Sitara Peroxide Limited

2012 Annual Report

Table of Contents

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.

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. Muhammad Adrees
Mr. Muhammad Anis
Mrs. Sharmeen Imran
Mr. Muhammad Asif Pasha
Mr. Muhammad Khalil

Company Secretary

Mr. Mazhar Ali Khan

Audit Committee

Mr. Muhamad Anis (Chairman)
Mrs. Sharmeen Imran (Member)
Mr. Muhammad Khalil (Member)

Auditors

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

Legal Advisor

Sahibzada Waqar Arif

Registered Office

601-602, Business Centre, Mumtaz
Hasan Road, Karachi-74000
Ph:(92-21) 32401373, 32413944

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
Soneri Bank Limited

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

Head Office & Project Location

26-Km Sheikhupura Road, Faisalabad.
Ph: (92-41) 4364031-33

Notice Of Annual General Meeting

Notice is hereby given that the 9th Annual General Meeting of Sitara Peroxide Limited will be held on Tuesday, October 23, 2012 at 5:00 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 the 8th Annual General Meeting of the Company held on October 22, 2011.

2. To receive, consider and adopt the Annual Audited Accounts of the Company for the year ended June 30, 2012 together with the Director's and Auditor's reports thereon.

3. To appoint Auditors and fix their remuneration for the year ending June 30, 2013.

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

By order of the Board

Karachi:

MAZHAR ALI KHAN
Company Secretary

September 27, 2012

NOTES:

1. The share transfer books of the Company will remain closed from October 13, 2012 to October 23, 2012 (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 (Private) 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 along with 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 along with auditor's report thereon for the year ended June 30, 2012. The main financial highlights of the financial year under review are as follows:

	2012	2011
	Rupees	
Sales	985,001,331	1,289,332,296
(Loss) / profit before taxation	(172,112,998)	179,434,749
(Loss) / profit for the year	(198,634,425)	166,251,328
(Loss) / earning per share	**(3.60)**	**3.02**

The year 2011-12, was another challenging year for the country, the deteriorating energy crises, law and order issues and political instability, has put forth pressure on the economy, industrial growth and has put a question sign of industrial sustainability. The overall situation of business remains tough due to the high costs of inputs, energy shortfall, slow economical activities, thus impacting unconstructively on aggregate demands of different sectors.

High costs of inputs of local producers, is making cheap imports more attractive than local produces. After levy of antidumping duty on import of hydrogen peroxide product in Pakistan from different producing countries, sudden surge in import was observed from new producers of hydrogen peroxide product starting in 2011, at cheaper rates, especially from Bangladesh, as there was no antidumping duty on import from Bangladesh due to the fact that at the time of finalization of duty, Bangladesh was not in hydrogen peroxide producers list. In July 2012, we had forwarded an application to National Tariff Commission – NTC, requesting levy of Safe Guard duty on import from Bangladesh.

During the current year, total turnover of the Company remained 985 million. The decrease in revenues was due to cheap import from Bangladesh and due to fall in prices of hydrogen peroxide in global market. Despite the fact that your Company was able to sell almost same quantity of product as in the last financial year but prices of hydrogen peroxide remained under pressure throughout the year which ultimately resulted in decrease in revenue.

By the grace of Almighty Allah, we had controlled our cost of manufacturing at last year's levels, but due to treatment of expenses of dedicated/independent natural gas pipeline and other related expense, as periodic cost, cost of sales increased by 6%. Management of your Company is confident that cost incurred on independent pipeline, will benefit the Company in coming years.

PLANT PERFORMANCE

Natural Gas is our main local raw material, we are fully aware of the fact that our long term success and growth depends on continuous supply of natural gas at desired pressure. For the same efforts, were made and the result is independent gas pipeline with continuous gas supply at required pressure, which was commissioned during the current financial year.

Despite of the all adverse factors, Alhamdulillah, your company performed well, despite of one month closure due to natural gas shortfall and machinery break down, your company achieved average 80% capacity utilization (based on 11 months) and average 73% based on full year, as compared to only 74% capacity utilization during

DIRECTORS' REPORT

last year. Natural gas pipeline commissioned during the 2nd half of the current financial year. It will not only enable your company to reduce shutdowns due to gas shortage but will also help it to improve its production and future profits substantially.

MARKETING OVERVIEW

Your company is continuously focusing on diversification of markets; we have explored new opportunities in international markets and hopefully will capitalize the same potential markets.

In July 2012, we had forwarded an application to National Tariff Commission – NTC, requesting levy of Safe Guard duty on import from Bangladesh. Hopefully within couple of months positive feedback would be observed in the market, of the same application. Your management is expecting that prices of the product will increase in future.

Price of our product is very sensitive to international prices because our product was designed as import substitution and overall the customer is used to substitute import. Considering convenient form of our product, pricing of our product is facing competition from international market. This oversupply had left us with two options; either to drop prices of our product or to shift to spot selling strategy to counter the imports. We opted for 2nd strategy which helped us to avert the import of hydrogen peroxide in local market. In initial phase we saw high quantity of imports but by now we managed to control the high level of imports to only ten-fifteen percent of domestic production. In second phase we are planning to increase/stabilize the piece irrespective of import ones, as hopefully will achieve the same within due course of time.

Your company maintained the momentum of growth through strong marketing efforts and operational efficiencies despite of the highly challenging business environment. By the grace of Almighty Allah, we are successful in retaining our market share in the current 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

Keeping in view economic and financial constraints, we had applied for restructuring of our long term liabilities after payment of due principal installment. We had applied rescheduling/restricting for 8 years, keeping in view future cash inflows and out flows, under anticipated business and manufacturing prospects.

Regarding restructuring, the same is under approval process at the tables of SUKUK investors, under terms of agreements; approval from two third majority investors is required, to make rescheduling effective. Alhamdulillah, two third majority investors had approved the same and other legal formalities are under process.

Proposed terms of restructuring are eight years rescheduling at one month KIBOR with spread of 1%, repayments in monthly installments, markup along with principal would be paid in six months and in other six months of a year only principal would be served. Markup of other six months of a year and spread of markup will be deferred and will be paid in last year. We are very much hopeful that the same would ease out the company by relaxing tight cash flows. Not only cash flows would be managed, but also lower markup rate will help in reduction in financial charges.

Dumping of hydrogen peroxide started from those countries which were not covered in antidumping duty circular. Dumping of hydrogen peroxide in Pakistan left local manufacturers at sheer competitive disadvantage. However, our Company has initiated the process of imposition of anti-dumping/safeguard duty by lodging an application to National Tariff Commission. Management of our Company is hopeful for positive outcome.

DIRECTORS' REPORT

Going forward, our Company has been successful in entering in bulk supply agreements with local consumers. That would help us to increase our local market share and reduce our packing cost. Second positive news is the opening of liquid terminal at Wagah Border, Lahore. It shall also help us in reducing our packing cost. With opening of Liquid terminal at Wagah Border, we are at the doorstep of one of world's fastest growing developing markets. Our Company expects to achieve a share in Indian market at attractive prices.

Further, active research and development work has been carried out to improve the capacity utilization/ to improve the quality/ to reduce the cost factors, of our product.

Business environment of the country is expected to remain tough in coming 2012-13, mainly depending on energy reforms and economic policies of the government. Coming year is expected to be an election year; hopefully government will implement the key reforms for the betterment of economy. Continuous power crisis and undue increase in tariff and some inflationary factors, are resulting in higher costs, hence manufacturing sector will continue to perform under pressure in tough conditions, as it is and would be difficult to pass on total impact of cost increase to end consumers, when there is an option of cheap import is available in market.

European countries had approved waiver of duties on import of textile produces from Pakistan, this will have positive impact on textile exports from Pakistan and hence positive impact on hydrogen peroxide industry.

CORPORATE 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 complaint 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

- 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.
- Proper books of accounts of the company have been maintained.
- 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
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there form has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored
- There are no significant doubts upon the company's ability to continue as a going concern.
- 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.

DIRECTORS' REPORT

Financial Data

Key financial data for the last six years is as under:

	2012	2011	2010	2009	2008	2007
	Rupees in thousand					
Sales	985,001	1,289,332	714,986	628,523	291,177	-
Gross profit	152,513	503,484	20,141	102,648	19,458	-
(Loss) / profit for the year	(198,634)	166,251	(179,146)	(99,907)	(59,879)	(4,424)
Paid up capital	551,000	551,000	551,000	551,000	550,095	301,000
Non-current liabilities	967,183	1,177,182	1,355,614	1,321,594	964,660	782,692
Current liabilities	1,059,253	804,596	625,265	727,460	618,417	979,755
Non-current assets	2,065,747	2,252,558	2,263,653	2,395,168	1,604,713	1,330,935
Current assets	668,874	636,039	457,794	573,599	446,731	964,747

BOARD OF DIRECTORS' MEETINGS

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

	Name of Director	Meetings Attended
1.	Haji Bashir Ahmed (Chairman)	6
2.	Mr. Imran Ghafoor (CEO)	6
3.	Mr. Muhammad Adrees	6
4.	Mr. Muhammad Anis	6
5.	Mrs. Sharmeen Imran	6
6.	Mr. Muhammad Asif Pasha	4
7.	Mr. Muhammad Khalil	4

Mr. Muhammad Khalil and Mr. Muhammad Asif Pasha had been appointed by Board of Directors to fill the casual vacancy occurred due to resignation of Mr. Javed Iqbal & Mrs. Noureen Javed.

AUDITORS

The existing auditors M/S M. Yousuf Adil Saleem & Company, Chartered Accountants, shall retire on the conclusion of the Annual General Meeting. Being eligible, they offered themselves for re-appointment as auditors of the Company for the financial year ending June 30, 2012. The audit committee has recommended the appointment of aforesaid M/S M. Yousuf Adil Saleem & Company, as external auditors for the financial auditors for the financial year ending June 30, 2013.

ACKNOWLEDGMENT

We would like to thank and congratulate our board members for their determination and efforts. We would also take an opportunity to appreciate the support, dedication and commitment of our bankers, customers, dealers, suppliers and other stakeholders. The Board also expressed appreciation for the resigning directors.

DIRECTORS' REPORT

The Board would also place on the record its appreciation for the hard work, enthusiasm, professionalism and efforts of our senior management, officers and other loyal staff and workers.

In these challenging times, we continue to focus to meet our shareholders expectations by following the strategy of sustainability, growth, best customer care and maximizing productivity.

We are forwarding to 2012-13, with hope and confidence, we know we have to face challenges ahead but with better strategy and with courage.

Let us pray to Almighty Allah to give us strength and wisdom to face the coming challenges with more eagerness for the growth of our company.

For and on behalf of the
Board of Directors

September 27, 2012
Faisalabad

IMRAN GHAFOOR
Chief Executive Officer

Pattern Of Shareholding

AS AT JUNE 30, 2012

NUMBER OF SHARE HOLDERS	SHAREHOLDINGS		TOTAL NUMBER OF SHARES
	FROM	TO	
459	1	100	11,651
6,449	101	500	3,187,658
1,404	501	1,000	1,383,473
1,640	1,001	5,000	4,414,285
368	5,001	10,000	2,922,199
99	10,001	15,000	1,261,940
71	15,001	20,000	1,302,037
31	20,001	25,000	736,943
26	25,001	30,000	742,263
9	30,001	35,000	296,857
15	35,001	40,000	581,186
4	40,001	45,000	172,099
15	45,001	50,000	737,964
4	50,001	55,000	210,839
1	55,001	60,000	56,397
3	60,001	65,000	191,000
4	65,001	70,000	276,000
4	70,001	75,000	293,690
2	75,001	80,000	159,259
2	80,001	85,000	167,500
1	85,001	90,000	86,500
3	95,001	100,000	297,600
4	100,001	105,000	408,830
2	105,001	110,000	220,000
1	110,001	115,000	111,715
1	115,001	120,000	120,000
2	120,001	125,000	250,000
1	125,001	130,000	126,000
1	135,001	140,000	135,039
3	145,001	150,000	444,532
2	150,001	155,000	307,117
1	180,001	185,000	185,000
1	190,001	195,000	195,000
4	195,001	200,000	797,500
1	205,001	210,000	210,000
1	220,001	225,000	225,000
1	245,001	250,000	250,000
1	320,000	325,000	324,500
1	330,001	335,000	332,325
1	345,001	350,000	349,440
1	395,001	400,000	399,545
1	415,001	420,000	416,666
1	465,001	470,000	466,667
1	475,001	480,000	480,000
1	805,001	810,000	806,284
1	1,995,001	2,000,000	2,000,000
1	2,495,001	2,500,000	2,500,000
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
10,653			55,100,000

Pattern Of Shareholding

AS AT JUNE 30, 2012

Associated Companies, Undertaking and Related Parties	Number	Share Held	Percentage
Sitara Chemical Industries Limited	1	3,500,000	6.35
NIT & ICP National Bank of Pakistan - Trustee Department	-	-	-
Directors, CEO & their Spouse and Minor Children			
Haji Bashir Ahmed	1	2,500	-
Mr. Muhammad Adrees	1	35,000	0.06
Mr. Muhammad Anis	1	10,000	0.02
Mrs. Naila Anis	1	10,000	0.02
Mrs. Sharmeen Imran	2	2,634,435	4.78
Mr. Imran Ghafoor	1	17,425,065	31.62
Mr. Muhammad Asif Pasha	1	120,000	0.22
Mr. Muhammad Khalil	1	1,000	-
Executives	-	-	-
Public Sector Companies and Corporation	-	-	-
Bank, Development Finance Institutions, Non Banking Finance Institutions, Insurance Companies & Modarabas.	6	102,400	0.19
Charitable Trusts	1	5,000	0.01
Shareholders holding ten Percent or more voting interest in the Company			
Co-operative Societies	-	-	-
Foreign Investors	3	36,000	0.07
Mutual Funds	3	379,322	0.69
Individuals	10,572	29,412,533	53.38
Investment Companies	2	21,500	0.04
Joint Stock Companies	56	1,405,245	2.55
Others	-	-	-
	10,653	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 2011-2012.

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance 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, 2012.

M. Yousuf Adil Saleem

Chartered Accountants

Engagement Partner:
Talat Javed

September 27, 2012
Lahore

Statement Of Compliance With The Code Of Corporate Governance

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.
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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 seven 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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

3. Casual vacancies have occurred in the Board during the last year, due to resignation of two directors. During the year under review the same has been filled as per provisions of the Companies Ordinance, 1984.

4. The Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all directors and employees of the company.

5. 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.

6. 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.

7. 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. Six Board Meetings took place during the year.

8. 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.

9. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

10. 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.

Statement Of Compliance With The Code Of Corporate Governance

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

12. 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.

13. 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.

14. 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.

15. We confirm that all other material principles contained in the Code have been complied with.

CHIEF EXECUTIVE OFFICER

DIRECTOR

September 27, 2012
Faisalabad

Auditors' Report To The Members

We have audited the annexed balance sheet of Sitara Peroxide Limited ("the Company") as at June 30, 2012 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, 2012 and of the loss, its cash flows and changes in equity for the year then ended; and

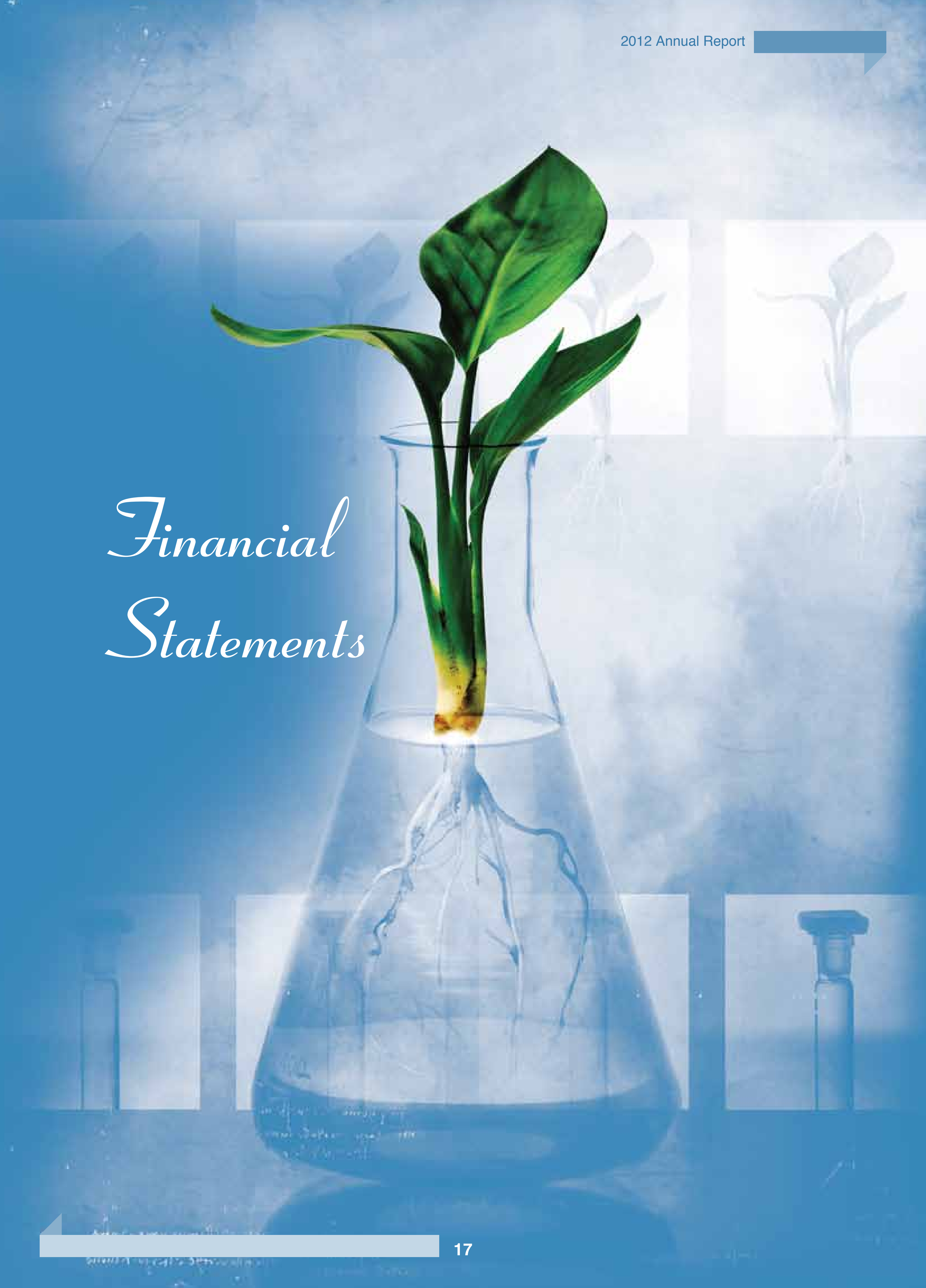
(d) in our opinion no Zakat was deductible at source under Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

M. Yousuf Adil Saleem

Chartered Accountants

Engagement Partner:
Talat Javed

Date: September 27, 2012
Lahore



Financial Statements

BALANCE SHEET

	Note	2012	2011
		Rupees	
ASSETS			
Non-current assets			
Property, plant and equipment	4	2,019,742,050	2,207,853,047
Long term advances and deposits	5	46,005,000	44,705,000
		2,065,747,050	2,252,558,047
Current assets			
Stores, spare parts and loose tools	6	64,599,121	68,898,886
Stock in trade	7	421,915,901	377,671,588
Trade debts	8	6,884,148	24,373,098
Advances	9	91,091,075	68,328,331
Deposits and short term prepayments	10	28,603,582	26,517,930
Sales tax refundable	11	44,826,923	51,510,113
Cash and bank balances	12	10,953,312	18,738,913
		668,874,062	636,038,859
Total assets		2,734,621,112	2,888,596,906

CHIEF EXECUTIVE OFFICER

DIRECTOR

AS AT JUNE 30, 2012

	Note	2012	2011
		------- Rupees -------	
EQUITY AND LIABILITIES			
Equity			
Share capital	13	551,000,000	551,000,000
Accumulated losses		(302,450,712)	(133,209,710)
		248,549,288	417,790,290
Surplus on revaluation of property, plant and equipment	14	459,635,233	489,028,656
Non-current liabilities			
Long term financing	15	938,006,318	1,174,342,106
Liabilities against assets subject to finance lease	16	9,059,061	-
Deferred liabilities	17	20,118,084	2,839,766
		967,183,463	1,177,181,872
Current liabilities			
Trade and other payables	18	146,385,445	91,999,414
Accrued markup	19	79,301,803	65,228,475
Short term borrowings	20	447,102,757	437,957,473
Current portion of long term financing	15	372,942,497	196,227,305
Current portion of liabilities against assets subject to finance lease	16	3,419,029	-
Provision for taxation		10,101,597	13,183,421
		1,059,253,128	804,596,088
Contingencies and commitments	21	-	-
Total equity and liabilities		2,734,621,112	2,888,596,906

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, 2012

	Note	2012	2011
		Rupees	
Sales	22	985,001,331	1,289,332,296
Cost of sales	23	(832,488,221)	(785,848,472)
Gross profit		152,513,110	503,483,824
Other operating income	24	1,943,755	551,091
		154,456,865	504,034,915
Distribution cost	25	23,243,195	19,902,614
Administrative expenses	26	51,267,171	41,990,425
Other operating expenses	27	3,482,652	9,443,934
Finance cost	28	248,576,845	253,263,193
		(326,569,863)	(324,600,166)
(Loss) / profit before taxation		(172,112,998)	179,434,749
Provision for taxation	29	(26,521,427)	(13,183,421)
(Loss) / profit for the year		(198,634,425)	166,251,328
Other comprehensive income		-	-
Total comprehensive (loss) / income for the year		(198,634,425)	166,251,328
Earning per share - basic and diluted	30	(3.60)	3.02

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, 2012

	Note	2012	2011
		Rupees	
A. CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit before taxation		(172,112,998)	179,434,749
Adjustments for:			
Depreciation of property, plant and equipment		168,195,985	165,386,896
Gain on disposal of property, plant and equipment		-	(551,091)
Provision for staff retirement benefits - gratuity		2,325,449	1,967,874
Finance cost		248,576,845	253,263,193
Profit on bank deposits		(128,745)	-
		246,856,536	599,501,621
Working capital changes			
(Increase) / decrease in current assets			
Stores, spare parts and loose tools		4,299,765	(3,174,568)
Stock in trade		(44,244,313)	(122,984,693)
Trade debts		17,488,950	5,448,593
Advances		(23,509,105)	(14,886,575)
Deposits and short term prepayments		(2,085,652)	(6,203,787)
Sales tax refundable		6,683,190	(21,500,955)
Increase / (decrease) in trade and other payables		54,386,031	(53,588,623)
		13,018,866	(216,890,608)
Cash generated from operations		259,875,402	382,611,013
Finance cost paid		(234,214,259)	(226,024,546)
Staff retirement benefits - gratuity paid		(1,380,740)	(1,547,006)
Income taxes paid - net		(12,523,281)	(539,115)
Profit received		128,745	-
		(247,989,535)	(228,110,667)
Net cash from operating activities		11,885,867	154,500,346
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		19,915,012	(155,568,588)
Proceeds from disposal of property, plant and equipment		-	1,827,719
Net cash used in investing activities		19,915,012	(153,740,869)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term financing		39,980,000	-
Repayment of long term financing		(99,600,596)	(30,521,649)
Proceeds from sale and lease-back arrangement		11,700,000	-
Lease rental paid		(811,168)	-
Net cash used in financing activities		(48,731,764)	(30,521,649)
Net decrease in cash and cash equivalents (A+B+C)		(16,930,885)	(29,762,172)
Cash and cash equivalents at beginning of the year		(419,218,560)	(389,456,388)
Cash and cash equivalents at end of the year	31	(436,149,445)	(419,218,560)

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, 2012

	Share capital	Accumulated losses	Total
	Rupees		
Balance as at June 30, 2010	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 tax	-	31,846,489	31,846,489
Balance as at June 30, 2011	551,000,000	(133,209,710)	417,790,290
Loss for the year	-	(198,634,425)	(198,634,425)
Other comprehensive income	-	-	-
Total comprehensive loss	-	(198,634,425)	(198,634,425)
Incremental depreciation charged during the year transferred to accumulated losses - net of tax	-	29,393,423	29,393,423
Balance as at June 30, 2012	551,000,000	(302,450,712)	248,549,288

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

CHIEF EXECUTIVE OFFICER

DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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 Sheikhupura Road, Faisalabad in the province of Punjab.

The principal activity of the Company is manufacturing and sale of hydrogen peroxide (H2O2).

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 approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Standards, interpretation and amendment adopted during the year

The following amendments to existing standards have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after the following dates.

2.3 Standards, amendments to published standards and interpretations that are effective in current year and are relevant to the Company's operations

Following are the amendments that are applicable for accounting periods beginning on or after January 1, 2011:

- IAS 1 (amendment), ‘Presentation of financial statements’, is effective for annual periods beginning on or after January 1, 2011. The amendment clarifies that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. This amendment does not have a material impact on the company's financial statements.

- IAS 24 (Revised), ‘Related party disclosures’, issued in November 2009. It supersedes IAS 24, ‘Related party disclosures’, issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. As this change only impacts presentation aspects, there is no impact on the profit for the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

- IFRS 1 (Amendment) (effective 1 July 2011) These amendments include two changes to IFRS 1, ‘First-time adoption of IFRS’. The first replaces references to a fixed date of 1 January 2004 with ‘the date of transition to IFRSs’, thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The Company has determined that there is no material impact of the above amendment on the financial information.

- IFRS 7, 'Disclosures on transfers of financial assets' (Amendment), issued in October 2010. The new disclosure requirements apply to transferred financial assets. An entity transfers a financial asset when it transfers the contractual rights to receive cash flows of the asset to another party. These amendments are as part the IASBs comprehensive review of off balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitization of financial asset. The Company has determined that there is no significant transfer of financial assets that require disclosure under the guidance above.

- IFRS 7 (amendment), 'Financial instruments: Disclosures', is effective for annual periods beginning on or after January 1, 2011. The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendment does not have a material impact on the company's financial statements.

- The amendments to IAS 19 'Employee Benefits' are effective for annual period beginning on or after January 1, 2013. The amendments eliminate the corridor approach and therefore require an entity to recognize changes in defined benefit plan obligation and plan assets when they occur. All actuarial gains or losses arising during the year are recognized immediately through other comprehensive income. The amendments also require additional disclosures and retrospective application with certain exceptions. Management anticipates that the amendments will be adopted in the Company’s financial statements for annual period beginning on or after January 1, 2013, and the application of amendments may have impact on amounts reported in respect of defined benefit plans. However, management has not performed detailed analysis of the impact of the application of the amendments and hence has not quantified the extent of the impact.

- IAS 34 (amendment), 'Interim financial reporting', is effective for annual periods beginning on or after January 1, 2011. The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. This amendment does not have a material impact on the company's financial statements.

2.4 Standards, amendments to published standards and interpretations that are effective in current year but not relevant to the Company's operations.

2.5 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

		Effective date (accounting periods beginning on or after)
-IAS 1	Financial statement presentation	January 1, 2012
-IAS 19	Employee benefits	July 1, 2012
-IAS 32	Financial instruments : Presentation	July 1, 2012
-IAS 27	Separate financial statements	January 1, 2013
-IAS 28	Associates and joint ventures	January 1, 2013

		Effective date (accounting periods beginning on or after)
-IFRS 7	Financial instruments: Disclosures	January 1, 2013
-IFRS 9	Financial instruments	January 1, 2013
-IFRS 10	Consolidated financial statements	January 1, 2013
-IFRS 11	Joint arrangements	January 1, 2013
-IFRS 12	Disclosure of interests in other entities	January 1, 2013
-IFRS 13	Fair value measurement	January 1, 2013
-IAS 32	Financial instruments: Presentation', on offsetting financial assets and financial liabilities	January 1, 2014
-IFRS 9	Financial instruments	January 1, 2015

2.6 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.

2.6.1 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

discount rate used to derive present value of defined benefit obligation. The assumptions are determined by independent actuaries.

2.6.2 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.

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 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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.

3.3 Assets subject to finance lease

Assets subject to finance lease are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, over the term of the relevant lease.

3.4 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.

3.5 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.

3.6 Impairment

The Company assesses at each balance sheet date whether there is any indication that 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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.

3.7 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.

3.8 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.

3.9 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.

3.10 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.

3.11 Leases

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as liabilities against assets subject to finance lease. The liabilities are classified as current and long-term depending upon the timing of payment. Lease payments are apportioned between finance charges and reduction of the liabilities against assets subject to finance lease so as to achieve a constant rate of interest on the

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

remaining balance of the liability. Finance charges are charged to profit and loss account, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the company's general policy on borrowing costs.

3.12 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.

3.13 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.

3.14 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.

Profit on bank deposits is accrued on a time proportion basis.

3.15 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.

3.16 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.

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

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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

3.18 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.

3.19 Related party transactions

Sales, purchases and other transactions with related parties are carried out on commercial terms and conditions.

3.20 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.

3.21 Impairment of Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

4. PROPERTY, PLANT AND EQUIPMENT

	Note	2012	2011
		-------- Rupees --------	
Operating fixed assets	4.1	1,971,872,231	2,105,968,706
Capital work in progress	4.6	47,869,819	101,884,341
		2,019,742,050	2,207,853,047

4.1 Operating assets- at June 30, 2012

Description	Cost / revalued amount			Accumulated depreciation			Book value at June 30, 2012	Rate %
	At July 01, 2011	Additions / (disposals)	At June 30, 2012	At July 01, 2011	Charge for the year / (on disposals)	At June 30, 2012		
	---------- Rupees ----------							
Land - freehold	158,761,500	-	158,761,500	-	-	-	158,761,500	-
Building on freehold land	184,170,393	1,961,764	186,132,157	26,003,755	9,216,694	35,220,449	150,911,708	5
Plant and machinery	2,047,774,577	15,519,027	2,063,293,604	391,930,483	137,176,019	529,106,502	1,534,187,102	6.67
	-				-			
Electric installations	165,630,054	1,471,463	167,101,517	52,470,609	16,623,120	69,093,729	98,007,788	10
Laboratory equipment	3,432,720	-	3,432,720	934,145	343,272	1,277,417	2,155,303	10
Factory equipment	12,404,398	-	12,404,398	3,990,670	1,240,440	5,231,110	7,173,288	10
Office equipment	4,222,937	208,214	4,431,151	812,695	431,936	1,244,631	3,186,520	10
Furniture and fittings	3,231,624	120,948	3,352,572	899,404	325,726	1,225,130	2,127,442	10
Vehicles	5,835,931	14,818,094	6,689,326	2,453,667	2,188,778	3,677,746	3,011,580	20
		(13,964,699)			(964,699)			
						-		
	2,585,464,134	34,099,510	2,605,598,945	479,495,428	167,545,985	646,076,714	1,959,522,231	
		(13,964,699)			(964,699)			
Leased								
Vehicle	-	13,000,000	13,000,000	-	650,000	650,000	12,350,000	
	2,585,464,134	47,099,510	2,618,598,945	479,495,428	168,195,985	646,726,714	1,971,872,231	
		(13,964,699)			(964,699)			

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

Operating assets - as at June 30, 2011

Description	Cost / revalued amount			Accumulated depreciation			Book value at June 30, 2011	Rate %
	At July 01, 2010	Additions / (disposals)	At June 30, 2011	At July 01, 2010	Charge for the year / (on disposals)	At June 30, 2011		
	Rupees							
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	26,003,755	158,166,638	5
Plant and machinery	2,031,153,079	17,839,918	2,047,774,577	255,836,708	136,330,690	391,930,483	1,655,844,094	6.67
		(1,218,420)			(236,915)			
Electric installations	165,456,909	173,145	165,630,054	35,914,845	16,555,764	52,470,609	113,159,445	10
Laboratory equipment	3,432,720	-	3,432,720	590,873	343,272	934,145	2,498,575	10
Factory equipment	12,404,398	-	12,404,398	2,750,230	1,240,440	3,990,670	8,413,728	10
Office equipment	3,847,874	375,063	4,222,937	421,028	391,667	812,695	3,410,242	10
Furniture and fittings	2,951,269	280,355	3,231,624	587,842	311,562	899,404	2,332,220	10
Vehicles	5,288,612	1,390,519	5,835,931	1,996,763	1,004,981	2,453,667	3,382,264	20
		(843,200)			(548,077)			
	2,567,466,754	20,059,000	2,585,464,134	314,893,524	165,386,896	479,495,428	2,105,968,706	
		(2,061,620)			(784,992)			

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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

	Note	2012	2011
		Rupees	
Cost of sales	23	165,217,044	164,258,110
Distribution expenses	25	730,703	563,028
Administrative expenses	26	2,248,238	565,758
		168,195,985	165,386,896

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
	Rupees						
Vehicles	13,964,699	964,699	13,000,000	13,000,000	-	Sale and leaseback	Standard Chartered Leasing Limited
2012	**13,964,699**	**964,699**	**13,000,000**	**13,000,000**	**-**		
2011	2,061,620	784,992	1,276,628	1,827,719	551,091		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

4.3 In 2009, revaluation of owned operating fixed assets 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% has 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:

	Cost	Accumulated depreciation	Book value
		Rupees	
Freehold land	65,112,852	-	65,112,852
Building on freehold land	161,737,333	31,561,223	130,176,110
Plant and machinery	1,435,084,182	404,603,866	1,030,480,316
Electric installation	148,097,792	63,392,609	84,705,183
Factory equipment	10,414,714	4,634,203	5,780,511
2012	1,820,446,873	504,191,901	1,316,254,972
2011	1,801,494,619	383,954,211	1,417,540,408

	2012	2011
	Rupees	
4.6 Capital work in progress		
Advances for fixed assets	47,191,256	47,791,257
Plant and machinery	678,563	-
Civil works	-	54,093,084
	47,869,819	101,884,341

4.6.1 Plant and machinery includes two Gas Gensets held jointly by the Company on behalf of and in trust for the investor under the musharaka arrangements entered into by the Company. Cost and book value of assets held under these musharaka arrangements are as follows:

	2012		2011	
Description	**Cost**	**Book value**	**Cost**	**Book value**
Gas Gensets	86,609,865	71,204,857	86,609,865	76,981,735

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012	2011
		Rupees	
5. LONG TERM ADVANCES AND DEPOSITS			
Advance for purchase of land		41,000,000	41,000,000
Security deposit for electricity connection		3,640,000	3,640,000
Lease key money		1,300,000	-
Security deposit to Central Depository Company of Pakistan Limited		50,000	50,000
Other deposit		15,000	15,000
		46,005,000	44,705,000
6. STORES, SPARE PARTS AND LOOSE TOOLS			
Stores		27,657,610	33,334,143
Spare parts		36,859,250	35,539,801
Loose tools		82,261	24,942
		64,599,121	68,898,886
7. STOCK IN TRADE			
Raw material		40,122,742	140,458,064
Work-in-process		319,414,175	191,576,142
Finished goods		25,103,496	7,402,932
Packing material		37,275,488	38,234,450
		421,915,901	377,671,588
8. TRADE DEBTS			
Unsecured and considered good			
From related party - Sitara Textile Industries Limited		5,955,000	3,990,000
Others - local		929,148	20,383,098
		6,884,148	24,373,098
9. ADVANCES			
Considered good Advances to:			
Employees against salary - secured		995,871	4,743,717
Employees for expenses - unsecured		1,400,510	2,555,302
Suppliers - unsecured (Local)		58,734,685	29,146,413
Suppliers - unsecured (Foreign)		1,102,372	2,278,901
Advance income tax		28,857,637	29,603,998
		91,091,075	68,328,331
10. DEPOSITS AND SHORT TERM PREPAYMENTS			
Nazir of the Honorable Sindh High Court	10.1	18,809,059	18,809,059
Others		9,794,523	7,708,871
		28,603,582	26,517,930

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

10.1 This represents the amount deposited with Nazir of the Honorable Sindh High Court as required by the said court to file writ petition against the recovery notice issued by the Customs Department to deposit Government dues amounting to Rs. 18,809,059 involved in the clearance of import shipments.

11. SALES TAX REFUNDABLE

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

12. CASH AND BANK BALANCES

	Note	2012	2011
		Rupees	
Cash in hand		266,871	320,542
Cash at banks - Current Accounts		182,717	18,418,371
Cash at banks - Saving Accounts	12.1	10,503,724	-
		10,953,312	18,738,913

12.1 Effective mark-up rate in respect of saving accounts ranges from 6% per annum to 9.50% per annum.

13. SHARE CAPITAL

2012	2011		2012	2011
Number of shares			Rupees	
		Authorised		
60,000,000	60,000,000	Ordinary shares of Rs. 10 each	600,000,000	600,000,000
		Issued, subscribed and paid-up		
55,100,000	55,100,000	Ordinary shares of Rs. 10 each fully paid in cash	551,000,000	551,000,000

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

13.2 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.

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

13.4 3,500,000 (2011: 3,500,000) ordinary shares of Rs. 10 each are held by Sitara Chemical Industries Limited, an associated undertaking.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012 Rupees	2011 Rupees
14. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT			
Balance at beginning of the year		489,028,656	520,875,145
Transfer to Accumulated losses in respect of incremental depreciation charged during the year - net of tax	14.1	29,393,423	31,846,489
Balance at end of the year		459,635,233	489,028,656
14.1 Incremental depreciation charged during the year transferred to accumulated losses		45,220,648	45,098,666
Less : tax liability relating to incremental depreciation		15,827,225	13,252,177
		29,393,423	31,846,489
15. LONG TERM FINANCING			
Secured - from financial institutions			
Under diminishing musharaka arrangements			
Balance at beginning of year		1,312,500,000	1,312,500,000
Less: paid during the year		69,078,947	-
Less: current portion		345,394,735	138,157,894
Balance at the end of year	15.1	898,026,318	1,174,342,106
Under diminishing musharaka arrangement			
Balance at beginning of year		50,869,411	81,391,060
Less: paid during the year		30,521,649	30,521,649
Less: current portion		20,347,762	50,869,411
Balance at the end of year	15.2	-	-
Unsecured			
From other parties			
Balance at beginning of year		7,200,000	7,200,000
Add: obtained during the year		22,000,000	-
Less: current portion		7,200,000	7,200,000
Balance at the end of year	15.3	22,000,000	-
From chief executive officer			
Balance at beginning of year		-	-
Add: obtained during the year		17,980,000	20,000,000
Less: paid during the year		-	20,000,000
Less: current portion		-	-
Balance at the end of year	15.4	17,980,000	-
		938,006,318	1,174,342,106

15.1 During 2008 the Company had issued privately placed diminishing musharaka based SUKUK certificates ("the certificates") arranged by consortium of financial institutions through trustee (investors), amounting to Rs. 1,400 million. On 28 June 2010 the Company had entered into first

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

supplemental musharaka agreement with investors for redemption of remaining balance amounting to Rs. 1,312 million. The salient terms and conditions are as follows:

Outstanding principal balance is required to be redeemed in nineteen equal quarterly installments commencing from February 19, 2012 payable in arrears. However, due to pervailing financial problems, the Company is in negotiation process with the investors to reschedule the remaining Rs. 1,243 million of the SUKUK facility. Under the SUKUK agreement, approval/consent of 2/3rd of investors is required for rescheduling and till the date of authorization of these financial statements 61% of the investors have acceded to the rescheduling as requested by the Company.

Existing agreed price mechanism of the facility is as under:

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 three months KIBOR).

The effective markup rate during the year ranged from 12.95% per annum to 14.39% per annum.

The Company has a call option in accordance with terms and conditions of the entire amount or partial amount in the event it has free cash flows available. The Company shall use at least 80% of its free cash flows, if available, in exercising the call option.

The Company is required not to declare any dividend during the entire tenor of these SUKUK issue.

The certificates are secured by First Joint Pari Passu 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.

15.2 This facility was obtained during the year 2009 from a financial institution 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% per annum and cap of 22.0% per annum, 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 and joint ownership of musharaka assets as given in the Note 4.6.2.

15.3 This represents unsecured and interest free loans from various parties and are not payable within next twelve months of the balance sheet date.

15.4 This represents a loan obtained from Chief Executive Officer of the Company and is unsecured, interest free and is not payable within next twelve months of the balance sheet date.

15.5 The exposure of the Company's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date is as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

Maturity	Effective rate of interest	2012	2011
		Rupees	
6 months or less	Ranging from 13.65% to 14.39% per annum	227,584,603	30,521,649
6 - 12 months		138,157,894	158,505,656
1 - 5 years		828,947,361	1,105,263,152
Over 5 years		69,078,947	69,078,954
		1,263,768,805	1,363,369,411

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

	2012	2011
	Rupees	
16. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Present value of minimum lease payments	12,478,090	-
Less: current portion	(3,419,029)	-
	9,059,061	-

During the year, the Company has entered into a sale and leaseback arrangement for a vehicle with a Leasing Company. Under this arrangement, the Company is obliged to pay monthly rental of Rs. 405,584 for a period of three years. The present value of minimum lease payments has been discounted at an implicit interest rate of 15% per annum.

The reconciliation between minimum lease payments and their present value is as under:

	2012	2011
	Rupees	
Minimum lease payments		
Not later than one year	4,867,008	-
Later than one year but not later than five years	10,222,848	-
	15,089,856	-
Finance cost allocated to future periods	(2,611,766)	-
	12,478,090	-
Current portion	(3,419,029)	-
	9,059,061	-
Present value of minimum lease payments		
Not later than one year	3,419,029	-
Later than one year but not later than five years	9,059,061	-
	12,478,090	-

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012	2011
		Rupees	
Maturity			
6 months or less		1,645,835	-
6 - 12 months		1,773,194	-
1 - 5 years		9,059,061	-
		12,478,090	

17. DEFERRED LIABILITIES

	Note	2012	2011
Staff retirement benefits - gratuity	17.1	3,784,475	2,839,766
Deferred taxation	17.2	16,333,609	-
		20,118,084	2,839,766

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 using "Projected Unit Credit Method" as at June 30, 2012 are as follows:

Movement in net liability recognized in the balance sheet:

	2012	2011
	Rupees	
Balance at beginning of the year	2,839,766	2,418,898
Add: expense charged to profit and loss account	2,325,449	1,967,874
Less: paid during the year	(1,380,740)	(1,547,006)
Balance at end of the year	3,784,475	2,839,766
Balance sheet reconciliation as at balance sheet date:		
Present value of obligations	6,700,607	3,710,166
Less: unrecognized actuarial losses	(2,916,132)	(870,400)
Liability recognized in the balance sheet	3,784,475	2,839,766
Charge for the year:		
Current service cost	1,706,149	1,285,865
Interest cost	519,423	503,412
Actuarial losses recognized	99,877	178,597
Expense recognized in the profit and loss account	2,325,449	1,967,874
Movement in the present value of defined benefit obligations:		
Present value of defined benefit obligations as at July 01, 2011	3,710,166	3,481,431
Current service cost	1,706,149	1,285,865
Interest cost	519,423	503,412
Benefits paid during the year	(1,380,740)	(1,547,006)
Actuarial loss on obligation	2,145,609	(13,536)
Present value of defined benefit obligations as at June 30, 2012	6,700,607	3,710,166

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

	2012	2011
	Rupees	
Movement in unrecognized actuarial losses:		
Balance as at July 01, 2011	(870,400)	(1,062,533)
Actuarial loss on obligation	(2,145,609)	13,535
Actuarial loss recognized during the year	99,877	178,598
Balance as of June 30, 2012	(2,916,132)	(870,400)
Principal actuarial assumptions:		
Discount rate - per annum	12.50%	14%
Expected rate of growth per annum in future salaries	12.50%	14%
Average expected remaining working life time of employees	3 years	4 years

17.1.1 History of present value of deferred employee benefits

	2012 Rupees	2011 Rupees	2010 Rupees
Present value of defined benefit obligations at the end of year	6,700,607	3,710,166	3,481,431
Experience adjustment arising on plan liabilities losses	(2,916,132)	(870,400)	1,062,533

17.2 Deferred taxation

The balance of deferred taxation is in respect of following temporary differences:

	2012	2011
	Rupees	
Depreciation on property, plant and equipment	306,525,812	357,170,921
Provision for employee benefits - unfunded	(1,284,829)	(951,152)
Liabilities against assets subject to finance lease	(43,486)	-
Tax credits u/s 113c	(26,551,542)	-
Unused tax losses	(423,184,678)	(488,648,482)
	(144,538,723)	(132,428,713)
Deferred tax liability on account of surplus arose on revaluation of property, plant and equipment during the year	160,872,332	132,428,713
	16,333,609	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012	2011
		---------- Rupees	----------
18. TRADE AND OTHER PAYABLES			
Creditors	18.1	57,084,378	40,985,160
Advances from customers		46,604,210	8,931,706
Payable to associates	18.2	14,046,560	10,134,026
Accrued liabilities		28,202,674	21,917,718
Retention money		376,866	278,778
Withholding tax		60,757	298,092
Worker's profit participation fund		-	9,443,934
Others		10,000	10,000
		146,385,445	91,999,414

18.1 These includes Rs. 4,971,533 (2011: Rs. 2,550,141) payable to Sitara Chemical Industries Limited (associated undertaking) and Rs. 23,676,429 (2011: Nil) payable to Sitara Spinning Mills Limited (associated undertaking) in ordinary course of business.

18.2 This includes Nil (2011: Rs. 7,903,891) payable to Sitara Energy Limited, Rs. 3,217,019 (2011: Rs. 2,230,135) payable to Sitara Chemical Industries Limited and Rs. 10,829,541 (2011: Rs. 1,318,200) payable to Sitara Spinning Mills Limited against common expenses share.

	Note	2012	2011
		---------- Rupees	----------
19. ACCRUED MARK-UP			
Mark-up accrued on:			
Long-term financing		65,864,600	52,466,758
Short-term borrowings		13,437,203	12,761,717
		79,301,803	65,228,475
20. SHORT TERM BORROWINGS			
Banking companies - secured	20.2	406,858,635	437,957,473
Overdrawn balances - unsecured		20,244,122	-
Others - unsecured	20.4	20,000,000	-
		447,102,757	437,957,473

20.1 The aggregate unavailed running finance facilities amount to Rs. 16.141 million (2011: Rs.10.042 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. 423 million (2011: Rs. 448 million). These facilities carry mark-up at the rates ranging from three months KIBOR plus 1.75% to three months KIBOR plus 3.50% (2011: three months KIBOR plus 1.25% to three months KIBOR plus 3.75%) per annum on daily product payable quarterly. These facilities are expiring on various dates by March 31, 2013.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

The aggregate short term borrowings facilities are secured against:

First pari passu charge
Rs. 601 million (2011: Rs. 601 million) over current assets of the Company.

Equitable mortgage charge
a) Rs. 34 million (2011: Rs. 34 million) over the assets of the Company;
b) Rs. 103.97 million (2011: Rs. 103.97 million) over the assets of Sitara Spinning Mills Limited (related party);
c) Rs. 45.90 million (2011: Rs. 41.48 million) over the personal assets of the Chief Executive Officer.

Ranking charge
Rs. 100 million (2011: Rs.100 million) over present and future current assets of the Company.
Rs. 300 million (2011: Rs.300 million) over present and future fixed assets of the Company.

Personal guarantees
Personal guarantees from chief executive officer and directors of the Company.

20.3 Facilities available for opening letter of credit amounting to Rs. 250 million (2011: Rs. 250 million) of which facilities amounting to Rs. 83.22 million (2011: Rs. 74.04 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, 2013.

20.4 This represents interest free loan obtained from a party and is repayable on demand.

	2012	2011
	Rupees	
21. CONTINGENCIES AND COMMITMENTS		
21.1 Contingencies		
Bank guarantees issued by Faysal Bank Limited in favour of Sui Northern Gas Pipelines Limited for supply of gas	53,538,000	50,000,000
21.2 Commitments		
Irrevocable letters of credit	83,220,000	74,042,397
22. SALES		
Local sales	980,313,986	1,275,072,859
Less: Commission and discount	(29,644,414)	(22,060,300)
	950,669,572	1,253,012,559
Export sales	34,331,759	36,319,737
	985,001,331	1,289,332,296

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012	2011
		Rupees	
23. COST OF SALES			
Raw material consumed	23.1	267,744,358	77,497,385
Fuel and power		266,427,795	179,178,554
Packing material consumed		195,756,651	173,483,590
Stores, spare parts and loose tools consumed		17,285,793	15,070,713
Salaries, wages and benefits	23.2	34,491,047	30,096,857
Repairs and maintenance		17,348,069	20,106,519
Insurance		6,067,838	6,167,642
Depreciation	4.1.1	165,217,044	164,258,110
Traveling and conveyance		867,557	282,365
Vehicle running and maintenance		1,203,227	943,470
Entertainment		715,167	350,578
Others		-	70,138
		973,124,546	667,505,921
Work-in-process			
Balance at beginning of the year		191,576,142	203,054,982
Balance at end of the year	7	319,414,175	191,576,142
		(127,838,033)	11,478,840
Cost of goods manufactured		845,286,513	678,984,761
Finished goods			
Balance at beginning of the year		7,402,932	5,883,994
Balance at end of the year	7	25,103,496	7,402,932
		(17,700,564)	(1,518,938)
Cost of goods sold - own manufactured products		827,585,949	677,465,823
- purchased goods		4,902,272	108,382,649
		832,488,221	785,848,472

23.1 Raw material consumed

	Note	2012	2011
Balance at beginning of the year		140,458,064	19,687,589
Purchases		167,409,036	198,267,860
		307,867,100	217,955,449
Less: Balance at end of the year	7	40,122,742	140,458,064
		267,744,358	77,497,385

23.2 Salaries, wages and benefits include Rs. 1,860,359 (2011: Rs. 1,699,474) in respect of employee benefits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012 Rupees	2011 Rupees
24. OTHER OPERATING INCOME			
Income from financial assets			
Profit on bank deposits		128,745	-
Income from assets other than financial assets			
Scrap sales		1,815,010	-
Gain on sale of operating fixed assets	4.2	-	551,091
		1,943,755	551,091
25. DISTRIBUTION COST			
Salaries and benefits		3,180,387	2,120,243
Traveling and conveyance		567,473	347,356
Vehicle running and maintenance		441,788	299,678
Entertainment		35,733	83,402
Freight and octroi		17,202,524	16,021,813
Depreciation	4.1.1	730,703	563,028
Other expenses		1,084,587	467,094
		23,243,195	19,902,614
26. ADMINISTRATIVE EXPENSES			
Salaries and benefits	26.1	26,366,194	24,145,587
Director's remuneration	32	5,012,609	4,468,153
Printing and stationery		1,339,381	1,471,365
Insurance		337,359	269,151
Repairs and maintenance		202,809	126,271
Traveling and conveyance		4,473,590	1,855,892
Rent, rates and taxes		144,400	120,220
Vehicle running and maintenance		1,317,628	228,409
Entertainment		470,114	64,363
Telephone and postage		902,679	754,469
Advertisement		406,720	329,050
Fees, subscription and periodicals		2,950,149	1,983,499
Charity and donations	26.2	1,866,463	2,613,881
Legal and professional charges		734,073	1,359,652
Auditors' remuneration	26.3	900,000	900,000
Depreciation	4.1.1	2,248,238	565,758
Others		1,594,765	734,705
		51,267,171	41,990,425

26.1 Salaries and benefits include Rs. 465,090 (2011: Rs. 424,868) in respect of staff retirement benefits.

26.2 It includes Rs. 1,866,463 (2011: Rs. 2,613,881) 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 and Mr. Muhammad Adrees, the directors of the Company are also the Trustees of the AFT.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

	2012	2011
	Rupees	
26.3 Auditors' remuneration		
Statutory audit fee	500,000	500,000
Half yearly review	200,000	200,000
Compliance report on Code of Corporate Governance	125,000	125,000
Out of pocket expenses	75,000	75,000
	900,000	900,000
27. OTHER OPERATING EXPENSES		
Worker's profit participation fund	-	9,443,934
Exchange loss	3,482,652	-
	3,482,652	9,443,934
28. FINANCE COST		
Mark-up on:		
Long term financing from banking companies	182,193,385	194,567,867
Short term borrowings	61,548,588	55,234,516
Liabilities against assets subject to finance lease	324,258	-
Bank charges and commission	4,510,614	3,460,810
	248,576,845	253,263,193
29. PROVISION FOR TAXATION		
Current		
- For the year	10,101,597	13,183,421
- Prior period	86,221	-
Deferred	16,333,609	-
	26,521,427	13,183,421

29.1 Assessments of the Company for the tax years 2004 to 2011 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, 2012

30. EARNING PER SHARE - BASIC AND DILUTED

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

		2012	2011
		Rupees	
(Loss) / profit for the year	Rupees	(198,634,425)	166,251,328
Weighted average number of ordinary shares	Number	55,100,000	55,100,000
Earning per share - basic	Rupees	(3.60)	3.02

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 EQUIVALENTS

	2012	2011
	Rupees	
Cash and bank balances	10,953,312	18,738,913
Short term borrowings	(447,102,757)	(437,957,473)
	(436,149,445)	(419,218,560)

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:

	2012		2011	
	Chief Executive Officer	Executives	Chief Executive Officer	Executives
	Rupees			
Basic salary	3,256,191	2,988,404	2,902,512	3,858,819
House rent	1,465,284	896,520	1,306,130	1,157,645
Utilities allowance	162,567	298,820	144,909	385,877
Medical allowance	128,567	37,400	114,602	385,884
Special allowance	-	298,856	-	46,613
	5,012,609	4,520,000	4,468,153	5,834,838
Number of persons	1	4	1	5

32.1 Chief Executive Officer and three executives are also provided with Company maintained car.

32.2 No meeting fee was paid to the directors and Chief Executive Officer of the Company.

33. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated undertakings, 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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:

		2012	2011
		Rupees	
Nature of Relationship	**Nature of transaction**		
Associated undertakings			
	Organizational expenses	1,539,490	1,122,235
	Purchases	28,678,276	20,554,653
	Sales	16,205,000	17,221,000
	Sale of fixed assets	-	1,327,719
	Sale of store and spares	-	569,014
Key management personnel			
	Loan obtained from chief executive officer	17,980,000	20,000,000
	Repayment of loan from Chief Executive Officer	-	20,000,000
	Remuneration and other benefits	9,532,609	10,302,991
Employee benefit plan	Paid during the year	1,380,740	1,547,006

33.1 All transactions with related parties have been carried out at commercial terms.

34. PLANT CAPACITY AND ACTUAL PRODUCTION

	2012 Tons	2011 Tons
Production capacity	30,000	30,000
Actual production	22,035	22,244

34.1 The average production during the year was 73% (2011: 74%). 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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:

	2012	2011
	Rupees	
Financial assets		
Trade debts	6,884,148	24,373,098
Advances	995,871	4,743,717
Bank balances	10,953,312	18,738,913
	18,833,331	47,855,728

The trade debts at the balance sheet date are unsecured.

The aging of trade debts at the balance sheet date is as follows:

	2012	2011
Past due 1 to 30 days	2,977,500	20,383,098
Past due 30 to 150 days	3,906,300	3,990,000
Past due 150 days	348	-
	6,884,148	24,373,098

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. 10.686 million (2011: Rs. 18.418 million) placed with banks have a short term credit rating of at least A1+ (2011: 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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 relevant notes to these financial statements.

	2012				
	Carrying amount	Contractual cash flows	Less then 1 year	Between 1 to 5 years	Above 5 years
	Rupees				
Long term financing	1,310,948,815	1,654,699,097	500,167,182	1,154,531,915	-
Trade and other payables	99,720,478	99,720,478	99,720,478		-
Accrued mark-up	79,301,803	79,301,803	79,301,803	-	-
Running finance	447,102,757	447,102,757	447,102,757	-	-
	1,937,073,853	2,280,824,135	1,126,292,220	1,154,531,915	-

	2011				
	Carrying amount	Contractual cash flows	Less then 1 year	Between 1 to 5 years	Above 5 years
	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 mark-up	65,228,475	65,228,475	65,228,475	-	-
Running finance	437,957,473	437,957,473	437,957,473	-	-
	1,965,754,773	2,530,885,051	975,775,389	1,484,590,795	70,519,146

35.3 Market risk

Market risk is the risk that changes with 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;

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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 expenditure 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:

	2012		2011	
	Rupees	**US$**	**Rupees**	**US$**
Trade and other payables	-	-	4,062,736	48,194
Balance sheet exposure	-	-	4,062,736	48,194

	Average rate		Reporting date mid spot rate	
	2012	**2011**	**2012**	**2011**
	Rupees			
The following significant exchange rates have been applied:				
Rupee to US $	89.43	85.49	94.20	86.05

Sensitivity analysis

A 10 percent strengthening of the Pak Rupee against the US dollar at June 30, 2012 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, 2011.

	2012	2011
	Rupees	
Effect on profit for the year:		
U S $ to Rupee		
Increase in profit for the year	-	412,011

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

A 10 percent weakening of the Pak Rupee against the US dollar at June 30, 2012 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:

Fixed rate financial instruments
At the reporting date, the Company does not have any fixed rate interest bearing financial instruments.

Variable rate financial instruments

			2012	2011
			Rupees	
Financial liabilities				
Long term financing	13.65% to 14.39%	14.63% to 15.53%	1,310,948,815	1,370,569,411
Short term finance	13.67 % to 17.28%	13.51 % to 17.27%	406,858,635	437,957,473
			1,717,807,450	1,808,526,884

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 2011.

	Increase	Decrease
	Rupees	
At June 30, 2012		
Cash flow sensitivity - variable rate financial liabilities	13,902,506	(13,902,506)
At June 30, 2011		
Cash flow sensitivity - variable rate financial liabilities	(14,357,979)	14,357,979

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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. Gearing ratio of the Company is as follows:

	2012	2011
	Rupees	
Total borrowings	1,770,529,662	1,808,526,884
Less: Cash and bank balance	10,953,312	18,738,913
Net debt	1,759,576,350	1,789,787,971
Total Equity	708,184,521	906,818,946
Total capital	2,467,760,871	2,696,606,917
Gearing ratio	71%	66%

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, 2012

Nature	From	To	Reason	Rupees
Advances	Capital work in progress	Long term advances and deposits	For better presentation	41,000,000
Taxation	Advance income tax	Provision for taxation	For better presentation	13,183,421
Advance income tax	Advance income tax	Advances	For better presentation	29,603,998

The above re-arrangements/re-classifications do not affect retained earnings for the year ended June 30, 2011, therefore, the balance sheet for the year ended June 30, 2010 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 27, 2012.

38. GENERAL

Figures have been rounded off to the nearest Rupee.

CHIEF EXECUTIVE OFFICER

DIRECTOR

FORM OF PROXY

This form of Proxy, in order to be effective, must be deposited duly completed, at the Company's Shares Registrar's Office i.e. M/S. Noble Computer Services (Pvt) Ltd., Mezzanine Floor, House of Habib Building (Siddiqsons Tower), 3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi-75350, 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 Ninth 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 Tuesday, October 23, 2012 at 5:00 pm and at any adjournment thereof.

As witness my/our hand this ______________ day of ______________ 2012

Signed by the said ______________________________ in the presence

of ______________

Affix Rs. 5/- Revenue Stamp which must be cancelled either by signature over it or by some other means

____
(Member's Signature)

Place ______________

____
(Witness's Signature)

Date ______________

Sitara Peroxide
Limited

AFFIX
CORRECT
POSTAGE

601-602 Business Centre,
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Off. I.I. Chundrigar Road,
Karachi-74000
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Notes of AGM as on October 23, 2012

Notes of AGM as on October 23, 2012

Sitara Peroxide Limited

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