

# 2011

Annual Report



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A hand is shown painting a globe of the Earth with a brush. The globe is placed on a bed of vibrant green grass, and the scene is bathed in bright, natural light, suggesting a sunny day. The hand is positioned on the right side of the frame, with the brush tip touching the globe's surface.

## Vision Statement

Strive to develop and employ innovative technological solutions to add value to business with progressive and proactive approach.

The Leading Chemical Company.

Commitment towards uncompromised Reliability, Quality, Services and Safety.

Assure customer the most complete value package to become chosen partner in customer's view.

High return generation for sustainable growth.

View change as rule of life.

Together with the employees, to ensure success

The background of the page is a blurred image of several laboratory beakers and test tubes. Each piece of glassware contains a different colored liquid: orange, yellow, green, blue, and red. The lighting is bright, creating a clean and scientific atmosphere.

# Mission Statement

Better bottom line results with well contained risks through continuing growth and diversification.

Create opportunities for success through trusted and reliable partnership.

# Company Information

## **Board Of Directors**

Haji Bashir Ahmed (Chairman)  
Mr. Imran Ghafoor (CEO)  
Mr. Javed Iqbal  
Mr. Muhammad Adrees  
Mr. Muhammad Anis  
Mrs. Sharmeen Imran  
Mrs. Noureen Javed

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## **Company Secretary**

Mr. Mazhar Ali Khan

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## **Chief Financial Officer (CFO)**

Syed Sarfraz Habib - ACA

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## **Audit Committee**

Mr. Javed Iqbal (Chairman)  
Mrs. Sharmeen Imran (Member)  
Mr. Muhammad Anis (Member)

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## **Auditors**

M/s. M. Yousuf Adil Saleem & Co.,  
Chartered Accountants

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## **Legal Advisor**

Sahibzada Waqar Arif

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## **Registered Office**

601-602, Business Centre, Mumtaz  
Hasan Road, Karachi-74000  
Ph:021-32401373, 32413944

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## **Bankers**

Askari Bank Limited  
Bank Alfalah Limited  
Al-Baraka Islamic Bank  
Habib Bank Limited  
Meezan Bank Limited  
National Bank of Pakistan  
Standard Chartered Bank  
United Bank Limited  
Faysal Bank Limited  
Silk Bank Limited  
Summit Bank Limited  
MCB Bank Limited

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## **Share Registrar**

Noble computer Services (Pvt.) Limited  
Mezzanine Floor, House of Habib  
Building (Siddiqsons Tower),  
3-Jinnah Cooperative Housing Society,  
Main Shahrah-e-Faisal, Karachi-75350  
Ph: (92-21) 34325482-87  
Fax: (92-21) 34325442

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## **Head Office & Project Location**

26-Km Sheikhpura Road, Faisalabad.  
Ph: 041-4364031-33

## Notice Of Annual General Meeting

Notice is hereby given that the Eighth Annual General Meeting of Sitara Peroxide Limited will be held on Saturday, October 22, 2011 at 4:00 p.m. at Dr. Abdul Qadeer Khan Auditorium, Haji Abdullah Haroon Muslim Gymkhana, Near Shaheen Complex, Aiwan-e-Sadr Road, Karachi, to transact the following business:

1. To confirm the minutes of Extra Ordinary General Meeting held on April 4, 2011.
2. To receive, consider and adopt the Annual Audited Accounts of the Company for the year ended June 30, 2011 together with the Director's and Auditor's reports thereon.
4. To appoint Auditors and fix their remuneration for the year ending June 30, 2012.
5. To transact any other business with the permission of Chair.

By order of the Board



**MAZHAR ALI KHAN**  
Company Secretary

**Karachi:**

September 19, 2011

### **NOTES:**

1. The share transfer books of the Company will remain closed from October 15, 2011 to October 22, 2011 (both days inclusive).
2. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must be received at the company's share registrar's office M/S. Noble Computer Services (Pvt) Limited, First Floor, House of Habib Building (Siddiqsons Tower), 3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi not less than 48 hours before the time of meeting.
3. Shareholders who have deposited their shares into Central Depository Company are advised to bring their Computerized National Identity Card alongwith their CDC account number at the meeting venue.
4. Shareholders are advised to notify any change in their address (es).

# DIRECTORS' REPORT

Dear Shareholders,

Yours directors feel pleasure in presenting annual audited financial statements alongwith auditor's report thereon for the year ended June 30, 2011. The main financial highlights of the financial year under review are as follows;

	2011	2010
	----- Rupees -----	
Sales	1,289,332,296	714,986,464
Cost of sales	(785,848,472)	(694,845,375)
Gross profit	503,483,824	20,141,089
Other oprating income / (loss)	551,091	(520,182)
	504,034,915	19,620,907
Distribution cost	19,902,614	13,502,001
Administrative expenses	41,990,425	35,277,121
Other operating expenses	9,443,934	459,357
Finance cost	253,263,193	243,270,154
	(324,600,166)	(292,508,633)
Profit/ (loss) before taxation	179,434,749	(272,887,726)
Provision for taxation	(13,183,421)	93,742,219
Profit /(loss) for the year	166,251,328	(179,145,507)
Earning /(loss) per share	3.02	(3.25)

During the year under review, the performance of your company improved substantially. The revenue of your company increased by 80.3% as compared to last year. This was not only due to higher prices of the product during current year but also due to increase in volume of sales. Similarly, due to efficient management of company resources, cost of sales increased only by a mere 13%. As a result of this, gross profit ratio of your company increased to 39% in current year from only 3% in corresponding year.

Distribution costs of your company increased by 47% due to higher volume of sales and increase in fuel charges during the year. However, administrative and financial charges were kept under control as there was only increase of 19% and 4% respectively.

## PLANT PERFORMANCE

During the year under review, average production comes to 74% of the total installed capacity as compared to only 60% capacity utilization during last year. Lower capacity utilization was due to shortage of its main raw material, natural gas. However, now your company has solved this problem by completing a dedicated gas pipe line of SNGPL. Dedicated pipeline of natural gas will not only enable your company to reduce shutdowns due to gas shortage but will also help to improve its production and future profits substantially.

## MARKETING OVERVIEW

Your company was designed as an import substituting plant which is aiming to create value primarily by reducing the storage and handling cost of its customers. As textile sector is most important user of our product and this sector has suffered most due to energy crises, deteriorating law and order situation and recent devastating floods in various parts of our country.

We are pleased to inform you that your company, despite all the above difficulties, managed to improve its position.

We were successful in reducing imports of hydrogen peroxide which resulted in saving of foreign exchange for our country and were able to increase our market share as compared to last year.

By the grace of Almighty Allah, we were successful in achieving all our targets during the last year and now as the local economy in general and textile sector in particular is expected to recover, your management is confident to avail this opportunity fully.

## FUTURE OUTLOOK

Despite all risks and threats to economy of Pakistan future of your company is bright. Although last year witnessed many hurdles, still your company managed to increase its market share as compared to last year. Due to imposition of anti-dumping duty on import of hydrogen peroxide subsequent to year end, prices of your product are expected to remain strong in coming years which will enable your company to increase its profitability in coming days.

During the year under review, following landmarks have been achieved by your company;

- Production of hydrogen peroxide has been increased upto 22,243 tons; 24% higher than the production in corresponding year. Your management wants to increase production further in current year.
- Completion of dedicated natural gas pipeline from SNGPL will ensure the continuous supply of natural gas and improve production of plant significantly.
- Net sales of your company reached Rs. 1,289,332,296. This have been the first occasion on which sales of your company crossed one billion mark. Your management wants to increase it further in coming years.
- Price of hydrogen peroxide has increased by 43% as compared to previous year. Your management is expecting that this trend will continue in future.
- National Tariff Commission has imposed anti-dumping duties on import of hydrogen peroxide in Pakistan since July 2011. This decision will not only reduce the dumping of hydrogen peroxide in local market but will also provide equal opportunity to local manufacturers to compete in peroxide market.

## CORPORATIVE GOVERNANCE

Your company is committed to maintain high standards of good corporate governance without any exception. The directors are pleased to state that your company is compliant with the provisions of the Code of Corporate Governance as required by SECP and formed as part of stocks exchanges listing regulations. Statement of compliance with Corporate Governance is annexed.

## DISCLOSURE UNDER CODE OF CORPORATE GOVERNANCE.

### CORPORATE AND FINANCIAL REPORTING FRAMEWORK

- a) The financial statements prepared by the management of the company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b) Proper books of accounts of the company have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements except for changes resulting on initial application of standards, amendments or interpretations to existing standards and reclassifications. Accounting estimates are based on reasonable and prudent judgment.



- d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts upon the company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance as detailed in the listing regulations.

### Pattern Of Shareholding

The pattern of shareholding of the company is annexed. No trading was made in shares of the Company by its Directors, CEO, CFO, Company Secretary, their spouses and minor Children, except as disclosed in pattern of shareholding.

### Financial Data

Key Financial Data for the last six years is as under:

	2011	2010	2009	2008	2007	2006
	Rupees in thousand					
Sales	1,289,332	714,986	628,523	291,177	-	-
Gross Profit	503,484	20,141	102,648	19,458	-	-
Profit / (loss) for the year	166,251	(179,146)	(99,907)	(59,879)	(4,424)	-
Issued, Subscribed & Paid up Capital	551,000	551,000	551,000	550,095	301,000	1,525
Non-Current Liabilities	1,177,182	1,355,614	1,321,594	964,660	782,692	278,685
Current Liabilities	791,413	625,265	727,460	618,417	979,755	43,269
Non-current Assets	2,252,558	2,263,653	2,395,168	1,604,713	1,330,935	447,774
Current Assets	622,855	457,794	573,599	446,731	964,747	9,427

## BOARD OF DIRECTORS' MEETINGS

During the year under review, five board meetings were held. Attendance by each director is as follow:

	Name of Director	Meetings Attended
1	Haji Bashir Ahmad (Chairman)	5
2	Mr. Imran Ghafoor (Chief Executive Officer)	5
3	Mr. Javed Iqbal	5
4	Mr. Muhammad Adrees	5
5	Mr. Muhammad Anis	5
6	Mrs. Sharmeen Imran	5
7	Mrs. Naureen Javed	5

## AUDITORS

The existing auditors M/S M. Yousaf Adil Saleem & Company, Chartered Accountants, shall retired on conclusion of Annual General Meeting. Being eligible, they offered themselves for re-appointment as Auditors of the Company for financial year ending June 30, 2012. The audit committee has recommended the appointment of aforesaid M/S M. Yousaf Adil Saleem & Company, as external auditors for the financial year ending June 30, 2012.

## ACKNOWLEDGMENT

On behalf of the Board, I would like to take this opportunity to express my appreciation for our dealers, customers, government, bankers, suppliers, shareholders, employees and other stakeholders for their dedication, support and cooperation through out the year.

For and on behalf of the  
Board of Directors



IMRAN GHAFOOR  
Chief Executive Officer

September 19, 2011  
Faisalabad

## Pattern Of Shareholding

AS AT JUNE 30, 2011

NUMBER OF SHARE HOLDERS	SHAREHOLDINGS		TOTAL NUMBER OF SHARES
	FROM	TO	
344	1	100	9,953
6,775	101	500	3,350,917
1,485	501	1,000	1,460,754
1,722	1,001	5,000	4,578,727
336	5,001	10,000	2,710,204
92	10,001	15,000	1,174,747
57	15,001	20,000	1,042,552
37	20,001	25,000	886,445
24	25,001	30,000	689,792
10	30,001	35,000	331,429
11	35,001	40,000	423,739
8	40,001	45,000	343,425
14	45,001	50,000	681,090
7	50,001	55,000	364,000
1	55,001	60,000	60,000
4	60,001	65,000	251,300
6	65,001	70,000	415,500
1	75,001	80,000	79,917
3	80,001	85,000	254,000
1	85,001	90,000	85,500
1	90,001	95,000	92,128
8	95,001	100,000	799,043
4	100,001	105,000	408,527
4	105,001	110,000	433,000
1	115,001	120,000	120,000
2	120,001	125,000	246,370
1	125,001	130,000	126,648
2	145,001	150,000	300,000
1	165,001	170,000	166,667
1	170,001	175,000	171,929
4	195,001	200,000	797,500
2	205,001	210,000	418,400
1	215,001	220,000	217,325
1	220,001	225,000	225,000
2	245,001	250,000	496,500
1	320,001	325,000	324,500
1	370,001	375,000	374,545
1	415,001	420,000	416,666
1	465,001	470,000	466,667
1	475,001	480,000	480,000
1	1,305,001	1,310,000	1,307,425
1	1,965,001	1,970,000	1,967,669
1	1,995,001	2,000,000	2,000,000
1	2,620,001	2,625,000	2,624,435
1	3,495,001	3,500,000	3,500,000
1	17,425,001	17,430,000	17,425,065
10,984			55,100,000

## Pattern Of Shareholding

AS AT JUNE 30, 2011

Categories of Shareholders	Number	Share Held	Percentage
Sitara Chemical Industries Limited	1	3,500,000	6.35
Sitara Fabrics Limited	1	210,000	0.38
NIT & ICP			
National Bank of Pakistan - Trustee Department	1	104,322	0.19
Directors, CEO & their Spouse and Minor Children			
Haji Bashir Ahmed	1	2,500	0.00
Mr. Imran Ghafoor	1	17,425,065	31.62
Mrs. Sharmeen Imran	2	2,634,435	4.78
Mrs. Naureen Javed	1	4,500	0.01
Mr. Muhammad Adrees	1	35,000	0.06
Mr. Muhammad Anis	1	10,000	0.02
Mr. Javed Iqbal	2	2,010,000	3.65
Mrs. Naila Anis	1	10,000	0.02
Executive	-	-	-
Public Sector Companies and Corporation	-	-	-
Bank, Development Finance Institutions, Non Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds.	8	410,400	0.74
Charitable Trusts	-	-	-
Shareholders holding ten Percent or more voting interest in the Company	-	-	-
Co-operative Societies	2	12,500	0.02
Foreign Investors	3	24,000	0.04
Individuals	10,891	26,984,174	48.97
Investment Companies	1	3,000	0.01
Joint Stock Companies	62	1,564,604	2.84
Others	4	155,500	0.28
	10,984	55,100,000	100.00

There was NO purchase/sale of shares by Directors, Company Secretary, Head of Internal Audit Department, Chief Financial Officer and their spouses/minor children during 2010-2011.

## Review Report To The Members On Statement Of Compliance With The Best Practices Of Code Of Corporate Governance

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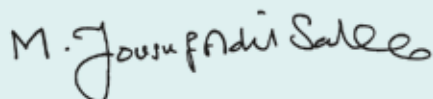
We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Sitara Peroxide Limited (the company) to comply with the relevant Listing Regulations of the Karachi Stock Exchange (Guarantee) Limited where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report, if it does not. A review is limited primarily to inquiries of the Company's 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 on internal controls covers all risks and controls, or to form an opinion on the effectiveness of such controls, the Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii a) of Listing Regulation 35 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 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 at 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 part transaction 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 as applicable to the Company for the year ended June 30, 2011.



Chartered Accountants

Engagement Partner:  
Talat Javed

September 19, 2011  
Lahore

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# Statement Of Compliance With The Code Of Corporate Governance

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In recognition of the importance of good Corporate Governance on the basis of proper management policies, your Company pursues a policy of conformity to the accepted guidelines of the Karachi Stock Exchange and the Securities and Exchange Commission of Pakistan (SECP). The Board of Directors is committed to honest, ethical, knowledgeable and comprehensive management and development and implementation of good Corporate Governance as a means of achieving maximum success and effectiveness.

This statement is being presented to comply with the Code of Corporate Governance as contained in the listing regulations of Karachi Stock Exchange.

1. The Board of Directors of the Company comprises of seven individuals; six non-executive directors and one executive director. Chairman of the Board is other than the CEO. All Directors/ CEO are well conversant with the listing regulations, legal requirements and operational imperatives of the Company.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company. All the directors of the Company are registered as tax payers 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.
3. The Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all directors and employees of the company.
4. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
5. All 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, have been taken by the Board.
6. Meetings of the Board of Directors are held to take notice of the results of corporate operations and their management and to make decisions concerning the Company's business activities. Notices of the Board meetings, along with agenda are circulated at least seven days before the meetings. Each meeting's minutes are appropriately recorded and circulated to the Board of Directors for review and information. Four Board Meetings took place during the year.
7. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit including their remuneration and terms and conditions of employment, as determined by the CEO.
8. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
9. 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.
10. The Board has formed an Audit Committee. It comprises three members; all of them are non-executive directors including Chairman of the Audit Committee. The meetings of the audit committee held at least once every quarter prior to approval of interim and final results of the Company and as required by

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the Code. The terms of reference of the Committee have been formed and advised to the committee for compliance.

11. The Board has set up an effective internal audit function. The Audit Committee annually reviews the appropriateness of resources and authority of this function to keep it aligned with changing business conditions. The Head of Internal Audit functionally reports to the Audit Committee. The Audit Committee approves the audit program, based on an annual risk assessment of the operating areas. The internal audit function carries out reviews on the financial, operational and compliance controls, and reports on findings to the Audit Committee, Chief Executive and the senior management.
12. The Statutory auditors of the Company had confirmed that they have been given a

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

13. The statutory auditors or the person 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.
14. We confirm that all other material principles contained in the Code have been complied with.



CHIEF EXECUTIVE OFFICER



DIRECTOR

September 19, 2011  
Faisalabad

## Auditors' Report To The Members

We have audited the annexed balance sheet of Sitara Peroxide Limited ("the Company") as at June 30, 2011 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

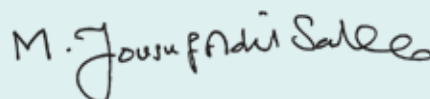
It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion-
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;

- (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
- (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.

- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2011 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion no Zakat was deductible at source under Zakat and Ushr Ordinance, 1980 (XVIII of 1980).



Chartered Accountants

Engagement Partner:  
Talat Javed

Date: September 19, 2011  
Lahore





The background features a teal gradient with a network of white lines. In the center-right, two Erlenmeyer flasks are highlighted with a bright white glow. The flask on the left contains a blue liquid, and the one on the right contains a yellow liquid. To the left, a large, faint image of a volumetric flask is visible, and in the bottom-left corner, there is a smaller, faint image of a beaker.

# FINANCIAL STATEMENTS

# BALANCE SHEET

	Note	2011 ----- Rupees -----	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	2,248,853,047	2,259,947,983
Long term deposits	5	3,705,000	3,705,000
		2,252,558,047	2,263,652,983
<b>Current assets</b>			
Stores, spare parts and loose tools	6	68,898,886	65,724,318
Stock in trade	7	377,671,588	254,686,895
Trade debts	8	24,373,098	29,821,691
Advances	9	38,724,333	23,837,758
Deposits and short term prepayments	10	26,517,930	20,314,143
Advance income tax	11	16,420,577	29,064,883
Sales tax refundable	12	51,510,113	30,009,158
Cash and bank balances	13	18,738,913	4,335,278
		622,855,438	457,794,124
<b>Total assets</b>		<b>2,875,413,485</b>	<b>2,721,447,107</b>

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



CHIEF EXECUTIVE OFFICER



DIRECTOR

# AS AT JUNE 30, 2011

	Note	2011	2010
		Rupees	
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	551,000,000	551,000,000
Accumulated losses		(133,209,710)	(331,307,527)
		417,790,290	219,692,473
<b>Surplus on revaluation of property, plant and equipment</b>	15	489,028,656	520,875,145
<b>Non-current liabilities</b>			
Long term financing	16	1,174,342,106	1,353,195,528
Deferred liabilities	17	2,839,766	2,418,898
		1,177,181,872	1,355,614,426
<b>Current liabilities</b>			
Trade and other payables	18	91,999,414	145,588,037
Accrued markup	19	65,228,475	37,989,828
Running finance under markup arrangement	20	437,957,473	393,791,666
Current portion of long term financing	16	196,227,305	47,895,532
		791,412,667	625,265,063
<b>Contingencies and commitments</b>	21	-	-
<b>Total equity and liabilities</b>		<b>2,875,413,485</b>	<b>2,721,447,107</b>

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



CHIEF EXECUTIVE OFFICER



DIRECTOR


# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 ----- Rupees -----	2010
Sales	22	1,289,332,296	714,986,464
Cost of sales	23	(785,848,472)	(694,845,375)
Gross profit		503,483,824	20,141,089
Other operating income / (loss)	24	551,091	(520,182)
		504,034,915	19,620,907
Distribution cost	25	19,902,614	13,502,001
Administrative expenses	26	41,990,425	35,277,121
Other operating expenses	27	9,443,934	459,357
Finance cost	28	253,263,193	243,270,154
		(324,600,166)	(292,508,633)
Profit / (loss) before taxation		179,434,749	(272,887,726)
Provision for taxation	29	(13,183,421)	93,742,219
Profit / (loss) for the year		166,251,328	(179,145,507)
Other comprehensive income		-	-
Total comprehensive income / (loss) for the year		166,251,328	(179,145,507)
Earning/(loss) per share - basic and diluted	30	3.02	(3.25)

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



CHIEF EXECUTIVE OFFICER



DIRECTOR

# CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

Note	2011	2010
	----- Rupees -----	
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit / (loss) before taxation	179,434,749	(272,887,726)
Adjustments for:		
Depreciation of property, plant and equipment	165,386,896	161,390,615
(Gain)/Loss on disposal of property, plant and equipment	(551,091)	520,182
Provision for staff retirement benefits - gratuity	1,967,874	1,951,609
Finance cost	253,263,193	243,270,154
	<u>599,501,621</u>	<u>134,244,834</u>
Working capital changes		
(Increase) / decrease in current assets		
Stores, spare parts and loose tools	(3,174,568)	(2,756,785)
Stock in trade	(122,984,693)	88,808,323
Trade debts	5,448,593	18,828,938
Advances	(14,886,575)	3,517
Deposits and short term prepayments	(6,203,787)	(616,362)
Sales tax refundable	(21,500,955)	11,292,601
Other receivables	-	650,238
Increase in trade and other payables	(53,588,623)	(12,929,378)
	<u>(216,890,608)</u>	<u>103,281,092</u>
Cash generated from operations	382,611,013	237,525,926
Finance cost paid	(226,024,546)	(240,047,717)
Staff retirement benefits - gratuity paid	(1,547,006)	(465,107)
Income taxes paid - net	(539,115)	(7,458,739)
	<u>(228,110,667)</u>	<u>(247,971,563)</u>
Net cash from / (used) in operating activities	154,500,346	(10,445,637)
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(155,568,588)	(45,444,800)
Proceeds from disposal of property, plant and equipment	1,827,719	9,950,000
Long term deposits	-	4,410,220
	<u>(153,740,869)</u>	<u>(31,084,580)</u>
Net cash used in investing activities	(153,740,869)	(31,084,580)
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long term financing	(30,521,649)	(93,383,207)
Lease rentals paid	-	(347,331)
	<u>(30,521,649)</u>	<u>(93,730,538)</u>
Net cash used in financing activities	(30,521,649)	(93,730,538)
Net decrease in cash and cash equivalents (A+B+C)	(29,762,172)	(135,260,755)
Cash and cash equivalents at beginning of the year	(389,456,388)	(254,195,633)
Cash and cash equivalents at end of the year	31 <u>(419,218,560)</u>	<u>(389,456,388)</u>

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



CHIEF EXECUTIVE OFFICER



DIRECTOR


## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2011

	Share capital	Accumulated losses	Total
	Rupees		
Balance at July 01, 2009	551,000,000	(181,634,733)	369,365,267
Loss for the year	-	(179,145,507)	(179,145,507)
Other comprehensive income	-	-	-
Total comprehensive income	-	(179,145,507)	(179,145,507)
Incremental depreciation charged during the year transferred to accumulated losses - net of deferred tax	-	29,472,713	29,472,713
<b>Balance as at June 30, 2010</b>	551,000,000	(331,307,527)	219,692,473
Profit for the year	-	166,251,328	166,251,328
Other comprehensive income	-	-	-
Total comprehensive income	-	166,251,328	166,251,328
Incremental depreciation charged during the year transferred to accumulated losses - net of deferred tax	-	31,846,489	31,846,489
<b>Balance as at June 30, 2011</b>	551,000,000	(133,209,710)	417,790,290

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



CHIEF EXECUTIVE OFFICER



DIRECTOR

## 1. GENERAL INFORMATION

1.1 Sitara Peroxide Limited ("the Company") is limited by shares, incorporated in Pakistan on March 08, 2004 as a public limited company under the Companies Ordinance, 1984. The Company is listed on Karachi Stock Exchange. The registered office of the Company is situated at 601-602, Business Centre, Mumtaz Hassan Road, Karachi in the province of Sindh and the manufacturing facilities are located at 26-KM Sheikhpura Road, Faisalabad in the province of Punjab.

The principal activity of the Company is manufacturing and sale of hydrogen peroxide (H<sub>2</sub>O<sub>2</sub>).

1.2 The financial statements are presented in Pak Rupee, which is the Company's functional and presentation currency.

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ESTIMATES

### 2.1 Statement of compliance

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

### 2.2 Standards, interpretation and amendment adopted during the year

In the current year, the Company has adopted all new Standards issued by the IASB and as notified by the SECP that are relevant to its operations and effective for Company's accounting period beginning on July 01, 2010.

Amendments to IFRS 2 - Share based Payment  
 Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations  
 Amendments to IFRS 8 - Operating Segments  
 Amendments to IAS 1 - Presentation of Financial Statements  
 Amendments to IAS 7 - Statement of Cash Flows  
 Amendments to IAS 17 - Leases  
 Amendments to IAS 32 - Financial Instruments: Presentation  
 Amendments to IAS 36 - Impairment of assets  
 Amendments to IAS 39 - Financial Instruments: Recognition and Measurement  
 IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

The adoption of new standards, interpretation and amendments / improvements did not have any effect on the financial statements.

### 2.3 New, revised and amended standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 1, 2011. These standards are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements:



IFRS 7	Financial Instruments: Disclosures (Amendment)	Jan 1, 2011
IFRS 7	Financial Instruments: Disclosures (Amendment)	Jul 1, 2011
IAS 1	Presentation of Financial Statements (Amendment)	Jan 1, 2011
IAS 12	Income Taxes (Amendment)	Jan 1, 2012
IAS 24	Related Party Disclosures (Revised)	Jan 1, 2011
IAS 34	Interim Financial Reporting (Amendment)	Jan 1, 2011
IFRIC 13	Customer Loyalty Programmes (Amendment)	Jan 1, 2011
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (Amendment)	Jan 1, 2011

## 2.4 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under circumstances, and the results of which form the basis for making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

### 2.4.1 Employee benefits

The Company operates an unfunded gratuity scheme (defined benefit plan) for all its permanent employees who have completed minimum qualifying period of service as defined under the respective scheme. Provisions are made annually to cover the obligation under the scheme on the basis of actuarial valuation and are charged to income. The calculation requires assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and discount rate used to derive present value of defined benefit obligation. The assumptions are determined by independent actuaries.

### 2.4.2 Property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

### 2.4.3 Taxation

The Company takes into account the current income tax laws and decisions taken by appellate authorities. Instances 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 contingent liabilities.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Basis of preparation

These financial statements have been prepared under historical cost convention modified by:

- revaluation of certain property, plant and equipment.
- financial instruments at fair value.
- recognition of certain employee retirement benefits at present value.

The principal accounting policies adopted are set out below :

#### 3.2 Property, plant and equipment

Property, plant and equipment except freehold land, laboratory equipment, office equipment, furniture and fittings, vehicles and capital work-in-progress are stated at revalued amounts less accumulated depreciation and impairment in value, if any. Freehold land is stated at revalued amount. Laboratory equipment, office equipment, furniture and fittings and vehicles are stated at cost less accumulated depreciation and impairment in value, if any. Capital work-in-progress is stated at cost less impairment in value, if any. Cost also includes borrowing cost wherever applicable.

Assets' residual values, if significant and their useful lives are reviewed and adjusted, if appropriate at each balance sheet date.

When significant parts of an item of property, plant and equipment have different useful lives, they are recognized as separate items of property, plant and equipment.

Subsequent costs are recognized as part of asset, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

Depreciation is charged to profit and loss account applying the straight line method over its estimated useful life at the rates specified in relevant note to the financial statements. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment is available for use while no depreciation is charged for the month in which property, plant and equipment is disposed off.

Surplus arising on revaluation of property, plant and equipment is credited to surplus on revaluation of property, plant and equipment. The surplus on revaluation of property, plant and equipment to the extent of incremental depreciation charged on the related property, plant and equipment during the year is transferred by the Company to its un-appropriated profit / (loss).

Gains or losses on disposal of assets, if any, are included in the profit and loss account, as and when incurred.

All expenditures connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when these assets are available for use.

#### Capital work-in-progress

All expenditure connected with specific assets incurred during installation and construction period are

carried under capital work-in-progress. These are transferred to specific assets as and when these assets are available for use.

### 3.3 Stores, spare parts and loose tools

These are valued at cost less allowance for the obsolete and slow moving items. Cost is determined using moving average method. Items in transit are valued at cost comprising invoice value and other charges incurred thereon.

### 3.4 Stock in trade

These are valued at lower of cost and net realizable value. Cost is determined as follows: -

Raw material	- weighted average cost.
Work in process	- average manufacturing cost.
Finished goods	- average manufacturing cost.
Waste	- net realizable value.

Average manufacturing cost in relation to work-in-process and finished goods includes prime cost and appropriate production overheads, based on normal capacity.

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

### 3.5 Impairment

The Company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets may be impaired. If such indication exists, the carrying value of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account, unless asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised recoverable amount but limited the extent of the carrying value that would have been determined (net of depreciation and amortization) had no impairment loss been charged in the previous periods. Reversal of impairment loss is recognized as income.

### 3.6 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired.

The gain or loss on disposal of financial instruments is recognized immediately in the profit and loss account.

Particular recognition methods adopted by the Company are disclosed in the individual policy statements associated with each item of financial instruments.

### **3.7 Trade debts and other receivables**

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the period end. Balances considered bad and irrecoverable are written off when identified.

### **3.8 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, balances with banks, highly liquid short-term investments that are convertible to known amount of cash and are subject to insignificant risk of change in value and running finance under markup arrangement.

### **3.9 Trade and other payables**

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

### **3.10 Staff retirement benefits - gratuity**

The Company operates an unfunded gratuity scheme (defined benefit plan) for its permanent employees who have completed minimum qualifying period of service as defined under the respective scheme. Provisions are made to cover the obligations under the schemes on the basis of actuarial valuation and are charged to income.

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

Actuarial gains / losses are recognized in accordance with the limits set-out by IAS - 19 "Employee Benefits".

Cumulative net unrecognized actuarial gains and losses at the end of previous period which exceeds 10% of the present value of the Company's gratuity is amortized over the average expected remaining working lives of the employees.

Details of the scheme are given in relevant note to these financial statements.

The Company provides for compensated absences of its employees on unavailed balance of leaves in the period in which the leaves are earned.

### **3.11 Provisions**

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

### 3.12 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

Revenue from local sales is recognized when goods are dispatched to customers.

Revenue from export sales is recognized on shipment of goods to customers.

### 3.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of liability for at least twelve months after the balance sheet date.

### 3.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss account for the year.

### 3.15 Taxation

#### Current

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credits, rebates and exemptions available, if any, or minimum taxation as per Income Tax Ordinance 2001, whichever is higher. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime.

#### Deferred

Deferred tax is provided using the balance sheet liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amount for financial reporting purposes. In this regard, the effects on deferred taxation of the portion of income subject to final tax regime is also considered in accordance with the requirement of "Technical Release - 27" and "Technical Release - 30" of the Institute of Chartered Accountants of Pakistan.

Deferred tax liability is recognized for all taxable temporary differences while deferred tax asset is recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates that have been enacted or

the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilized.

substantively enacted at the balance sheet date.

Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity, in which case it is included in equity.

### **3.16 Foreign currencies**

Transactions in currencies other than Pakistani Rupee are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date except where forward exchange contracts have been entered into for repayment of liabilities in that case, the rates contracted for are used.

Gains and losses arising on retranslation are included in profit or loss for the year.

### **3.17 Related party transactions**

Transactions with related parties are priced on arm's length basis. Prices for these transactions are determined on the basis of comparable uncontrolled price method, which sets the price by reference to comparable goods and services sold in an economically comparable market to a buyer unrelated to the seller.

### **3.18 Off-setting of financial assets and financial liabilities**

A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the Company has a legal enforceable right to set off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4. PROPERTY, PLANT AND EQUIPMENT

Operating assets	4.1	2,105,968,706	2,252,573,230
Capital work in progress	4.6	142,884,341	7,374,753
		<u>2,248,853,047</u>	<u>2,259,947,983</u>

4.1 Operating assets- at June 30, 2011

Description	Cost / revalued amount		Accumulated depreciation		Book value at June 30, 2011	Rate %
	At July 01, 2010	At June 30, 2011	At July 01, 2010	At June 30, 2011		
Land - freehold	158,761,500	158,761,500	-	-	158,761,500	-
Building on freehold land	184,170,393	184,170,393	16,795,235	9,208,520	158,166,638	5
Plant and machinery	2,031,153,079	2,047,774,577	255,836,708	136,330,690	1,655,844,094	6.67
	(1,218,420)		(236,915)			
Electric installations	165,456,909	165,630,054	35,914,845	16,555,764	113,159,445	10
Laboratory equipment	3,432,720	3,432,720	590,873	343,272	2,498,575	10
Factory equipment	12,404,398	12,404,398	2,750,230	1,240,440	8,413,728	10
Office equipment	3,847,874	4,222,937	421,028	391,667	3,410,242	10
Furniture and fittings	2,951,269	3,231,624	587,842	311,562	2,332,220	10
Vehicles	5,288,612	5,835,931	1,996,763	1,004,981	3,382,264	20
	(843,200)		(548,077)			
	2,567,466,754	2,585,464,134	314,893,524	165,386,896	479,495,428	2,105,968,706
	(2,061,620)		(784,992)			

Note  
2011  
2010  
Rupees  
Rupees

## Operating assets - as at June 30, 2010

Description	Cost / revalued amount			Accumulated depreciation			Book value at June 30, 2010	Rate %
	At July 01, 2009	Additions / (disposals) / transfer*	At June 30, 2010	At July 01, 2009	Charge for the year / (on disposals) / transfer*	At June 30, 2010		
----- Rupees -----								
<b>Owned</b>								
Land - freehold	158,761,500	-	158,761,500	-	-	-	158,761,500	-
Building on freehold land	163,730,865	20,439,528	184,170,393	7,982,990	8,812,245	16,795,235	167,375,158	5
Plant and machinery	1,875,883,926	158,821,303	2,031,153,079	124,126,911	131,709,797	255,836,708	1,775,316,371	6.67
		(3,552,150)						
Electric installations	152,755,129	12,701,780	165,456,909	19,686,202	16,228,643	35,914,845	129,542,064	10
Laboratory equipment	3,432,720	-	3,432,720	247,601	343,272	590,873	2,841,847	10
Factory equipment	12,152,698	251,700	12,404,398	1,513,985	1,236,245	2,750,230	9,654,168	10
Office equipment	1,700,672	2,147,202	3,847,874	178,776	242,252	421,028	3,426,846	10
Furniture and fittings	2,813,492	137,777	2,951,269	299,138	288,704	587,842	2,363,427	10
Vehicles	12,336,111	1,236,720	5,288,612	1,297,256	2,360,817	1,996,763	3,291,849	20
		(9,127,419)			(2,209,387)			
	843,200	*			548,077	*		
	2,383,567,113	195,736,010	2,567,466,754	155,332,859	161,221,975	314,893,524	2,252,573,230	
		(12,679,569)			(2,209,387)			
		843,200	*		548,077	*		
<b>Leased</b>								
Vehicle	843,200	-	-	379,437	168,640	-	-	20
		(843,200)	*		(548,077)	*		
	843,200	-	-	379,437	168,640	-	-	
		(843,200)	*		(548,077)	*		
	2,384,410,313	195,736,010	2,566,623,554	155,712,296	161,390,615	314,893,524	2,252,573,230	
		(13,522,769)			(2,209,387)			

\* This represents the amount transferred from leased to owned assets on completion of lease term.



2011  
----- Rupees -----

Note

2010

4.1.1 Depreciation charge for the year has been allocated as follows:

	2011	2010
Cost of sales	23	158,927,850
Distribution expenses	25	386,810
Administrative expenses	26	2,075,955
	<u>165,386,896</u>	<u>161,390,615</u>

4.2 Disposal of operating fixed assets

Description	Cost	Accumulated depreciation	Book value	Sale proceed	Gain/(loss) on disposal	Mode of disposal	Particulars of buyer
<b>Plant and machinery</b>							
Storage tanks	1,218,420	236,915	981,505	1,327,719	346,214	Negotiation	M/S Sitara Chemtech (Pvt) Ltd, Faisalabad
<b>Vehicles</b>							
Honda City	843,200	548,077	295,123	500,000	204,877	Negotiation	Mr. Usman Ikram s/o Muhammad Ikram, Faisalabad.
<b>2011</b>	<u>2,061,620</u>	<u>784,992</u>	<u>1,276,628</u>	<u>1,827,719</u>	<u>551,091</u>		
<b>2010</b>	<u>12,679,569</u>	<u>2,209,387</u>	<u>10,470,182</u>	<u>9,950,000</u>	<u>(520,182)</u>		

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

- 4.3** In the year 2009 revaluation of property, plant and equipment except laboratory equipment, office equipment, furniture and fixtures and vehicles was carried out by M/S Maricon Consultants (Pvt) Limited, independent valuers not connected with the Company and was incorporated in the financial statements for the year ended June 30, 2009. This revaluation resulted in surplus of Rs. 767,246,303. Forced sale value is used as basis for revaluation of these property, plant and equipment. Anterior to fixing forced sale value allowance of 15% have been considered for all relevant aspects including location, size, environment, marketability, in the area and the economic / political conditions of the country.
- 4.4** The revaluation surplus, net of deferred tax, has been credited to surplus on revaluation of property, plant and equipment.
- 4.5** Had there been no revaluation the cost, accumulated depreciation and book value of revalued assets would have been as under:

	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Book value</b>
	----- Rupees -----		
Freehold land	65,112,852	-	65,112,852
Building on freehold land	159,775,569	23,564,271	136,211,298
Plant and machinery	1,419,565,155	308,127,347	1,111,437,808
Electric installation	146,626,329	48,669,861	97,956,468
Factory equipment	10,414,714	3,592,732	6,821,982
2011	1,801,494,619	383,954,211	1,417,540,408
2010	1,784,699,976	266,076,362	1,518,623,614

	<b>Note</b>	<b>2011</b>	<b>2010</b>
		----- Rupees -----	
<b>4.6 Capital work in progress</b>			
Advances for fixed assets	4.6.1	88,791,257	7,374,753
Civil works		54,093,084	-
		<u>142,884,341</u>	<u>7,374,753</u>

- 4.6.1** Advances for fixed assets include advance of Rs. 41,000,000 (2010 : Nil) to Sitara Builders (Private) Limited , an associated company, for the purchase of land.

	<b>2011</b>	<b>2010</b>
	----- Rupees -----	
<b>5. LONG TERM DEPOSITS</b>		
Security deposit for electricity connection	3,640,000	3,640,000
Security deposit to Central Depository Company of Pakistan Limited	50,000	50,000
Other deposit	15,000	15,000
	<u>3,705,000</u>	<u>3,705,000</u>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
		Rupees	
<b>6. STORES, SPARE PARTS AND LOOSE TOOLS</b>			
Stores		33,334,143	32,187,378
Spare parts		35,539,801	33,509,312
Loose tools		24,942	27,628
		<u>68,898,886</u>	<u>65,724,318</u>
<b>7. STOCK IN TRADE</b>			
Raw material		140,458,064	19,687,589
Work-in-process		191,576,142	203,054,982
Finished goods		7,402,932	5,883,994
Packing material		38,234,450	26,060,330
		<u>377,671,588</u>	<u>254,686,895</u>
<b>8. TRADE DEBTS</b>			
Unsecured and considered good			
From related party - Sitara Textile Industries Limited		3,990,000	4,681,740
Others - local		20,383,098	25,139,951
		<u>24,373,098</u>	<u>29,821,691</u>
<b>9. ADVANCES</b>			
Considered good			
Advances to:			
Employees against salary - secured		4,743,717	670,550
Employees for expenses - unsecured		2,555,302	1,719,746
Suppliers - unsecured (Local)		29,146,413	21,447,462
Suppliers - unsecured (Foreign)		2,278,901	-
		<u>38,724,333</u>	<u>23,837,758</u>
<b>10. DEPOSITS AND SHORT TERM PREPAYMENTS</b>			
Deposits	10.1	26,517,930	20,313,143
Prepaid insurance		-	1,000
		<u>26,517,930</u>	<u>20,314,143</u>

**10.1** This represents Rs. 18,809,059 (2010 : Rs. 18,809,059) deposited with Nazir of the Honorable Sindh High Court. It was required by the said court to file writ petition against the recovery notice issued by the Custom department to deposit Government dues amounting Rs. 18,809,059 involved in clearance of import shipments.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	----- Rupees -----	
<b>11. ADVANCE INCOME TAX</b>		
Balance at beginning of year	29,064,883	25,350,428
Add: Paid during the year	15,230,183	12,347,930
	<u>44,295,066</u>	<u>37,698,358</u>
Less: Adjusted / refund received during the year	(14,691,068)	(4,889,191)
Provision for taxation	(13,183,421)	(3,744,284)
Balance at end of year	<u>16,420,577</u>	<u>29,064,883</u>

## 12. SALES TAX REFUNDABLE

This represents accumulated difference of input tax on purchases and out put tax payable.

	2011	2010
	----- Rupees -----	
<b>13 CASH AND BANK BALANCES</b>		
Cash in hand	320,542	208,789
Cash at banks - current account	18,418,371	4,126,489
	<u>18,738,913</u>	<u>4,335,278</u>

## 14. SHARE CAPITAL

2011	2011		2011	2010
----- Number of shares -----			----- Rupees -----	
<u>60,000,000</u>	<u>60,000,000</u>	<b>Authorised</b>	<u>600,000,000</u>	<u>600,000,000</u>
		Ordinary shares of Rs. 10 each		
		<b>Issued, subscribed and paid-up</b>		
<u>55,100,000</u>	<u>55,100,000</u>	Ordinary shares of Rs. 10 each fully paid in cash	<u>551,000,000</u>	<u>551,000,000</u>

**14.1** There is no movement in issued, subscribed and paid up capital during the year.

**14.2** The Company has only one class of ordinary shares which carry no right to fixed income. The holder of ordinary shares are entitled to receive dividend as declared from time to time and are entitled to vote at meetings of the Company. All shares rank equally with regard to Company's residual assets.

**14.3** The Company has no reserved shares for issue under option and sales contracts.

**14.4** 3,500,000 (2010: 3,500,000) ordinary shares of Rs. 10 each are held by Sitara Chemical Industries Limited and 210,000 (2010 : 210,000) by Sitara Fabrics Limited, associated undertakings respectively.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
		Rupees	
<b>15. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>			
Balance at beginning of the year		520,875,145	550,347,858
Transfer to Accumulated losses in respect of incremental depreciation charged during the year - net of deferred tax	15.1	31,846,489	29,472,713
Balance at end of the year		489,028,656	520,875,145
<b>15.1 Incremental depreciation charged during the year transferred to accumulated losses</b>		45,098,666	45,342,635
Less : deferred tax liability relating to incremental depreciation		13,252,177	15,869,922
		31,846,489	29,472,713
<b>16. LONG TERM FINANCING</b>			
<b>Secured - from banking companies</b>			
<b>Under diminishing musharaka arrangements</b>			
Balance at beginning of year		1,312,500,000	1,400,000,000
Less: paid during the year		-	87,500,000
Less: current portion		138,157,894	-
Balance at the end of year	16.1	1,174,342,106	1,312,500,000
<b>Under diminishing musharaka arrangements</b>			
Balance at beginning of year		81,391,060	85,674,800
Less: paid during the year		30,521,649	4,283,740
Less: current portion		50,869,411	40,695,532
Balance at the end of year	16.2	-	40,695,528
<b>Unsecured</b>			
<b>From director</b>			
Balance at beginning of year		7,200,000	7,200,000
Less: current portion		7,200,000	7,200,000
Balance at the end of year	16.3	-	-
<b>From chief executive officer</b>			
Balance at beginning of year		-	1,599,467
Add: obtained during the year		20,000,000	-
Less: paid during the year		20,000,000	1,599,467
Less: current portion		-	-
Balance at the end of year	16.4	-	-
		1,174,342,106	1,353,195,528

**16.1** During the year ended June 30, 2009 the Company had issued privately placed diminishing musharaka based SUKUK certificates ("the certificates") arranged by consortium of banks through trustee, amounting to Rs. 1,400 million. On 28 June 2010 the Company had entered into first supplemental musharaka agreement through trustee for redemption of remaining balance amounting to Rs. 1,312 million. The salient terms and conditions are as follows:

Outstanding principal balance is to be redeemed in nineteen equal quarterly installments commencing from February 19, 2012.

During the year certificates carried rentals at the rate of three months KIBOR plus 1.10% per annum, payable quarterly in arrears. Following pricing mechanism has been agreed for remaining six years of the facility:

February 19, 2010 to February 19, 2012: Base rate plus 110 bps per annum.  
 February 19, 2012 to February 19, 2014 : Base rate plus 150 bps per annum.  
 February 19, 2014 to August 19, 2016 : Base rate plus 200 bps per annum.  
 (Base rate is the average three months KIBOR).

The Company has a call option in accordance with terms and conditions of the entire amount or partial amount of the issue in multiples of Rs. 140 million. The Company shall use at least 80% of its free cash flows, if available, in exercising the call option to the extent of the available amount.

The Company shall not declare any dividend during the entire tenor of these SUKUK issue.

The certificates are secured by first charge on fixed assets of the Company through equitable mortgage of land and building, hypothecation charge on plant and machinery amounting to Rs. 1,866 million and personal guarantees of Chief Executive Officer and one director of the Company.

**16.2** This facility had been obtained during the year 2009 from Meezan Bank Limited to finance the purchase of two Gas Gensets. This facility carries mark-up at the rate of three months KIBOR plus 1.75% per annum with floor of 10.0% and cap of 22.0%, payable quarterly. Tenor of this facility is three years, including grace period of one year. The principal is payable in eight equal quarterly installments commencing from September 2010. This facility is secured against the specific charge on the purchased asset. During the year three installments of principal have been paid by the Company.

**16.3** This is unsecured and interest free loan from director of the Company. This loan is repayable on demand by the director of the Company.

**16.4** This loan is obtained from chief executive officer of the company. During the year the loan has been fully paid by the company.

**16.5** The exposure of the Company's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

Maturity	Effective rate of interest	2011	2010
		----- Rupees -----	
6 months or less	Ranging from 14.63% to 15.53% per annum	30,521,649	20,347,766
6 - 12 months		158,505,656	20,347,766
1 - 5 years		1,105,263,152	1,353,195,528
Over 5 years		69,078,954	-
		<u>1,363,369,411</u>	<u>1,393,891,060</u>

**16.6** The carrying amount under long term financing is same as fair value.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 ----- Rupees	2010 -----
<b>17. DEFERRED LIABILITIES</b>			
Staff retirement benefits - gratuity	17.1	2,839,766	2,418,898
Deferred taxation	17.2	-	-
		<u>2,839,766</u>	<u>2,418,898</u>

## 17.1 Staff retirement benefits - gratuity

The calculation requires assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and discount rate used to derive present value of defined benefit obligation. The assumptions are determined by independent actuaries. The results of the actuarial valuation carried out as at June 30, 2011 are as follows:

### Movement in net liability recognized in the balance sheet:

	2011 ----- Rupees	2010 -----
Balance at beginning of year	2,418,898	932,396
Add: expense charged to profit and loss account	1,967,874	1,951,609
Less: paid during the year	1,547,006	465,107
Balance at end of year	<u>2,839,766</u>	<u>2,418,898</u>

### Balance sheet reconciliation as at balance sheet date:

Present value of obligations	3,710,166	3,481,431
Less: unrecognized actuarial losses	870,400	1,062,533
Liability recognized in the balance sheet	<u>2,839,766</u>	<u>2,418,898</u>

### Charge for the year:

Current service cost	1,285,865	1,627,794
Interest cost	503,412	265,684
Actuarial losses recognized	178,597	58,131
Expense recognized in the profit and loss account	<u>1,967,874</u>	<u>1,951,609</u>

### Principal actuarial assumptions:

Discount rate - per annum	14%	14%
Expected rate of growth per annum in future salaries	14%	14%
Average expected remaining working life time of employees	4 years	5 years

The most recent valuation was carried out as at June 30, 2011 using the "Projected Unit Credit Method".

### 17.1.1 History of present value of deferred employee benefits

	2011 Rupees	2010 Rupees	2009 Rupees
Present value of defined obligations at the end of year	<u>3,710,166</u>	<u>3,481,431</u>	<u>1,358,944</u>
Experience adjustment arising on plan liabilities losses	<u>870,400</u>	<u>1,062,533</u>	<u>(426,548)</u>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
		Rupees	
<b>17.2 Deferred taxation</b>			
The balance of deferred tax is in respect of following temporary differences:			
Depreciation on property, plant and equipment		357,170,921	288,937,441
Provision for employee benefits - unfunded		(951,152)	(778,885)
Unused tax losses		(488,648,482)	(489,187,079)
		<u>(132,428,713)</u>	<u>(201,028,523)</u>
Deferred tax liability on account of surplus arose on revaluation of property, plant and equipment during the year		132,428,713	201,028,523
		<u>-</u>	<u>-</u>

## 18. TRADE AND OTHER PAYABLES

Creditors	18.1	40,985,160	16,253,423
Advances from customers		8,931,706	30,684,756
Payable to associates	18.2	10,134,026	56,861,934
Accrued liabilities		21,917,718	40,444,231
Retention money		278,778	671,387
Withholding tax		298,092	152,306
Worker's profit participation fund		9,443,934	-
Worker's welfare fund	21.1.2	-	-
Others		10,000	520,000
		<u>91,999,414</u>	<u>145,588,037</u>

**18.1** These include Rs. 2,550,141 (2010: Rs. 829,026) payable to Sitara Chemical Industries Limited (associated company) in ordinary course of business.

**18.2** This includes Rs. 7,903,891 (2010: 55,442,312) payable to Sitara Energy Limited (associated company) and Rs. 2,230,135 (2010: Rs. 1,419,622) payable to Sitara Chemical Industries Limited (associated company) against common expenses share.

		2011	2010
		Rupees	
<b>19. ACCRUED MARKUP</b>			
Mark-up accrued on:			
Long-term financing		55,641,648	24,478,165
Short-term borrowings		9,586,827	13,511,663
		<u>65,228,475</u>	<u>37,989,828</u>
<b>20. RUNNING FINANCE UNDER MARKUP ARRANGEMENT</b>			
From banking companies - secured		<u>437,957,473</u>	<u>393,791,666</u>

**20.1** The aggregate unavailed running finance facilities amounting to Rs. 10.042 million (2010: Rs.65 million)

**20.2** These fund based facilities have been obtained from various banks for working capital requirements, under mark-up arrangements against aggregate sanctioned limit of Rs. 448 million (2010: Rs. 453



million). These facilities carry mark-up at the rates ranging from three months KIBOR plus 1.25% to three months KIBOR plus 3.75% (2010: three months KIBOR plus 1.25% to three months KIBOR plus 3.50%) per annum on daily product payable quarterly. The aggregate short term borrowings facilities are secured against first pari passu charge amounting to Rs. 601 million (2010 : Rs. 700 million) over current assets, equitable mortgage charge amounting to Rs. 179.5 million (2010 : Rs. 400 million) over fixed assets of the Company, ranking charge amounting to Rs 100 million (2010 : Nil) over present and future current assets of the Company and personal guarantee of directors amounting to Rs. 340 million. These facilities are expiring on various dates by March 31, 2012.

**20.3** Facilities available for opening letter of credit amounting to Rs. 250 million (2010: Rs. 300 million) of which facilities amounting to Rs. 74.04 million (2010: Rs. 73.44 million ) were utilized at the year end. These facilities are secured against lien on shipping documents. These facilities are expiring on various dates by March 31, 2012.

	2011	2010
	----- Rupees -----	
<b>21. CONTINGENCIES AND COMMITMENTS</b>		
<b>21.1 Contingencies</b>		
<b>21.1.1</b> Bank guarantees issued by Faysal bank Ltd in favour of Sui Northern Gas Pipelines Limited for supply of gas	<u>50,000,000</u>	<u>40,068,000</u>

**21.1.2 Workers' welfare fund**

Through the Finance Act, 2006 an amendment was made in section 2(i) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'total income' has been amended, the effect of the amendment is that the term "total income" for the purposes of the WWF Ordinance is deemed to be 'profit before taxation' as per the accounts or 'declared income' as per the return whichever is higher.

Based on the legal advice and judgment of High Court of Sindh in a similar case it is ascertained that under section 4(1) of the WWF Ordinance the incidence of WWF is not just on "total income" but on the total income which is "assessable" under the Income Tax Ordinance, 2001 (the Tax Ordinance), and the term "assessable" under the Tax Ordinance means "income which is given the benefit of depreciation, brought forward / carry forward losses and excludes income falling under the Final Tax Regime (FTR) i.e. declared income". Since the Company's total income falls under the FTR and is fully exempt against WWF liability.

Further, through Finance Act, 2008 amendments were made in the WWF Ordinance, where in mainly section 4(5) the term "assessed income" has been substituted with the term "total income" this means that purportedly the WWF is to be charged at 2% of the "total income", as defined and amended in section 2(i) through Finance Act, 2006.

During the year, Lahore High Court vide its judgment on a similar case has declared the amendments introduced vide Finance Act, 2006 and Finance Act, 2008 in the WWF Ordinance as unconstitutional and therefore struck down on the basis that the contribution paid towards the fund under the WWF Ordinance is a fee and not a tax.

In view of the afore mentioned grounds submitted, the management now believes that there is no compelling reason to record provision on account of WWF contribution in the financial statements. Further, the management also expects that the petition against the applicability of WWF pending in the Honourable High Court of Sindh on the subject as referred above will be decided in favour of the

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

petitioner. The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs. 3.518 million.

	Note	2011 ----- Rupees -----	2010 -----
<b>21.2 Commitments</b>			
Irrevocable letters of credit for:			
Raw material		67,751,817	-
Packing material		6,198,642	66,188,461
Spares		-	5,261,764
Equipment		91,938	-
		74,042,397	71,450,225
<b>22. SALES</b>			
Local sales		1,275,072,859	723,295,781
Less: Commission and discount		(22,060,300)	(16,379,741)
		1,253,012,559	706,916,040
Export sales		36,319,737	8,070,424
		1,289,332,296	714,986,464
<b>23. COST OF SALES</b>			
Raw material consumed	23.1	77,497,385	119,002,618
Fuel and power		179,178,554	164,490,540
Packing material consumed		173,483,590	132,910,662
Stores, spare parts and loose tools consumed		15,070,713	8,054,010
Salaries, wages and benefits	23.2	30,096,857	29,833,262
Repairs and maintenance		20,106,519	7,599,531
Insurance		6,167,642	6,363,057
Depreciation	4.1.1	164,258,110	158,927,850
Traveling and conveyance		282,365	459,183
Vehicle running and maintenance		943,470	659,586
Entertainment		350,578	160,153
Others		70,138	61,938
		667,505,921	628,522,390
Work-in-process			
Balance at beginning of year		203,054,982	206,684,397
Balance at end of year	7	191,576,142	203,054,982
		11,478,840	3,629,415
Cost of goods manufactured		678,984,761	632,151,805
Finished goods			
Balance at beginning of year		5,883,994	68,577,564
Balance at end of year	7	7,402,932	5,883,994
		(1,518,938)	62,693,570
Cost of goods sold - own manufactured products		677,465,823	694,845,375
- Purchased goods		108,382,649	-
		785,848,472	694,845,375

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
		Rupees	
<b>23.1 Raw material consumed</b>			
Balance at beginning of year		19,687,589	31,997,549
Purchases		198,267,860	106,692,658
		217,955,449	138,690,207
Less: Balance at end of year	7	140,458,064	19,687,589
		77,497,385	119,002,618

**23.2** Salaries, wages and benefits include Rs. 1,699,474 (2010: Rs. 1,561,287) in respect of employee benefits.

		2011	2010
		Rupees	
<b>24. OTHER OPERATING INCOME / (LOSS)</b>			
Gain / (loss) on sale of operating assets	4.2	551,091	(520,182)
<b>25. DISTRIBUTION COST</b>			
Salaries and benefits		2,120,243	2,270,669
Traveling and conveyance		347,356	122,440
Vehicle running and maintenance		299,678	229,201
Entertainment		83,402	55,098
Freight and octroi		16,021,813	10,002,517
Commission on export sales		5,000	41,500
Depreciation	4.1.1	563,028	386,810
Other expenses		462,094	393,766
		19,902,614	13,502,001
<b>26. ADMINISTRATIVE EXPENSES</b>			
Salaries and benefits	26.1	24,145,587	17,468,462
Director's remuneration	32	4,468,153	3,896,843
Printing and stationery		1,471,365	1,553,997
Insurance		269,151	450,673
Repairs and maintenance		126,271	337,159
Traveling and conveyance		1,855,892	3,127,732
Rent, rates and taxes		120,220	111,600
Vehicle running and maintenance		228,409	929,851
Entertainment		64,363	186,994
Telephone and postage		754,469	646,536
Advertisement		329,050	176,534
Fees, subscription and periodicals		1,983,499	1,534,146
Charity and donations	26.2	2,613,881	-
Legal and professional charges		1,359,652	1,674,086
Auditors' remuneration	26.3	900,000	657,345
Depreciation	4.1.1	565,758	2,075,955
Others		734,705	449,208
		41,990,425	35,277,121

**26.1** Salaries and benefits include Rs. 424,868 (2010: Rs. 390,322) in respect of staff retirement benefits.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

**26.2** It includes Rs. 2,613,881 (2010: Rs. Nil) donated to Aziz Fatima Trust (AFT), Faisalabad which is primarily running a charitable hospital for needy and poor people. Mr. Haji Bashir Ahmed, Mr. Imran Ghafoor, Mr. Javed Iqbal and Mr. Muhammad Adrees, the directors of the Company are also the Trustees of the AFT.

	Note	2011 ----- Rupees	2010 -----
<b>26.3 Auditors' remuneration</b>			
Statutory audit fee		500,000	350,000
Half yearly review		200,000	150,000
Compliance report on Code of Corporate Governance		125,000	125,000
Out of pocket expenses		75,000	32,345
		900,000	657,345
<b>27. OTHER OPERATING EXPENSES</b>			
Worker's profit participation fund		9,443,934	-
Worker's welfare fund	21.1.2	-	-
Exchange loss		-	459,357
		9,443,934	459,357
<b>28. FINANCE COST</b>			
Mark-up on:			
Long term financing from banking companies		194,567,867	192,885,647
Long term financing from chief executive officer		-	27,051
Running finance		55,234,516	47,611,382
Bank charges and commission		3,460,810	2,746,074
		253,263,193	243,270,154
<b>29. PROVISION FOR TAXATION</b>			
Current		13,183,421	3,744,284
Deferred		-	(97,486,503)
		13,183,421	(93,742,219)

**29.1** Assessments of the Company for the tax years 2004 to 2010 are deemed to have been completed under section 120(1) of the Income Tax Ordinance, 2001. However, the tax year 2007 has been selected for audit under section 177 of the Income Tax Ordinance, 2001. Audit proceedings for the said tax year are still in progress.

**29.2** Numerical reconciliation between the average tax rate and applicable tax rate has not been presented in these financial statements as the Company is chargeable to minimum tax under section 113 of the Income Tax Ordinance, 2001.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

## 30. EARNING PER SHARE - BASIC AND DILUTED

The calculation of basic loss per share is based on the following data:

		2011	2010
		----- Rupees -----	
Profit / (loss) for the year	<b>Rupees</b>	166,251,328	(179,145,507)
Weighted average number of ordinary shares	<b>Number</b>	55,100,000	55,100,000
Earning per share - basic	<b>Rupees</b>	3.02	(3.25)

No figure for diluted loss per share has been presented as the Company has not issued any instrument carrying options which would have an impact on earnings per share when exercised.

## 31. CASH AND CASH EQUIVALENT

	2011	2010
	----- Rupees -----	
Cash and bank balances	18,738,913	4,335,278
Running finance under markup arrangement	(437,957,473)	(393,791,666)
	<u>(419,218,560)</u>	<u>(389,456,388)</u>

## 32. REMUNERATION TO CHIEF EXECUTIVE OFFICER AND EXECUTIVES

The aggregate amount charged in accounts for the year for remuneration including all benefits to Chief executive officer and executives of the Company were as follows:

	----- 2011 -----		----- 2010 -----	
	Chief Executive Officer	Executive	Chief Executive Officer	Executive
	----- Rupees -----			
Basic salary	2,902,512	3,858,819	2,468,019	3,166,008
House rent	1,306,130	1,157,645	1,110,553	949,800
Utilities allowance	144,909	385,877	123,271	316,584
Medical allowance	114,602	385,884	195,000	316,608
Special allowance	-	46,613	-	51,000
	<u>4,468,153</u>	<u>5,834,838</u>	<u>3,896,843</u>	<u>4,800,000</u>
Number of persons	<u>1</u>	<u>5</u>	<u>1</u>	<u>5</u>

**32.1** Chief executive officer and three executives are also provided with Company maintained car.

**32.2** No remuneration or meeting fee was paid to the directors and chief executive officer of the Company.

## 33. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated companies, directors, key management personnel and post employment benefit plans. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables and remuneration of chief executive officer and executives is disclosed in note 32 to these financial statements. Other significant transactions with related parties are as follows:

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Nature of Relationship	Nature of transaction	2011	2010
		Rupees	
Associated companies	Organizational expenses	1,122,235	406,762
	Purchases	20,554,653	20,043,351
	Sales	17,221,000	9,668,160
	Sale of fixed assets	1,327,719	-
	Sale of store and spares	569,014	-
	Key management personnel	Loan obtained from chief executive officer	20,000,000
Repayment of loan from chief executive officer		20,000,000	1,599,467
Markup accrued on borrowing from chief executive officer		-	27,051
Remuneration and other benefits		10,148,487	8,696,843
Employee benefit plan		Paid during the year	1,547,006

**33.1 All transactions with related parties have been carried out at arm's length.**

	2011	2010
	Rupees	
<b>34. PLANT CAPACITY AND ACTUAL PRODUCTION</b>		
Production Capacity	30,000	30,000
Actual production	22,244	17,971

**34.1** The average production during the year was 74% (2010: 60%). The main reason was the energy crises in the country which has adversely affected the industrial growth.

## 35. FINANCIAL RISK MANAGEMENT

The Company has exposures to the following risks from its use of financial instruments:

Credit risk  
Liquidity risk  
Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk

management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. 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.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### **35.1 Credit risk and concentration of credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. To manage credit risk the Company maintains procedures covering the application for credit approvals, granting and renewal of counterparty limits and monitoring of exposures against these limits. As part of these processes the financial viability of all counterparties is regularly monitored and assessed.

The Company is exposed to credit risk from its operating activities primarily for local trade debts, advances and other receivables.

The Company does not hold collateral as security.

The Company's credit risk exposures are categorized under the following headings:

#### **Counterparties**

The Company conducts transactions with the following major types of counterparties:

#### **Trade debts**

Trade debts are essentially due from local customers and foreign customers against sale of hydrogen peroxide and the Company does not expect these counterparties to fail to meet their obligations. Sales to the Company's customers are made on specific terms. Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria. Credit quality of the customer is assessed based on an extensive credit rating. Outstanding customer receivables are regularly monitored and shipments to the foreign customers are generally covered by letters of credit or other form of credit insurance.

#### **Banks**

The Company limits its exposure to credit risk by conducting transactions only with counterparties that have a credit rating of at least A1 and A. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

#### **Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2011	2010
	----- Rupees -----	
<b>Financial assets</b>		
<b>Non current assets</b>		
Long term deposits	3,705,000	3,705,000
<b>Current assets</b>		
Trade debts	24,373,098	29,821,691
Advances	4,743,717	670,550
Deposits	26,517,930	20,314,143
Bank balances	18,738,913	4,335,278
	<u>78,078,658</u>	<u>58,846,662</u>
The trade debts at the balance sheet date by geographic region is as follows:		
Local - unsecured, considered good	<u>24,373,098</u>	<u>29,821,691</u>
The aging of trade debts at the balance sheet date is as follows:		
Past due 1 to 30 days	20,383,098	20,261,670
Past due 30 to 150 days	3,990,000	4,681,740
Past due 150 days	-	4,878,281
	<u>24,373,098</u>	<u>29,821,691</u>

#### Impairment losses

Based on age analysis, relationship with customers and past experience the management does not expect any party to fail to meet their obligations. The management believes that trade debts are considered good and hence no impairment allowance is required in this regard.

#### Cash at bank

Total bank balance of Rs. 18.418 million (2010: Rs. 4.126 million) placed with banks have a short term credit rating of at least A1+ (2010: A1+).

### 35.2 Liquidity risk management

Liquidity risk reflects the Company's inability in raising funds to meet commitments. Management closely monitors the Company's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customers.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 20.1 to these financial statements is a listing of additional



undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

### 35.2.1 Liquidity and interest risk table

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities under long term financing agreements based on the earliest date on which the Company can be required to pay. For effective mark up rate please see note 16.5 to these financial statements.

Financial liabilities in accordance with their contractual maturities are presented below:

	2011				
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 to 5 years	5 years and above
----- Rupees -----					
Long term financing	1,370,569,411	1,935,699,689	380,590,027	1,484,590,795	70,519,146
Trade and other payables	91,999,414	91,999,414	91,999,414	-	-
Accrued markup	65,228,475	65,228,475	65,228,475	-	-
Running finance	437,957,473	437,957,473	437,957,473	-	-
	<u>1,965,754,773</u>	<u>2,530,885,051</u>	<u>975,775,389</u>	<u>1,484,590,795</u>	<u>70,519,146</u>
----- Rupees -----					
	2010				
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 to 5 years	5 years and above
----- Rupees -----					
Long term financing	1,401,091,060	2,131,472,044	233,158,678	1,515,758,965	382,554,401
Trade and other payables	171,920,089	171,920,089	171,920,089	-	-
Accrued markup	37,989,828	37,989,828	37,989,828	-	-
Running finance	393,791,666	393,791,666	393,791,666	-	-
	<u>2,004,792,643</u>	<u>2,735,173,627</u>	<u>836,860,261</u>	<u>1,515,758,965</u>	<u>382,554,401</u>

### 35.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

#### 35.3.1 Foreign currency risk management

Pak Rupee (PKR) is the functional currency of the Company and as a result currency exposure arise from transactions and balances in currencies other than PKR. The Company's potential currency exposure comprise;

- Transactional exposure in respect of non functional currency monetary items.
- Transactional exposure in respect of non functional currency expenditure and revenues.

The potential currency exposures are discussed below;

**Transactional exposure in respect of non functional currency monetary items**

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of the Company are periodically restated to PKR equivalent, and the associated gain or loss is taken to the profit and loss account. The foreign currency risk related to monetary items is managed as part of the risk management strategy.

**Transactional exposure in respect of non functional currency expenditure and revenues**

Certain operating and capital expenditures are incurred by the Company in currencies other than the functional currency. Certain sales revenue is earned in currencies other than the functional currency of the Company. These currency risks are managed as a part of overall risk management strategy. The Company does not enter into forward exchange contracts.

**Exposure to currency risk**

The Company is exposed to currency risk on import of raw materials, stores and spares and export of goods mainly denominated in US Dollar. The Company's exposure to foreign currency risk for US Dollar is as follows based on notional amounts:

	----- 2011 -----		----- 2010 -----	
	Rupees	US\$	Rupees	US\$
Trade and other payables	4,062,736	48,194	-	-
<b>Balance sheet exposure</b>	<b>4,062,736</b>	<b>48,194</b>	<b>-</b>	<b>-</b>

	Average rate		Reporting date mid spot rate	
	2011	2010	2011	2010
	----- Rupees -----			
The following significant exchange rates have been applied:				
Rupee to US \$	85.49	-	86.05	-

**Sensitivity analysis**

A 10 percent strengthening of the Pak Rupee against the US dollar at June 30, 2011 would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for June 30, 2010.

	2011	2010
	----- Rupees -----	
Effect on profit for the year:		
U S \$ to Rupee		
Increase in profit for the year	<u>412,011</u>	<u>-</u>

A 10 percent weakening of the Pak Rupee against the US dollar at June 30, 2011 would have had the equal but opposite effect on foreign currency to the amounts shown above, on the basis that all other variables remain constant.

The sensitivity analysis prepared is not necessarily indicative of the effects on profit for the year and assets / liabilities of the Company.

### 35.3.2 Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature in a given period.

At the reporting date, the profit, interest and mark-up rate profile of the Company's significant financial assets and liabilities is as follows:

	2011 Effective rate	2010	2011 Carrying amount Rupees	2010 Rupees
Fixed rate financial instruments				
Financial liabilities	-	-	-	-
Financial assets	-	-	-	-
			<u>-</u>	<u>-</u>
Variable rate financial instruments				
Financial liabilities				
Long term financing	14.63% to 15.53%	13.21% to 14.70%	1,370,569,411	1,401,091,060
Running finance	13.51 % to 17.27%	13.59 % to 15.86%	65,228,475	393,791,666
			<u>1,435,797,886</u>	<u>1,794,882,726</u>

### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in profit / mark-up / interest rates at the balance sheet date would have decreased / (increased) loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the year 2010.

	Increase Rupees	Decrease Rupees
<b>At June 30, 2011</b>		
Cash flow sensitivity - variable rate financial liabilities	<u>(17,418,941)</u>	<u>17,418,941</u>
<b>At June 30, 2010</b>		
Cash flow sensitivity - variable rate financial liabilities	<u>(12,993,622)</u>	<u>12,933,622</u>

The sensitivity analysis prepared is not necessarily indicative of the effects on loss for the year and liabilities of the Company.

#### 35.4 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 other than in forced or liquidation sale. The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

#### 35.5 CAPITAL RISK MANAGEMENT

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company manages its capital structure which comprises capital and reserves by monitoring return on net assets and makes adjustments to it in the 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, appropriation of amounts to reserves or/and issue new shares.

	2011	2010
	----- Rupees -----	
Total borrowings	1,808,526,884	1,794,882,726
Less: Cash and bank balance	18,738,913	4,335,278
Net debt	<u>1,789,787,971</u>	<u>1,790,547,448</u>
Total Equity	903,300,618	740,567,618
Total capital	<u>2,693,088,589</u>	<u>2,531,115,066</u>
Gearing ratio	<u>66%</u>	<u>71%</u>

For the purpose of calculating the gearing ratio, the amount of total borrowings has been determined by including the effect of running finance under mark-up arrangement.

#### 36. RE-CLASSIFICATION AND RE-ARRANGEMENTS

Corresponding figures have been re-classified and re-arranged, wherever necessary to reflect more appropriate presentation of events and transactions for the purpose of comparison. Significant re-arrangements are as follows:

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Nature	From	To	Reason	Rupees
Advances	Trade Debts	Advance from customer	For better presentation	26,332,05
Commission	Distribution expenses	Sales	For better presentation	12,031,161
Depreciation	Administrative expenses	Cost of sales	For better presentation	597,648
Depreciation	Administrative expenses	Distribution expenses	For better presentation	386,810

The above re-arrangements/re-classifications do not affect retained earnings for the year ended June 30, 2010. Therefore, the balance sheet for the year ended June 30, 2009 has not been prepared

### 37. DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been approved by the Board of Directors of the Company and authorized for issue on September 19, 2011.

### 38. GENERAL

Figures have been rounded off to the nearest Rupee.



CHIEF EXECUTIVE OFFICER



DIRECTOR

# FORM OF PROXY

**IMPORTANT**

This form of Proxy, in order to be effective, must be deposited duly completed, at the Company's Registered Office at 601-602, Business Centre, Mumtaz Hasan Road, Karachi not less than 48 hours before the time of holding the meeting.

A Proxy must be a member of the Company. Signature should agree with the specimen registered with the company.

Please quote Registered Folio Number/CDC Account Number

I/We \_\_\_\_\_

of \_\_\_\_\_

being a member of Sitara Peroxide Limited entitled to vote and holder of \_\_\_\_\_

ordinary shares, hereby appoint \_\_\_\_\_

of \_\_\_\_\_

who is also a member of the Company, as my/our proxy in my/our absence to attend and vote for me/us on my/our behalf at the Eighth Annual General Meeting of the Company to be held at Dr. Abdul Qadeer Khan Auditorium, Haji Abdullah Haroon Muslim Gymkhana, Near Shaheen Complex, Aiwan-e-sadr Road, Karachi on Saturday, October 22, 2011 at 04:00 pm and at any adjournment thereof.

As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_  
2011

Signed by the said \_\_\_\_\_  
in the presence

of \_\_\_\_\_

\_\_\_\_\_  
(Member's Signature)

Place \_\_\_\_\_

\_\_\_\_\_  
(Witness's Signature)

Date \_\_\_\_\_

Affix Rs. 5/-

Revenue Stamp which must be cancelled either by signature over it or by some other means



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