	63	53	63	10	Insurance claim	EFU General Insurance Limited Outside party
Honda City EXI- AGF-582	833	202	202	-	Employee car scheme	Mr. Naeem Akhter Employee
Suzuki Mehran U-4474	390	183	183	-	Employee car scheme	Mr. M Nasim Employee
Suzuki Mehran U-4481	390	183	183	-	Employee car scheme	Mr. Noor Said Shah Employee
Suzuki Mehran KZ-754	390	183	183	-	Employee car scheme	Mr. M. Imran Employee
Suzuki Alto B-2342	499	234	234	-	Employee car scheme	Mr. Bashir Ur Rahman Employee
Suzuki Alto B-2352	499	234	234	-	Employee car scheme	Mr. Anwar Hussain Employee
Suzuki Alto B-2348	499	234	234	-	Employee car scheme	Mr. Mohammad Riaz Employee
Suzuki Alto AJX-839	464	174	174	-	Employee car scheme	Mr. Fawad Farooq Nagaria Employee
Suzuki Alto AJX-827	464	174	174	-	Employee car scheme	Mr. Wasique Shafat Employee
Suzuki Mehran LW-893	390	146	146	-	Employee car scheme	Mr. Hamid Shehzad Employee
Suzuki Cultus U-2408	595	269	269	-	Employee car scheme	Mr. Shaheen Pervaiz Employee
Honda City I-DSI AGH-525	806	220	220	-	Employee car scheme	Mr. Didar Gul Employee
Honda City B-2216	880	300	300	-	Employee car scheme	Mr. Aziz Khan Employee
Suzuki Mehran LW-869	390	130	130	-	Employee car scheme	Mr. Azeem Anwer Employee
Honda Civic B-2725	1,629	1,548	1,629	81	Insurance claim	EFU General Insurance Limited Outside party
	9,181	4,467	4,558	91		

Aggregate of assets disposed-off having book value below Rs. 50,000/- each

Furniture and fittings	150	34	16	(18)
Vehicle	85	10	423	413
	235	44	439	395
2010	9,416	4,511	4,997	486
2009	10,598	2,722	5,936	3,214

		Note	2010	2009
(Rupees '000)				
4.2	Capital work-in-progress			
	Civil works		705	60,499
	Plant and machinery	4.2.1	12,389	892,487
	Power and other installations		-	67,547
	Computers		-	2,529
	Advance against vehicle		1,628	-
			14,722	1,023,062

4.2.1 During the year, borrowing costs have been capitalized amounting to Rs. 95.743 million (2009: 79.793 million) by using weighted average capitalization rate of 12.765% (2009: 15.279%).

4.2.2 Movement	Building on leasehold land	Plant and machinery	Computers	Power and other installations	Vehicles	Total
Balance as at June 2008	3,188	294,325	-	65,797	2,800	366,110
Capital expenditure incurred / advances made during the year	58,993	786,644	2,529	1,750	-	849,916
Transfer to operating property, plant & equipment	(1,682)	(188,482)	-	-	(2,800)	(192,964)
Balance as at June 2009	60,499	892,487	2,529	67,547	-	1,023,062
Capital expenditure incurred / advances made during the year	33,168	257,039	-	2,095	1,628	293,930
Transfer to operating property, plant & equipment	(92,962)	(1,137,137)	(2,529)	(69,642)	-	(1,302,270)
Balance as at June 2010	705	12,389	-	-	1,628	14,722

4.2.3 Transfer from Building on leasehold land and Plant & machinery include Rs. 92.96 million (2009 : Nil) and Rs. 1,075.94 million (2009 : Nil) respectively in respect of Waste Heat Recovery System, a renewable energy project.

5 INTANGIBLE ASSET

Description	COST			AMORTISATION				
	As at July 01,	Additions during the year	As at June 30,	As at July 01,	For the year	As at June 30,	Book value as at June 30,	Amortisation Rate % per annum
(Rupees '000)								
2010 ERP System	5,880	15,003	20,883	-	870	870	20,013	10
2009 ERP System under development	-	5,880	5,880	-	-	-	5,880	-

During the year, ERP system was implemented which was under development last year. Accordingly, amortisation charge for the year is Rs. 0.870 million (2009: Rs. Nil).

The amortisation charge for the year has been allocated to cost of sales.

		Note	2010	2009
(Rupees '000)				
6 LONG-TERM INVESTMENTS				
Investment in related parties				
Interest in a Joint Venture	6.1		105,526	94,636
Available-for-sale	6.2		16,578	19,521
			122,104	114,157

Notes to the Financial Statements

for the year ended June 30, 2010

6.1 Movement of interest in a joint venture - under equity method

Company's share in net assets at beginning of the year
Investment during the year
Share of loss
Balance as at June 30

2010	2009
(Rupees '000)	
94,636	48,687
11,000	46,000
(110)	(51)
<u>105,526</u>	<u>94,636</u>

- 6.1.1 The Company has 10,609,997 shares (2009: 9,509,997) representing 50% (2009: 50%) interest in Madian Hydro Power Limited, which is a public unlisted company. This is a project of the Company and Shirazi Investments (Private) Limited.

The project is formed to build, operate and maintain hydro power generation plant at Madian over river Swat for the generation and supply of electric power in relation thereon.

- 6.1.2 The share of the assets, liabilities, revenue and expenses of the joint venture at year ended June 30 based on un-audited financial statements is as follows:

Current assets
Non-current assets
Current liabilities
Net assets
Administrative expenses

2010	2009
(Rupees '000)	
660	275
104,954	95,400
(88)	(1,039)
<u>105,526</u>	<u>94,636</u>
<u>(110)</u>	<u>(51)</u>

- 6.1.3 During the year, the Company has completed technical feasibility of the project which is also approved by the Private Power and Infrastructure Board (PPIB). Further, the army operation launched to restore law and order situation in Swat was successfully completed. After this operation, the rehabilitation work has started and situation in Swat and the adjoining areas has started coming back to normal. However, given the current security situation, the Company has sought for an indefinite extension from PPIB for further post feasibility study deadlines applicable to the project. The PPIB's response in this regard is awaited. In view of the above, the management believes that, since the technical feasibility study is a bankable document, the project will eventually be completed, even if delayed.

6.2 Available-for-sale

Ordinary shares of listed company
Cherat Papersack Limited
540,000 (2009: 540,000) fully paid ordinary shares
of Rs. 10/- each.

Note

2010	2009
(Rupees '000)	
16,578	19,521

7 LONG-TERM LOANS AND ADVANCES - considered good

Loans to:

Executives 7.1 & 7.2
Employees 7.2
Less: Due within one year shown under current
portion of loans 12

1,628	1,470
9,269	10,173
<u>10,897</u>	<u>11,643</u>
5,829	5,046
<u>5,068</u>	<u>6,597</u>

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

	Opening balance as at July 01	Disbursement	Repayment	Closing balance as at June 30
	(Rupees `000)			
2010	1,470	1,715	(1,557)	1,628
2009	830	1,875	(1,235)	1,470

The maximum aggregate amount due from executives at the end of any month during the year was Rs. 2.213 million (2009: Rs. 1.774 million).

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

8 DERIVATIVE FINANCIAL ASSETS

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 as referred to in note 19. 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	2010	2009
				Derivative Asset - Fair Value	Derivative Asset - Fair Value
(Rupees `000)					
Tranche - I					
First interest rate swap effective January 31, 2005	6 months EURIBOR plus 4.85%	6 months KIBOR	131,250	1,391	9,139
Second interest rate swap effective July 31, 2005	Fixed 2.93%	6 months EURIBOR	131,250	(406)	(1,451)
Tranche - II					
First interest rate swap effective March 31, 2005	6 months EURIBOR plus 5.00%	6 months KIBOR	131,250	1,345	7,693
Second interest rate swap effective September 30, 2005	Fixed 2.90%	6 months EURIBOR	131,250	(395)	(1,708)
				1,935	13,673

- 8.1 Derivative assets are disclosed in non-current assets and their corresponding effect is taken to unrealized gain / (loss) in equity net of related deferred tax.

Notes to the Financial Statements

for the year ended June 30, 2010

	Note	2010	2009
(Rupees '000)			
9 DEFERRED TAXATION			
Represents the tax effect of temporary differences relating to:			
Accelerated tax depreciation allowance		(846,263)	(467,155)
Unabsorbed business losses		443,780	2,683
Unabsorbed tax losses		12,754	3,439
		(389,729)	(461,033)
Less: Temporary differences not expected to reverse in view of applicability of final tax regime		395,592	159,053
		5,863	(301,980)
Net deferred tax effect of recognition of fair value of derivative financial instruments directly taken to equity		(133)	(1,895)
		5,730	(303,875)
10 STORES, SPARE PARTS AND LOOSE TOOLS			
Stores		411,711	465,247
Spare parts		507,475	418,255
Loose tools		751	664
		919,937	884,166
Add: Stores and spare parts in transit		11,618	15,380
		931,555	899,546
11 STOCK-IN-TRADE			
Raw and packing material		88,513	82,277
Work-in-process		69,468	136,622
Finished goods		43,205	61,689
		201,186	280,588
12 LOANS AND ADVANCES - considered good			
Current portion of loans due from:			
Executives		726	738
Employees		5,103	4,308
	7	5,829	5,046
Advances to suppliers - unsecured		5,500	7,221
		11,329	12,267
13 TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS			
Margin on letters of credit		540	48,886
Security deposits		7	215
Short-term prepayments		2,080	11,100
		2,627	60,201
14 OTHER RECEIVABLES			
Accrued return on investments		318	317
Octroi		17	17
Duty drawback receivable		20,034	7,321
Others		5,098	8,782
		25,467	16,437

	Note	2010	2009
(Rupees '000)			
15	SHORT-TERM INVESTMENTS		
Investment at fair value through profit or loss			
Ordinary shares of Shakerganj Sugar Mills Limited		114	153

16	CASH AND BANK BALANCES		
With banks in:			
Current accounts		41,931	49,819
Saving accounts	16.1	9,402	5,764
		51,333	55,583
Cash in hand			
Foreign currency		989	1,269
Local currency		1,330	3,837
		53,652	60,689

16.1 Effective profit rate in respect of saving accounts is 5 percent per annum (2009: 5 percent per annum).

17 SHARE CAPITAL

17.1 Authorized capital

2010	2009		2010	2009
Numbers of shares			(Rupees '000)	
225,000,000	225,000,000	Ordinary shares of Rs. 10/- each	2,250,000	2,250,000

17.2 Issued, subscribed and paid-up capital

		Fully paid ordinary shares of Rs. 10/- each		
19,842,000	19,842,000	- Issued for consideration in cash	198,420	198,420
70,678,008	70,678,008	- Issued as fully paid bonus shares	706,781	706,781
90,520,008	90,520,008		905,201	905,201
5,060,000	5,060,000	- Issued for consideration other than cash on amalgamation	50,600	50,600
95,580,008	95,580,008		955,801	955,801

Notes to the Financial Statements

for the year ended June 30, 2010

18 RESERVES

18.1 Capital reserve

Capital reserve was created due to amalgamation of the companies.

18.2 Unrealized gain / (loss) on hedging instruments

This reserve records the changes in fair value of hedging instruments that represents the effective portion on hedging instrument in cash flow hedges.

18.3 Fair value gain / (loss) on available-for-sale securities

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

19 LONG-TERM FINANCING - secured

From Commercial Banks	Mode & Commencement of repayment	Security	2010	2009	Rate
			(Rupees '000)		
Plant Expansion Loans					
Tranche – I					
	Eight bi-annual installments commencing from January 2007	First pari-passu charge on plant and machinery	43,750	131,250	6 months KIBOR + 0.7% (Also refer note 8)
Tranche – II					
	Eight bi-annual installments commencing from March 2007	First pari-passu charge on plant and machinery	43,750	131,250	6 months KIBOR + 0.7% (Also refer note 8)
			87,500	262,500	
Waste Heat Recovery System Loan					
Tranche-I					
	Ten bi-annual installments commencing from November 2010	Fist pari-passu charge on all the present and future plant and machinery	118,000	118,000	1 st & 2 nd year: 6 months KIBOR + 0.4% 3 rd & 4 th year: 6 months KIBOR + 0.5% 5 th , 6 th & 7 th year: 6 months Kibor + 0.9%
Tranche – II					
	Ten bi-annual installments commencing from July 2011	First pari-passu charge on all the present and future plant and machinery	882,000	882,000	1 st & 2 nd year: 6 months KIBOR + 0.4% 3 rd & 4 th year: 6 months KIBOR + 0.5% 5 th , 6 th & 7 th year: 6 months Kibor + 0.9%
			1,000,000	1,000,000	
			1,087,500	1,262,500	
Less: Current Maturity					
	- Plant Expansion Loans		87,500	175,000	
	- Waste Heat Recovery Loan		23,600	-	
			111,100	175,000	
			976,400	1,087,500	

	Note	2010	2009
(Rupees '000)			
20	LONG-TERM DEPOSITS - unsecured		
Dealers	20.1	11,018	11,418
Suppliers and contractors	20.2	1,619	1,319
		<u>12,637</u>	<u>12,737</u>
20.1	This represents interest-free security deposits from dealers which are refundable / adjustable on cancellation or withdrawal of dealership.		
20.2	This represents interest-free security deposits from suppliers and contractors which are refundable / adjustable after the satisfactory execution of the agreements.		

	Note	2010	2009
(Rupees '000)			
21	TRADE AND OTHER PAYABLES		
Creditors		75,171	51,294
Accrued liabilities			
Salaries payable		3,767	2,305
Bonus payable		-	10,835
Staff benefits payable		35,107	29,992
Accrued expenses		32,432	24,655
		<u>71,306</u>	<u>67,787</u>
Other Liabilities			
Advances from customers		56,169	45,511
Payable to provident fund		2,196	102
Retention money		5,287	3,378
Payable to staff gratuity fund	21.1	11,776	6,958
Insurance payable		7,735	6,614
Workers' Profits Participation Fund (WPPF)		-	13,799
Workers' Welfare Fund		-	5,244
Sales tax payable		6,924	1,371
PSI marking fee		-	5,813
Royalty and excise duty		55,915	70,934
Others		10,540	4,820
		<u>156,542</u>	<u>164,544</u>
		<u>303,019</u>	<u>283,625</u>

Notes to the Financial Statements

for the year ended June 30, 2010

21.1 Staff retirement benefits

Defined benefit plan

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

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

	2010	2009
	(Rupees '000)	
Staff Gratuity Fund Liability		
Present value of defined benefit obligation	185,144	164,064
Fair value of plan assets	(88,501)	(73,374)
Unrecognized actuarial losses	(84,867)	(83,732)
Liability recognized in the balance sheet at June 30	<u>11,776</u>	<u>6,958</u>

Amount charged to profit and loss account:

Current service cost	8,449	7,873
Interest cost	20,338	15,255
Expected return on plan assets	(9,702)	(8,728)
Actuarial loss recognized	6,733	5,520
	<u>25,818</u>	<u>19,920</u>

Movement in the liability recognized in the balance sheet:

Balance as at July 01	6,958	3,038
Net charge for the year	25,818	19,920
Contribution to the fund	(21,000)	(16,000)
Balance as at June 30	<u>11,776</u>	<u>6,958</u>

Movement in the present value of defined benefit obligation:

Balance as at July 01	164,064	127,128
Current service cost	8,449	7,873
Interest cost	20,338	15,255
Benefits paid during the year	(6,053)	(3,423)
Actuarial loss / (gain)	(1,655)	17,231
Balance as at June 30	<u>185,144</u>	<u>164,064</u>

Movement in the fair value of plan assets:

Balance as at July 01	73,374	72,736
Expected return	9,702	8,728
Contributions	21,000	16,000
Benefits paid during the year	(6,053)	(3,423)
Actuarial (loss)	(9,522)	(20,667)
Balance as at June 30	<u>88,501</u>	<u>73,374</u>

Principal actuarial assumptions used are as follows:

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

	2010	2009	2008	2007	2006
	(Rupees '000)				
Present value of defined benefit obligation	185,144	164,064	127,128	119,807	98,834
Fair value of plan assets	(88,501)	(73,374)	(72,736)	(94,190)	(82,532)
Deficit	96,643	90,690	54,392	25,617	16,302
Experience adjustment on plan liabilities	(1,655)	17,231	6,168	8,168	25,272
Experience adjustment on plan assets	(9,522)	20,667	25,301	(2,020)	(3,694)
	(11,177)	37,898	31,469	6,148	21,578

	2010	2009
	(Rupees '000)	
Composition of plan assets are as follows:		
Defence Saving Certificates	23,536	18,631
Special Savings Certificates	22,588	25,120
Mutual Funds / NIT / COIs / PIB	22,035	11,624
Listed Securities	13,813	16,020
Amount in Banks	6,529	1,979
	88,501	73,374

The expected return on plan assets was based on the market expectations and depends upon the asset portfolio of the Company, at the beginning of the period, for returns over the entire life of related obligation.

The return on plan assets was assumed to equal the discount rate. Actual return on plan assets during 2010 was Rs. 0.180 million [2009: Rs. (11.939) million].

	Note	2010	2009
		(Rupees '000)	
22	ACCRUED MARK-UP - secured		
	Long-term financing	56,632	78,860
	Short-term running finance	25,623	19,000
		82,255	97,860
23	SHORT-TERM RUNNING FINANCE - secured		
	Short-term running finance	23.1	289,128
	Export refinance	23.2	825,000
		1,114,128	502,437

23.1 These facilities are obtained from various commercial banks and amount to Rs. 1,715 million (2009:Rs. 1,365 million) out of which Rs. 600.872 million (2009: Rs. 862.563 million) remains unutilized at the year end. These carry mark-up ranging from 3 months KIBOR + 0.9% to 3 months KIBOR + 1.75% and 1 month KIBOR + 1.25% to 1 month KIBOR + 2% per annum. The facilities are secured against registered joint pari passu hypothecation charge over stocks and book debts for Rs. 2,268 million.

23.2 This is a sub-facility of 23.1 above and carries mark up rate of 9% (2009: Nil) per annum.

Notes to the Financial Statements

for the year ended June 30, 2010

24 CONTINGENCIES AND COMMITMENTS

24.1 Contingencies

- 24.1.1 During the period from 1994 to 1999, excise duty was wrongly collected from the Company based on retail price inclusive of excise duty. The stand point of the Revenue Department was challenged by the Company and the High Courts have agreed with the Company's point of view that excise duty shall not be included as a component for determining the value i.e. Retail Price for levying excise duty. On an appeal filed by the Department, the Honourable Supreme Court of Pakistan, on February 15, 2007, upheld the point of view of the High Courts.

The Department filed a review petition against the decision of the Supreme Court of Pakistan. On January 20, 2009, the Honourable Supreme Court of Pakistan gave a favourable decision for the Company and has not allowed the admittance for hearing of this review petition.

The aforesaid decision has resulted in creation of a refund claim of Rs. 882 million (2009: Rs. 882 million), which was wrongly collected from the Company. However, during last year, while verifying the refund claim, the Collector of Excise and Sales Tax Peshawar has issued a show cause notice to the Company raising certain objections against the release of said refund including an objection that as the burden of this levy has been passed on to the end customers this refund does not belong to the Company. The Company has challenged this show cause notice in the Honourable Peshawar High Court and has taken the stance that this matter had already been dealt with at the Supreme Court level, based on the doctrine of *res judicata*. The Honourable Peshawar High Court granted a stay order to the Company against any adverse proceeding by the Department in this case on June 24, 2008.

In view of the inherent uncertainties involved in such matters like outcome of Peshawar High Court case and refund verification process etc., this amount has not been recognized as income in the profit and loss account.

- 24.1.2 The Company has filed various refund cases which are pending at different adjudication levels. The amount involved is around Rs. 66 million (2009: Rs. 66 million). However, keeping in view of the inherent uncertainties involved in such matters and the fact that it is difficult to determine the outcome of these cases at this stage, no amount has been recognized as income in these financial statements.

- 24.1.3 The Competition Commission of Pakistan (CCP) had issued a show cause notice to the Company on a *Suo Moto* action for an increase in prices of cement across the country on March 20, 2008. The similar notices were also issued to the other cement manufacturers. The Company filed a writ petition before the Honourable Islamabad High Court (IHC) challenging the Competition Ordinance, 2007. The IHC granted a stay order restricting the CCP to pass any adverse order(s) against the show cause notices issued to the cement manufacturers.

The IHC finally dismissed the writ petition and vacated the stay order. However, the Company filed a writ petition in the Honourable Lahore High Court (LHC) on this issue. The LHC allowed the CCP to issue an order but restricted them from taking adverse action against the cement companies. The CCP in its order dated August 27, 2009 imposed a penalty of Rs.6,312 million on the cement industry including a penalty of Rs. 226 million on the Company. The Company simultaneously filed a writ petition in the Honourable Supreme Court of Pakistan challenging this order and also challenging the vires of law. This appeal is still pending adjudication. In line with historic judgement of Honourable Supreme Court of Pakistan dated July 31, 2009 this Competition Commission of Pakistan (CCP) Ordinance requires approval of the National Assembly. The CCP Ordinance was re-promulgated as an Ordinance twice with some changes creating further legal complications which were brought in to the knowledge of LHC by amending our appeal. Subsequent to the year end, the CCP Ordinance has lapsed as the same was not passed by the National Assembly in the given time as per law. In view of the above, the management based on the legal advice thinks that there are good legal grounds and is hopeful that there will be no adverse outcome for the Company and therefore no provision for the above penalty has been made in these financial statements.

- 24.1.4 During the period the Honourable Peshawar High Court has decided against the Company the case relating to levy of marking fee by the Pakistan Standards and Quality Control Authority (PSQCA). Accordingly, the bank guarantee amounting to Rs.8.5 million has been encashed. The management has challenged the decision in the Honourable Supreme Court of Pakistan and the case is pending there. The management is confident that the ultimate outcome of the case will be in favour of the Company. Accordingly, no provision has been made against the aforesaid amount in these financial statements.

24.1.5 The Company shifted to WAPDA line from self generation during the end of third quarter of this financial year. The Company is paying electricity bills based on old tariff rates in line with the stay given by the Honourable Peshawar High Court in a petition filed by the Khyber Pakhtunkhwa Provincial Government against raise of tariff by NEPRA. In case of any unfavourable decision the Company will have to record an additional expense of around Rs. 30 million as the rate differential. However, the management is hopeful for a favourable outcome.

	Note	2010	2009
(Rupees '000)			
24.2	Commitments		
	Letters of credits issued by commercial banks	175,240	178,691

25	TURNOVER - NET		
	Local sales	2,638,931	4,222,662
	Less : Sales tax	369,431	586,457
	Federal excise duty	403,140	593,145
	Special excise duty	18,910	30,722
		791,481	1,210,324
		1,847,450	3,012,338
	Export sales	1,621,661	1,555,071
		3,469,111	4,567,409

26	COST OF SALES		
	Raw and packing material consumed		
	Opening stock	82,277	69,638
	Purchases	616,147	638,084
		698,424	707,722
	Closing stock	11 (88,513)	(82,277)
		609,911	625,445
	Duty drawback on exports	(13,630)	(4,797)
		596,281	620,648
	Manufacturing overheads		
	Salaries, wages and benefits	26.1 306,728	283,134
	Stores and spare parts consumed	116,131	192,981
	Fuel and power	1,927,127	2,526,490
	Rent, rates and taxes	31,529	42,317
	Insurance	47,502	54,832
	Vehicle running expenses	26,874	24,541
	Traveling and conveyance	3,956	3,550
	Printing and stationery	1,750	1,358
	Legal and professional charges	2,121	711
	Laboratory expenses	228	707
	Depreciation	4.1.3 208,837	186,020
	Amortisation	5 870	-
	Repairs and maintenance	16,271	13,233
	Communication expenses	1,450	1,086
	Stores written-off	641	358
	Miscellaneous	6,003	5,139
		3,294,299	3,957,105
	Work-in-process		
	Opening	136,622	98,386
	Closing	11 (69,468)	(136,622)
	Cost of goods manufactured	3,361,453	3,918,869
	Finished goods		
	Opening	61,689	39,467
	Closing	11 (43,205)	(61,689)
		3,379,937	3,896,647

26.1 This includes Rs. 7.339 million (2009: Rs. 6.397 million) in respect of provident fund and Rs. 14.028 million (2009: Rs. 11.939 million) in respect of gratuity fund.

Notes to the Financial Statements

for the year ended June 30, 2010

27	DISTRIBUTION COSTS	Note	2010	2009
			(Rupees '000)	
	Salaries and benefits	27.1	77,603	66,699
	Export expenses		3,404	2,879
	Traveling and conveyance		1,883	991
	Staff training expenses		371	191
	Vehicle running expenses		4,738	3,895
	Communication		2,243	1,820
	Printing and stationery		1,033	824
	Rent, rates and taxes		2,394	1,853
	Freight and forwarding		19,219	-
	Utilities		3,840	3,210
	Repairs and maintenance		1,981	1,769
	Insurance		1,506	1,015
	Advertisement		2,022	2,669
	Entertainment		97	89
	Depreciation	4.1.3	4,455	4,393
	License and subscription		103	450
	Others		1,728	2,020
			<u>128,620</u>	<u>94,767</u>

27.1 This includes Rs. 2.666 million (2009: Rs. 2.156 million) in respect of provident fund and Rs. 5.493 million (2009: Rs. 3.499 million) in respect of gratuity fund.

28	ADMINISTRATIVE EXPENSES			
	Salaries and benefits	28.1	68,750	74,864
	Traveling and conveyance		5,332	6,425
	Depreciation	4.1.3	5,822	5,504
	Vehicle running expenses		3,526	3,940
	Communication		2,524	2,205
	Printing and stationery		2,081	2,031
	Rent, rates and taxes		2,653	2,867
	Utilities		2,448	1,480
	Repairs and maintenance		2,146	3,328
	Legal and professional charges		9,466	5,973
	Insurance		1,597	1,149
	Subscription		2,079	3,807
	Advertisement		325	295
	Staff training expenses		575	568
	Entertainment		729	692
	Others		1,167	688
			<u>111,220</u>	<u>115,816</u>

28.1 This includes Rs. 3.272 million (2009: Rs. 2.677 million) in respect of provident fund and Rs. 6.297 million (2009: Rs. 4.482 million) in respect of gratuity fund.

29	OTHER OPERATING EXPENSES			
	Workers' Profits Participation Fund		-	13,799
	Workers' Welfare Fund		-	5,244
	Auditors' remuneration	29.1	1,543	2,165
	Share of loss in a joint venture		110	51
	Donations	29.2	1,103	4,952
	Exchange (gain) / loss		(141)	70,453
			<u>2,615</u>	<u>96,664</u>

	Note	2010	2009
(Rupees '000)			
29.1 Auditors' Remuneration			
Audit fee		600	540
Tax, corporate and other services		833	1,345
Out of pocket expenses		110	280
		<u>1,543</u>	<u>2,165</u>

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

30 OTHER OPERATING INCOME

Income from financial assets			
Profit on saving accounts with banks		691	1,009
Unrealized fair value loss on short-term investments		(39)	(421)
Dividend income from a related party		-	648
		<u>652</u>	<u>1,236</u>
Income from non-financial assets			
Gain on disposal of operating property, plant and Equipment 4.1.4		486	3,214
Others			
Scrap sales		15,456	3,115
Miscellaneous income		206	210
		<u>15,662</u>	<u>3,325</u>
		<u>16,800</u>	<u>7,775</u>

31 FINANCE COSTS

Mark-up on long-term financing		45,653	28,932
Mark-up on short-term running finance and bank charges		115,264	85,425
		<u>160,917</u>	<u>114,357</u>

32 TAXATION

The assessments of the Company for and upto the tax year 2009 have been completed or deemed to be assessed. The Company is only liable to pay minimum tax and final tax in the current year, therefore, no numerical tax reconciliation is given.

2010	2009
(Rupees '000)	

33 (LOSS)/ EARNINGS PER SHARE

(Loss) / profit after taxation	(13,755)	159,287
	(Number of shares)	
Weighted average number of ordinary shares in issue during the year	95,580,008	95,580,008
(Loss) / Earnings per share - basic	Re. (0.14)	Rs. 1.67

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

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Notes to the Financial Statements

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

The Board of directors reviews and agrees policies for managing each of these risks which are summarized below:

34.1 Market risk

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

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

34.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate because of changes in the market interest rates. The Company interest rate risk arises from long-term and short-term borrowings obtained with floating rates. All the borrowings of the Company are obtained in the functional currency.

To manage this risk, the Company enters into interest rate swap arrangements in which the Company agrees to exchange, at specified intervals, the difference between the fixed and floating rate interest amount calculated by reference to an agreed-upon notional principal amount. Apart from interest rate swap arrangements, export refinance facility has been obtained at a fixed rate of 9% per annum (2009: Nil). At June 30, 2010 after taking into account the effect of interest rate swaps and export refinance, approximately 41% (2009: 15%) of the Company borrowings are at fixed rate of interest.

Sensitivity Analysis:

The following figures demonstrate the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Company's profit before tax:

	Increase / decrease in basis points	Effect on profit before tax (Rupees '000)
2010 KIBOR KIBOR	+200	25,783
	-200	(25,783)
2009 KIBOR KIBOR	+200	30,049
	-200	(30,049)

34.1.2 Foreign currency risk

Foreign currency risk is the risk that the value of financial assets or a financial liability will fluctuate due to a change in a foreign exchange rates. It arises mainly where receivables and payables exist due to transactions in foreign currency. The Company's exposure to the risk of changes in foreign exchange rates relate primarily to the Company's operating activities (when revenue or expenses are denominated in a different currency from the Company's functional currency).

At present, hedging is not allowed against US Dollar. For other currencies, management keeps on evaluating different options available.

34.1.3 Equity risk

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

At the balance sheet date, the exposure to listed equity securities at fair value was Rs. 16.578 million. A decrease of 10% in the share price of the listed security would have an impact of approximately Rs. 1.658 million on the equity or income depending whether or not the decline is significant and prolonged. An increase of 10% in the share price of the listed security would impact equity in the similar amount but will not have an effect on income unless there is an impairment charge associated with it.

34.2 Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company's exposure to credit risk is minimal as the Company receives advance against sales.

34.2.1 Credit quality of financial assets

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

	2010	2009
	(Rupees '000)	
Long-term investments		
Counter parties without credit rating	122,104	114,157
Derivative financial assets		
AA+	1,935	13,673
Short term investment		
Counter party without credit rating	114	153
Cash at bank and short-term deposits		
Current accounts - A1+	41,931	49,819
Saving accounts - A1+	9,402	-
Saving accounts - AA+	-	5,759
Saving accounts - AA -	-	5
	51,333	55,583

34.3 Liquidity risk

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

The Company applies prudent liquidity risk management by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At the balance sheet date the Company has unavailed credit facility of Rs. 600.872 million (2009: Rs. 862.563 million).

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

Notes to the Financial Statements

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	2010					2009				
	INTEREST BEARING			NON INTEREST BEARING	Total	INTEREST BEARING			NON INTEREST BEARING	Total
	Less than one year	One to five year	Total			Less than one year	One to five year	Total		
(Rupees '000)					(Rupees '000)					
Long-term financing	111,100	976,400	1,087,500	-	1,087,500	175,000	1,087,500	1,262,500	-	1,262,500
Long-term deposits	-	-	-	12,637	12,637	-	-	-	12,737	12,737
Trade and other payables	-	-	-	240,180	240,180	-	-	-	186,464	186,464
Accrued mark-up	-	-	-	82,255	82,255	-	-	-	97,860	97,860
Short-term running finance	1,114,128	-	1,114,128	-	1,114,128	502,437	-	502,437	-	502,437
Unclaimed and unpaid Dividend	-	-	-	11,915	11,915	-	-	-	12,072	12,072
	1,225,228	976,400	2,201,628	346,987	2,548,615	677,437	1,087,500	1,764,937	309,133	2,074,070

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

34.4 Capital risk management

The primary objective of the Company's capital management is to maintain healthy capital ratios, strong credit rating and optimal capital structures in order to ensure ample availability of finance for its existing and potential investment projects, to maximize shareholders value and reduce the cost of capital.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies and processes during the year ended June 30, 2010.

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

During 2010, the Company's strategy was to maintain leveraged gearing. The gearing ratios as at June 30, 2010 and 2009 were as follows:

	2010	2009
	(Rupees '000)	
Long-term financing including current portion	1,087,500	1,262,500
Accrued interest / mark-up	82,255	97,860
Short-term running finance	1,114,128	502,437
Total debt	2,283,883	1,862,797
Cash and cash equivalents	(53,652)	(60,689)
Net debt	2,230,231	1,802,108
Share capital	955,801	955,801
Reserves	1,290,164	1,312,603
Total capital	2,245,965	2,268,404
Capital and net debt	4,476,196	4,070,512
Gearing ratio	49.82%	44.27%

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

34.5 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

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

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

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

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

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

Financial assets measured at fair value	Total	Level 1	Level 2	Level 3
	(Rupees '000)			
30 June 2010				
Derivative financial assets	1,935	-	1,935	-
Available for sale securities	16,578	16,578	-	-
Investment at fair value though profit or loss	114	114	-	-
	18,627	16,692	1,935	-
30 June 2009				
Derivative financial assets	13,673	-	13,673	-
Available for sale securities	19,521	19,521	-	-
Investment at fair value though profit or loss	153	153	-	-
	33,347	19,674	13,673	-

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

35 REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

	2010			2009		
	Chief Executive	Director	Executives / Key Employees	Chief Executive	Director	Executives / Key Employees
Managerial remuneration	13,525	14,029	102,143	10,930	11,703	84,939
Housing allowance	1,282	3,300	30,806	1,165	3,266	24,019
Retirement benefits	1,760	1,830	12,260	1,410	1,520	9,523
Utilities	431	759	6,698	252	820	5,247
Leave fare assistance	880	760	6,479	705	605	5,068
	17,878	20,678	158,386	14,462	17,914	128,796
	1	1	60	1	1	46

Notes to the Financial Statements

for the year ended June 30, 2010

- 35.1 The chief executive and an executive have been provided with furnished accommodation. Further, the chief executive and certain 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.
- 35.2 The aggregate amount charged in the financial statements for the year for fee to 6 directors amounted to Rs. 0.210 million (2009: 6 directors - Rs. 0.230 million).

36 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of group companies, directors and executives. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties, contribution to staff benefit funds, sale of vehicles, return on loans, 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	2010	2009
		(Rupees '000)	
Group companies	Purchase of packing material	405,627	445,375
	Purchase of raw material	67,602	74,129
	Sale of goods	400	970
	Dividend received	-	648
	Software consultancy charges	4,600	3,247
Other related parties	Insurance premium	31,563	31,304

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

2010	2009
(Tons)	

37 CAPACITY - Clinker

	2010	2009
Annual Installed capacity as of June 30	1,000,000	1,000,000
Actual production	946,410	967,100

Actual production is less than the installed capacity due to planned maintenance shut down and in line with the industry demand.

38 DATE OF AUTHORIZATION

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

39 CORRESPONDING FIGURES

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

40 GENERAL

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


Mohammed Faruque
 Chairman


Azam Faruque
 Chief Executive

Pattern of Shareholding

as at June 30, 2010

No. of Shareholders	Shareholding		Shares held
	From	To	
654	1	100	28,417
1170	101	500	397,559
554	501	1000	459,306
1203	1001	5000	3,275,945
383	5001	10000	2,986,129
147	10001	15000	1,800,121
131	15001	20000	2,316,836
113	20001	25000	2,508,714
51	25001	30000	1,417,823
20	30001	35000	636,801
24	35001	40000	907,723
33	40001	45000	1,428,386
17	45001	50000	828,612
10	50001	55000	518,260
5	55001	60000	290,784
10	60001	65000	623,435
8	65001	70000	541,759
11	70001	75000	795,563
1	75001	80000	75,468
4	80001	85000	329,876
5	85001	90000	435,924
4	90001	95000	374,577
1	95001	100000	100,000
2	100001	105000	204,080
1	105001	110000	108,963
1	110001	115000	111,145
2	115001	120000	238,189
1	125001	130000	128,373
2	130001	135000	263,721
1	145001	150000	148,241
1	155001	160000	160,000
1	165001	170000	169,143
2	175001	180000	358,147
1	195001	200000	200,000
1	210001	215000	213,671
1	215001	220000	217,934
1	220001	225000	221,239
1	239001	244000	239,774
2	240001	245000	484,573
2	295001	300000	595,569
1	305001	310000	307,500
2	310001	315000	624,999
1	320001	325000	323,437
1	330001	335000	333,812
2	355001	360000	711,818
1	360001	365000	364,061
1	375001	380000	377,540
1	430001	435000	432,411
1	435001	440000	437,646
1	490001	495000	494,140
1	505001	510000	510,000
1	555001	560000	558,475
1	650001	655000	653,818
1	655001	660000	659,804
1	730001	735000	732,130
1	760001	765000	765,000
1	1190001	1195000	1,191,743
1	1600001	1605000	1,603,254
1	1735001	1740000	1,739,267
1	1850001	1855000	1,853,197
1	1935001	1940000	1,936,672
1	1995001	2000000	1,999,176
1	2725001	2730000	2,729,464
1	3425001	3430000	3,427,502
1	6410001	6415000	6,413,013
1	7710001	7715000	7,714,538
1	12755001	12760000	12,755,776
1	16785001	16790000	16,789,035
4,612			95,580,008

Categories of Shareholders

as at June 30, 2010

Categories	No. of Shareholders	Shares Held	Percentage
Charitable Trust	1	17,000	0.02
Cooperative Society	1	7,733	0.01
Financial Institutions	21	33,965,466	35.54
Individuals	4501	29,632,171	31.00
Insurance Companies	7	4,287,238	4.49
Investment Company	1	179	0.00
Joint Stock Companies	62	24,051,713	25.16
Modarabas	4	9,072	0.01
Others	14	3,609,436	3.77
Totals	4612	95,580,008	100.00

Pattern of Shareholding

as at June 30, 2010

Additional Information

Shareholders' Category	Shares Held
Associated Companies, Undertakings and Related Parties	
Faruque (Private) Limited	16,789,035
Cherat Papersack Limited	221,239
Mirpurkhas Sugar Mills Limited	3,427,502
Greaves Pakistan (Private) Ltd	1,999,176
New Jubilee Insurance Co.Ltd	23,027
Atlas Insurance Limited	1,739,267
Directors, Chief Executive and their Spouses	
Mohammed Faruque	1
Azam Faruque	240,531
Samia Faruque W/O. Mr. Azam Faruque	28,523
Akbarali Pesnani	44,921
Sakina Pesnani W/O. Mr. Akbarali Pesnani	43,774
Arif Faruque	169,143
Tariq Faruque	310,566
Executives	314,433
Government Institutions	
Investment Corporation of Pakistan	340
National Bank of Pakistan-Trustee Department NI(U)T Fund	12,757,976
Public Sector Companies and Corporations	10,054,989
Banks, Development Financial Institutions, Non Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds	5,658,589
General Public	41,756,976
Shareholders holding 10% or More Voting Interest	
Faruque (Private) Limited	16,789,035
National Bank of Pakistan-Trustee Department NI(U)T Fund	12,757,976

Proxy Form

29th Annual General Meeting 2010

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.

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

Number of shares held: _____

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 29th Annual General Meeting of the
Company to be held on Tuesday, 26th October, 2010 at 2:00 p.m. and at any adjournment thereof.

WITNESSES:

1. Signature: _____

Name: _____

Address: _____

NIC or _____

Passport No. _____

Signature of
Shareholder

Please affix
Revenue
Stamp
Rs.5/-

2. Signature: _____

Name: _____

Address: _____

NIC or _____

Passport No. _____

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

Note: SECP'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 MEETING AND APPOINTMENT OF PROXIES

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

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

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

B. Appointment of Proxies:

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

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



GHULAM FARUQUE
GROUP



Registered Office:

Modern Motors House,
Beaumont Road
Karachi 75530 Pakistan

Factory:

Village Lakrai, P.O. Box 28
Nowshera
Khyber Pakhtunkhwa

Sales Offices:

Peshawar
1st Floor, Betani Arcade
Jamrud Road

Lahore
3, Sunder Das Road

Islamabad
Mezzanine Floor
Razia Sharif Plaza
91-Blue Area

UAN: 111-000-009

Web: www.gfg.com.pk