



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



**HAJI BASHIR AHMED (CHAIRMAN SITARA GROUP OF INDUSTRIES)
IS RECEIVING SITARA-I-IMTIAZ FROM GOVERNOR PUNJAB
FOR EXCELLENCE IN SOCIO-ECONOMIC ACTIVITIES**



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COMPANY INFORMATION

Board of Directors

Chairman
Chief Executive
Directors

Haji Bashir Ahmed
Mr. Muhammad Adrees
Mr. Javed Iqbal
Mr. Muhammad Anis
Mr. Imran Ghafoor
Mr. Haseeb Ahmed
Mrs. Rukhsana Adrees
Mr. Rashid Zahir
(Nominee Director of Saudi Pak Industrial and
Agricultural Investment Co. (Pvt.) Ltd.)

Company Secretary

Mr. Mazhar Ali Khan

Chief Financial Officer

Mr. Anwar-ul-Haq (ACA)

Audit Committee

Chairman
Members

Mr. Muhammad Anis
Haji Bashir Ahmed
Mrs. Rukhsana Adrees
Mr. Muhammad Safdar Butt

Head of Internal Audit

Auditors

M/S. M. Yousuf Adil Saleem & Co.
Chartered Accountants

Legal Advisor

Mr. Sahibzada Muhammad Arif

Bankers

Meezan Bank Limited
National Bank of Pakistan
Allied Bank Limited
United Bank Limited
Bank Alfalah Limited
Dubai Islamic Bank Pakistan Limited
The Bank of Punjab
MCB Bank Limited
Standard Chartered Bank
First Habib Bank Modaraba
Saudi Pak Industrial and Agricultural
Investment Co. (Pvt.) Limited
Saudi Pak Commercial Bank Limited
First National Bank Modaraba
Al-Baraka Islamic Bank B.S.C. (E.C.)
Askari Commercial Bank Limited
Faysal Bank Limited
KASB Bank Limited
Habib Bank Limited
Union Bank Limited

Registered Office

601-602, Business Centre,
Mumtaz Hasan Road,
Karachi-74000

Factories

28/32 K.M., Faisalabad - Sheikhpura Road,
Faisalabad.



VISION

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

MISSION

Continuing growth and diversification for bottom line results with risks well contained.

CODE OF ETHICS AND BUSINESS PRACTICES

We believe in stimulating and challenging team oriented work environment that encourages, develops and rewards excellence and diligently serve communities, maintaining high standards of moral and ethical values.



NOTICE OF MEETING

Notice is hereby given that the Twenty Fifth Annual General Meeting of Sitara Chemical Industries Limited will be held at Dr. Abdul Qadeer Khan Auditorium, Haji Abdullah Haroon Muslim Gymkhana, Near Shaheen Complex, Aiwana-e-Sadr, Karachi, on Tuesday, October 31, 2006 at 3:00 p.m. to transact the following business:

Ordinary Business

1. To confirm the minutes of Twinty Fourth Annual General Meeting held on October 31, 2005.
2. To receive, consider and adopt the audited accounts of the Company for the year ended June 30, 2006 together with the Reports of the Auditors and Directors.
3. To approve the payment of cash dividend at the rate of 60% (Rs. 6.00 per share) as recommended by the Directors.
4. To appoint auditors for the year ending June 30, 2007 and to fix their remuneration.
5. To transact any other ordinary business of the Company with the permission of the Chair.

By order of the Board

**Karachi:
September 29, 2006**

**MAZHAR ALI KHAN
Company Secretary**

NOTES:

- i. The share transfer books of the Company will remain closed from October 21, 2006 to October 31, 2006 (both days inclusive).
- ii. 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 Registered Office of the Company not less than 48 hours before the time of meeting.
- iii. The member whose name appears on the register at the close of business on October 20, 2006 will be entitled to cash dividend.
- iv. Shareholders who have deposited their shares into Central Depository Company are advised to bring their Computerized National Identity Card alongwith their CDC account number at the meeting venue.
- v. Shareholders are advised to notify any change in their addresses.



CHAIRMAN'S REVIEW

It is occasion of great pleasure for me to present this review on the operations and accounts for the year ended June 30, 2006

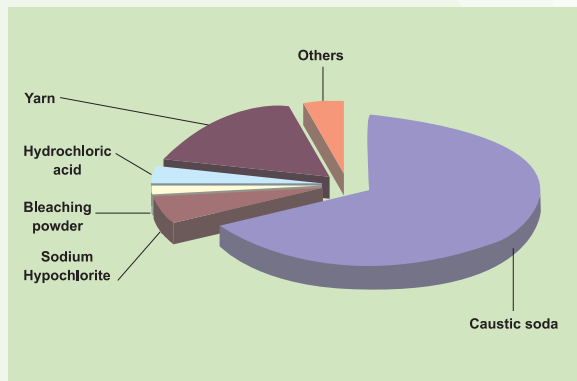
OPERATING RESULTS FOR THE YEAR ENDED JUNE 30, 2006

Sales for the year at Rs. 3,900 Million against Rs. 4,020 Million of preceding year recording decrease 120 Million mainly attributable towards Textile Division. Operating Profits and Net Profit after Taxation remained at Rs. 714.606 Million and Rs. 266.513 Million respectively which are lower by Rs. 192 Million and Rs. 29 Million respectively from preceding year. Earning per share was calculated at Rs. 14.36 for year 2006 and was lower by Rs. 1.57 from last year.

Profitability has been effected due to certain factors. Hyper prices of furnace oil, fuel and gas inflated not only the cost of electricity but also freight and transportation cost remained high that ultimately effected operating profits for the year. Further, due to inflationary trend in Pakistan economy, all expenses especially man power cost, raw material and prices of store items increased and are responsible for higher cost of production.

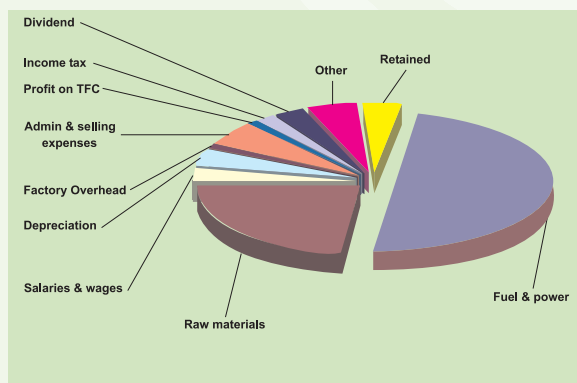
Your company has already started setting up 22 MW power plant and inshallah it will commission its production in February 2007. Further, furnace oil prices have shown constant decline worldwide. Based on these factors, it is anticipated that cost of electricity will decrease considerably. By the grace of All Mighty Allah, your Company has achived capacity of 540 Metric ton per day and we hope that future of your Company is very promising

SOURCES OF REVENUE



	Rs. (Million)	%
Caustic soda	2,616	67
Sodium hypochlorite	228	6
Bleaching powder	72	2
Hydrochloric acid	142	4
Yarn	664	17
Others	178	4
Total	3,900	100

APPLICATION OF REVENUE

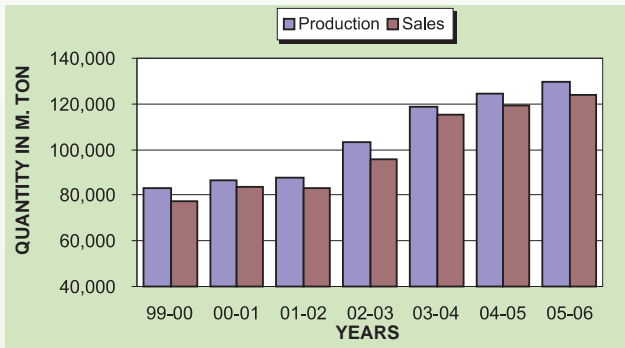


Fuel & power	1,893	49
Raw materials	908	23
Salaries & wages	117	3
Depreciation	148	4
Factory Overhead	41	1
Admin & selling expenses	195	5
Profit on TFC	44	1
Income tax	92	2
Dividend	111	3
Others	195	5
Retained	156	4
Total	3,900	100

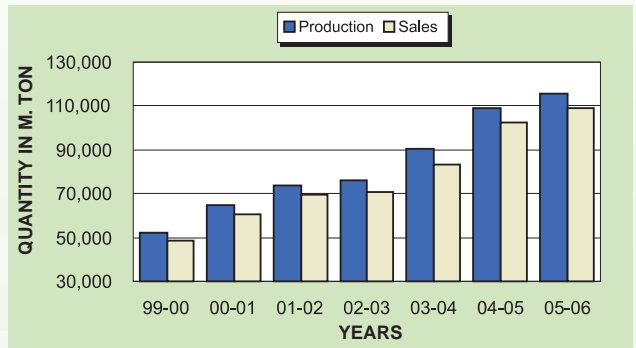


PRODUCTION AND SALES ANALYSIS

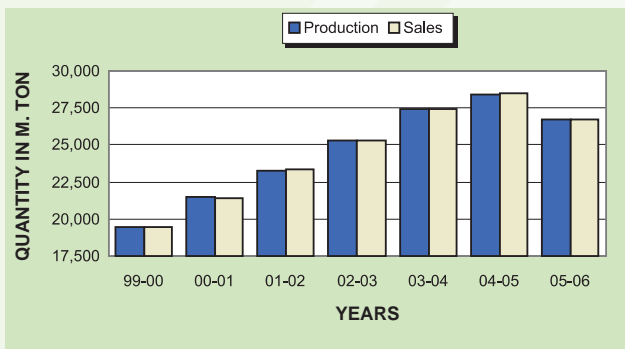
CAUSTIC SODA



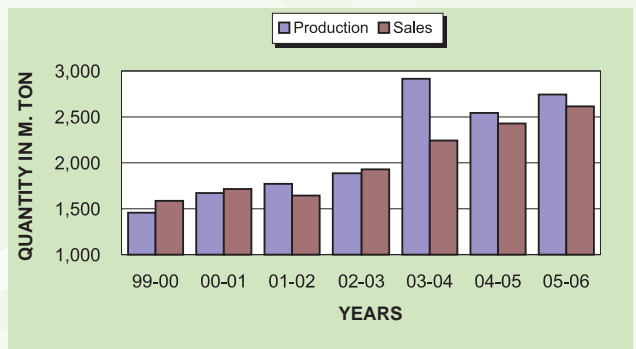
HYDROCHLORIC ACID



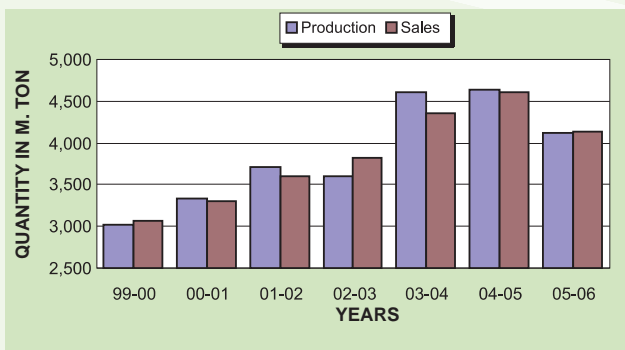
SODIUM HYPOCHLORITE



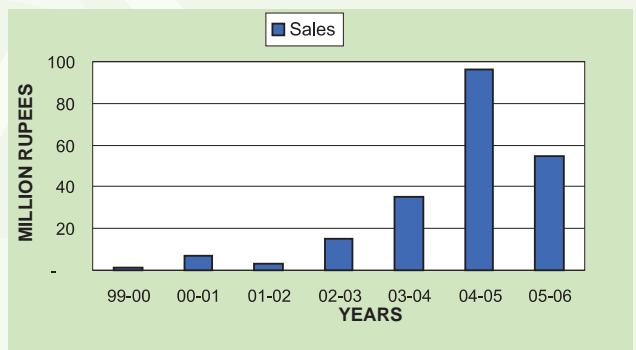
AMMONIUM CHLORIDE



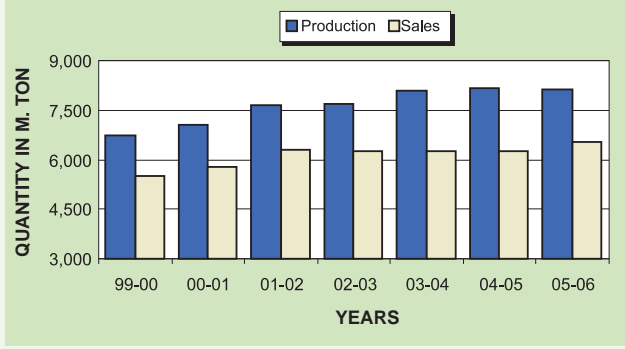
BLEACHING POWDER



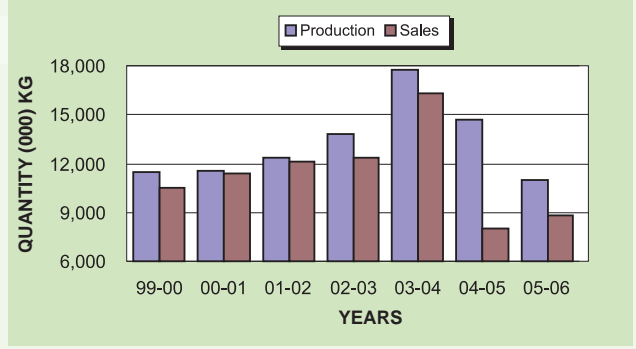
NON-TRADITIONAL EXPORT SALE



LIQUID CHLORINE



RING SPINNING





CHEMICAL DIVISION

Your Company has successfully commissioned new Caustic Soda plant BMR II with a capacity of 210 Metric Ton per day in June 2006. This new plant has replaced the high energy consuming Mercury and old technology having capacity of 105 Metric Tons per day with most power efficient Membrane technology and has added capacity of Caustic Soda 105 Metric ton per day.



Haji Bashir Ahmed (Chairman) addressing at inauguration ceremony of BMR-II



A view of new plant

The Company is also in the process of setting up a 21.76 MW co-generation power plant based on natural gas fired generating sets. The delivery of these sets is expected by the end of December 2006 and the plant is expected to commission its production by the start of March 2006. Civil work of this plant is under progress. These engines would provide more cost effective and stable power supply. Stability in the power supply is so vital for Membrane technology.

TEXTILE DIVISION

Operating profits of Textile Division of your Company has decreased from Rs. 134 Million to Rs. 97 Million. The profits are lower from preceding year because of unstable textile spinning market conditions.



HUMAN RESOURCES

This year also, computer literacy of company employees, at different levels remained at high priority. Company recognizes information technology as the most efficient tool for sustaining the current business status and future progress. Employees and management relations remained excellent and I am pleased to record appreciation for devotion, hard work and commitment shown at all levels of Company employees.



In house training session on Human Resource Management

FUTURE OUT-LOOK

Your Company has signed a contract with M/S TCC, Tianjun, China for the supply of technical know how and other engineering services for 90,000 Metric Tons/ per year for Calcium Carbide and 60,000 Metric Tons per year for PVC plant. Both of these plants are expected to be constructed and installed in next two years.

Your Company is also planning to set up a new Calcium Chloride plant with a capacity of 16,500 Metric Tons per year for export purposes. This will enhance current capacity of 5000 Metric Tons to 21,000 Metric Tons and product shape and quality is intended to be export quality. Initial feasibility studies has been carried out and details are being sorted out with potential machinery suppliers.

Date: September 29, 2006
Faisalabad

Haji Bashir Ahmed
Chairman



DIRECTORS' REPORT

Gentlemen,

The Directors have pleasure in submitting their report and audited accounts of the Company for the year ended June 30, 2006.

PROFIT AND LOSS ACCOUNT

Rupees

Net profit for the year after tax before WPPF	284,755,413
Workers' Profit Participation Fund	(18,242,749)
Net profit for the year	266,512,664
Un-appropriated profit brought forward	180,549,218
Amount available for appropriation	447,061,882
Appropriations:	
Proposed cash dividend @ Rs. 6.00 per share	111,321,594
Transferred to general reserve	300,000,000
	411,321,594
Un-appropriated profit carried forward	35,740,288
Earnings per share - Basic	14.36



STAFF RETIREMENT BENEFITS

Company has maintained recognized provident fund, based on audited accounts as at June30, 2006, Value of investment thereof was Rs. 21,218,554/-.

Employees of Textile Division are entitled to gratuity as per law and appropriate provision has been made in accordance with IAS-19 in the accounts.

BOARD OF DIRECTORS

The Board comprises of three executive and five non-executive directors. The non-executive directors are independent to management. The Board has delegated day-to-day operations of the Company to the Chief Executive. I would like to place on record my appreciation and gratitude to the Board of Directors, for guidance and support to the management.

During the year under review, Mrs. Naziran Begum (Director) expired and in his place Mr. Haseeb Ahmed was appointed as Director.

BOARD OF DIRECTORS' MEETING

During the year five board meetings were held and attended as follows:

Name of Director	Meetings Attended
1. Haji Bashir Ahmed	5
2. Mr. Muhammad Adrees	5
3. Mr. Javed Iqbal	5
4. Mr. Muhammad Anis	5
5. Mr. Imran Ghafoor	5
6. Mr. Haseeb Ahmed (Newly appointed Director)	1
7. Mrs. Naziran Begum (Ex-Director)	2
8. Mrs. Rukhsana Adrees	4
9. Mr. Rashid Zahir	0

Leave of absence was granted to directors, who could not attend one of the Board meetings.

CORPORATE GOVERNANCE

Statement on Compliance of Corporate Governance is annexed.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the Company is annexed along with trading in shares of the Company by its Directors, CEO, CFO and Company Secretary.



AUDITORS

The existing auditors M/s M. Yousuf Adil Saleem & Company, Chartered Accountants, shall retire on the conclusion of 25th Annual General Meeting. Being eligible, they have offered themselves for re-appointment as Auditors of the Company to hold office from conclusion of the 25th Annual General Meeting until the conclusion of 26th Annual General Meeting. The Audit Committee has recommended the appointment of aforesaid M/s M. Yousuf Adil Saleem & Company, as external auditors for the year ending June 30, 2007. The external auditors have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP) and the firm and all its partners are in compliance with the International Federation of Accountants' Guidelines on Code of Ethics, as adopted by the ICAP.

CONTRIBUTION TO NATIONAL EXCHEQUER

During the year, the Company's contribution to the national exchequer amounted to Rs.609.461 million in respect of payments toward sales tax and income tax. This does not include the import duties, withholding tax deducted by the company from employees, suppliers and contractors and deposited into the treasury.

ACKNOWLEDGMENT

On behalf of Board, I would like to express profound gratitude to our customers (business partners), dedicated employees and dynamic management for their excellent support, committed efforts and strong leadership, which have enabled Sitara to achieve decent results for the year 2005, despite heavy odds. Our thanks also go to the financial institutions and shareholders for their continued support, which is key to the success of the Company.

**For and on behalf of the
BOARD OF DIRECTORS**

Date: September 29, 2006
Faisalabad

**MUHAMMAD ADREES
Chief Executive**



CORPORATE GOVERNANCE

Statement of Directors' Responsibilities

Board of Directors is mindful of its responsibilities and duties under legal and corporate framework. The Board defines and establishes Company's overall objectives and directions and monitors status thereof. Short term and long term plans and business performance targets are set by Chief Executive under overall policy framework of the Board.

There has been non-material departure from the best practices of the Corporate Governance, as detailed in the Listing Regulations.

Presentation of Financial Statements

The financial statements prepared by the management of the Company, fairly present its state of affairs, the results of its operations, cash flows and changes in equity.

Books of Account

Company has maintained proper books of account.

Accounting Policies

Appropriate accounting policies have been consistently applied, with the exception of accounting policies on investment made in associated undertaking and other investment as disclosed at Note No. 2.15 and 2.24 to the financial statements, in preparation statements and accounting estimates are based on reasonable and prudent judgment.

Application of International Accounting Standards

International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.

Internal Control System

System of internal control is sound in design and has been effectively implemented and monitored.

Going Concern

There is no doubt about the Company's ability to continue as a going concern.

Audit Committee

Audit Committee was established to assist Board in discharging its responsibilities for Corporate Governance, Financial Reporting and Corporate Control. The Committee consists of three members.



**PATTERN OF SHAREHOLDING
AS AT JUNE 30, 2006**

	<u>Number</u>	<u>Shares Held</u>	<u>%</u>
Associated Companies, Undertakings and Related Parties			
NIT & ICP			
Nationa Bank of Pakistan-Trustee Department	1	1,304,853	7.03
Investment Corporation of Pakistan	1	997	0.01
Directors, CEO & their Spouse and Minor Children			
Mr. Haji Bashir Ahmed	1	500	0.00
Mr. Muhammad Adrees	1	11,377,502	61.32
Mr. Javed Iqbal	1	25,000	0.14
Mr. Muhammad Anis	1	2,000	0.01
Mr. Imran Ghafoor	1	2,000	0.01
Mr. Haseeb Ahmed	1	4,000	0.02
Mrs. Rukhasna Adrees W/o Muhammad Adrees	1	538,654	2.90
Executives	-	-	-
Public Sector Companies and Corporations	-	-	-
Banks, Development Finance Institutions, Non -Banking Finance Institutions, Insurance Companies, Modarabas & Mutal Funds	21	2,114,169	11.40
Shareholders holding ten Percent or more voting interest in the Company	-	-	-
Individuals	1,833	3,169,246	17.08
Joint Stock Compnies, Others, etc.	24	14,678	0.08
	<u>1,887</u>	<u>18,553,599</u>	<u>100.00</u>

Detail of purchase / sale of shares by Directors, Company Secretary, Head of Internal Audit Department, Chief Financial Officer, and their spouses / minor children during 2005-2006.

Name	Purchased	Sold
Mr. Haseeb Ahmed	4,000	-



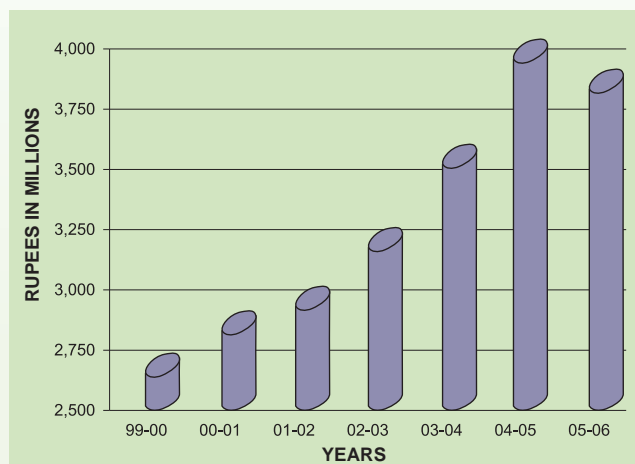
**PATTERN OF SHAREHOLDING
AS AT JUNE 30, 2006**

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
772	1	100	25,978
701	101	500	186,787
124	501	1,000	93,706
196	1,001	5,000	481,780
32	5,001	10,000	235,315
12	10,001	15,000	160,812
9	15,001	20,000	159,073
4	20,001	25,000	97,600
4	25,001	30,000	111,325
1	30,001	35,000	30,328
7	35,001	40,000	271,799
2	50,001	55,000	103,942
3	55,001	60,000	175,500
6	60,001	65,000	387,100
1	80,001	85,000	81,911
1	100,001	105,000	101,928
1	105,001	110,000	109,345
1	115,001	120,000	118,894
1	140,001	145,000	143,300
1	170,001	175,000	175,000
1	175,001	180,000	177,100
1	195,001	200,000	200,000
1	270,001	275,000	271,705
1	535,001	540,000	538,654
1	695,001	700,000	700,000
1	780,001	785,000	783,019
1	1,250,001	1,255,000	1,254,196
1	11,375,001	11,380,000	11,377,502
1,887			18,553,599

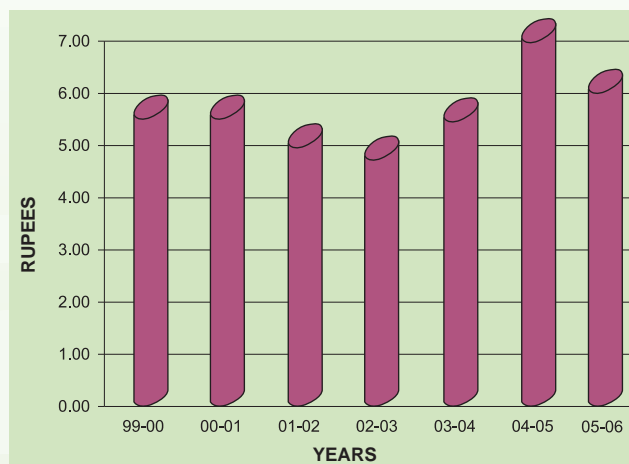


KEY FINANCIAL DATA

SALES



DIVIDEND



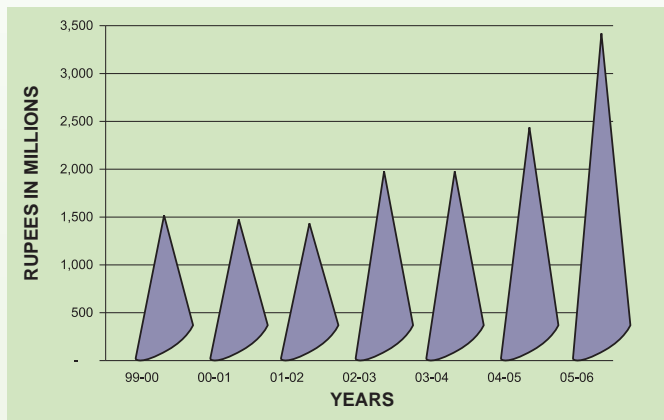
Operating results (Rs. '000')	2006	2005	2004	2003	2002	2001	2000
Sales	3,811,890	3,942,391	3,506,148	3,167,908	2,912,875	2,829,528	2,611,814
Gross profit	705,118	900,387	630,018	511,943	556,878	554,130	576,727
Operating profit	509,613	707,561	488,299	388,009	424,977	435,025	490,929
Profit before tax	358,222	487,405	370,649	285,952	344,144	346,501	405,865

Financial ratios

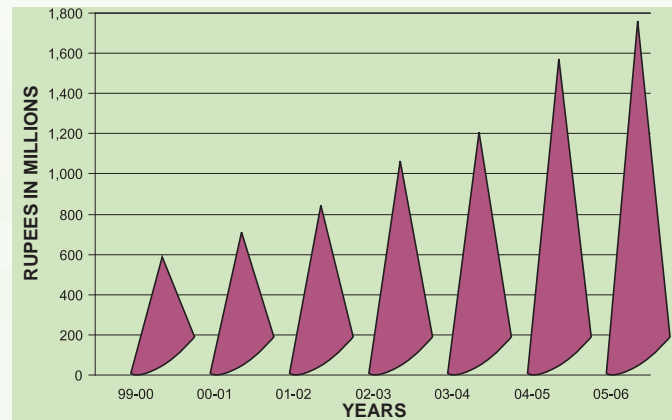
Gross profit %	18.50	22.84	17.97	16.16	19.12	19.58	22.08
Operating profit %	13.37	17.95	13.93	12.25	14.59	15.37	18.80
Profit before tax %	9.40	12.37	10.57	9.03	11.82	12.25	15.54
Earnings per share - Basic (Rs.)	14.36	15.93	12.86	10.30	12.52	11.97	13.26
Book value per share - (Rs.)	89.36	79.40	60.21	52.32	40.50	32.98	26.51
Cash dividend per share -Interim - (Rs.)	-	2.50	-	-	-	-	-
Cash dividend per share -Final - (Rs.)	6.00	4.50	5.50	4.75	5.00	5.50	5.50
Cash dividend per share -Total - (Rs.)	6.00	7.00	5.50	4.75	5.00	5.50	5.50
Inventory turn over (times)	16	24	25	33	43	46	42
Current ratio	1.18:1	1.14:1	1.12:1	1.06:1	1.01:1	1.01:1	0.74:1
Fixed assets turn over (times)	1.52	2.53	2.07	1.87	2.49	2.40	2.07
Price earning ratio	8.01	7.16	6.62	6.38	3.84	3.90	3.28
Return to capital employed %	10	20	21	16	20	27	37
Debt equity	51:49	37:63	29:71	32:68	34:66	18:82	20:80



FIXED ASSETS



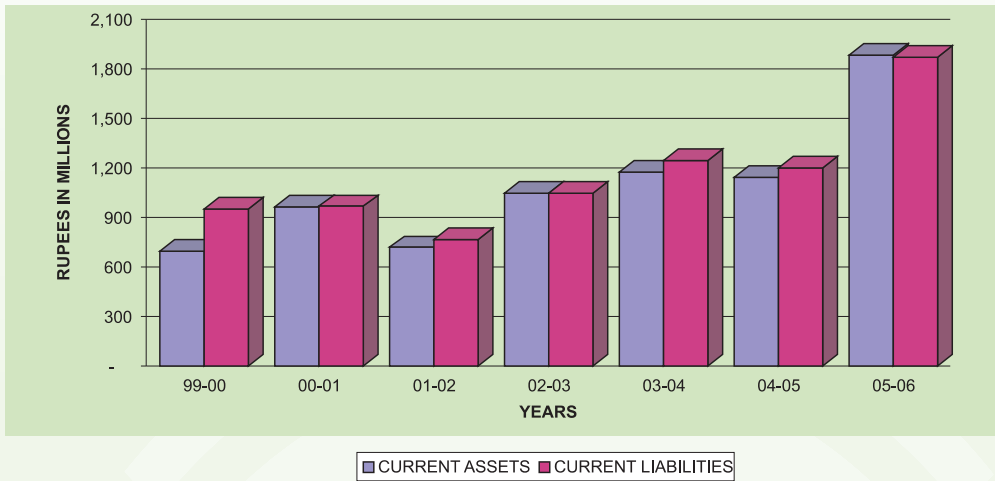
SHAREHOLDERS EQUITY



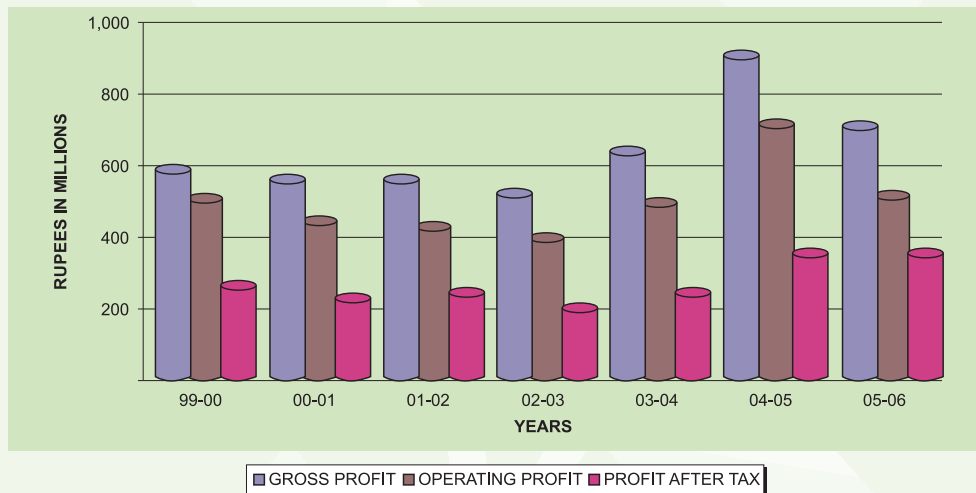
Assets employed	2006	2005	2004	2003	2002	2001	2000
	(Rupees in thousands)						
Fixed assets	3,215,290	2,270,057	1,807,882	1,784,297	1,241,564	1,259,767	1,339,224
Capital Work-in-progress	239,452	172,631	54,564	32,563	489,606	6,906	23,365
Long term investments, advances and deposits	32,328	36,995	15,873	9,854	5,441	1,083	4,850
Current assets	1,883,405	1,142,525	1,173,026	1,045,146	717,217	962,144	692,839
Current liabilities	(1,872,650)	(1,203,098)	(1,144,851)	(1,046,747)	(764,496)	(967,232)	(953,190)
	3,497,825	2,419,110	1,906,494	1,825,113	1,689,332	1,262,668	1,107,088
Financed by							
Ordinary share capital	185,536	185,536	185,536	185,536	185,536	185,536	185,536
Reserves	1,472,356	1,287,644	1,033,579	785,266	565,887	426,339	306,282
Shareholders' equity	1,657,892	1,473,180	1,219,115	970,802	751,423	611,875	491,818
Surplus on revaluation	-	-	106,394	116,083	290,038	290,038	290,038
Long term and deferred liabilities	1,839,933	945,930	580,985	738,228	647,871	360,755	325,232
	3,497,825	2,419,110	1,906,494	1,825,113	1,689,332	1,262,668	1,107,088



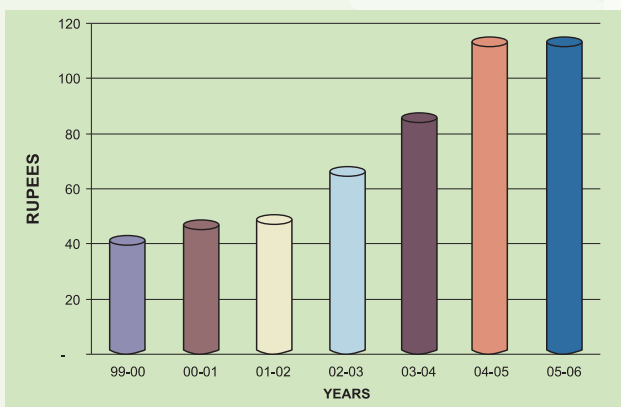
CURRENT ASSETS VS CURRENT LIABILITIES



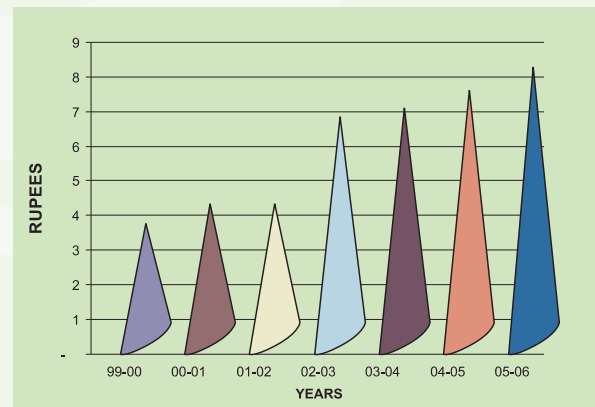
PROFITABILITY



SHARE MARKET PRICE TREND



PRICE EARNING RATIO





STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The statement is being presented to comply with the Code of Corporate Governance as contained in the listing regulations of Stock Exchanges.

Company has applied the principles contained in the Code in the following manner:

1. The company encourages representation of independent non-executive directors and director representing minority interests on its Board of Directors. However, at present the Board includes three executive and five non-executive directors and no directors representing minority shareholder.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, or a DFI or an NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. If a casual vacancy occurs in the Board that will be filled up by the directors within 15 days thereof.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all directors and employees of the company.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman or CEO (in case of absence of Chairman) and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda were circulated at least seven days before the meetings. The working papers were circulated seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged an orientation course for its directors to apprise them of their duties and responsibilities.
10. 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.
11. The director's report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.



12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirement of the Code.
15. The Board has formed an audit committee. It comprises three members, majority of them are non-executive directors.
16. 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.
17. The Board has set-up an effective internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review 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 Institute of Chartered Accountants of Pakistan.
19. 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 regards.
20. We confirm that all other material principles contained in the Code have been complied with.

HAJI BASHIR AHMED
Chairman

MUAHAMMAD ADREES
Chief Executive Officer



REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Sitara Chemical Industries Limited to comply with the Listing Regulation No.37, Chapter No. XIII and Section No. 36 of the Karachi, Lahore and Islamabad Stock Exchanges respectively 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 provision of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all control and the effectiveness of such internal controls.

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

Date: September 29, 2006
Multan

M. YOUSUF ADIL SALEEM & CO.
CHARTERED ACCOUNTANTS



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Sitara Chemical Industries Limited as at June 30, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change referred to in note 2.2 with which we concur;
 - ii. the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2006 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Date: September 29, 2006
Multan

M. YOUSUF ADIL SALEEM & CO.
CHARTERED ACCOUNTANTS



BALANCE SHEET AS AT JUNE 30, 2006

	Note	2006 Rupees	2005 Rupees
SHARE CAPITAL AND RESERVES			
Authorised			
30,000,000 ordinary shares of Rs. 10/- each		<u>300,000,000</u>	<u>300,000,000</u>
Issued, subscribed and paid up	3	185,535,990	185,535,990
Capital reserves	4	100,294,195	98,603,344
Revenue reserves	5	1,322,061,882	1,139,040,414
Takaful reserve	6	50,000,000	50,000,000
		1,657,892,067	1,473,179,748
NON-CURRENT LIABILITIES			
Redeemable capital			
Term Finance Certificates (TFCs)	7	-	122,400,000
Cotribution to takaful reserve by TFC holders	8	8,873,824	13,657,657
Islamic Sukuk Certificates	9	1,100,000,000	-
Long term financing	10	296,392,795	416,005,019
Liability against asset subject to finance lease (Ijara)	11	-	14,353,699
Long term morabaha	12	58,314,131	97,190,215
Long term deposits	13	16,125,543	13,961,574
		1,479,706,293	677,568,164
DEFERRED LIABILITIES			
Deferred taxation	14	355,139,409	264,443,520
Staff retirement gratuity	15	5,087,540	3,918,687
		360,226,949	268,362,207
CURRENT LIABILITIES			
Trade and other payables	16	542,663,204	588,666,530
Profit/financial charges payable	17	34,562,748	43,840,211
Short term financing	18	666,890,558	35,956,565
Current portion of non-current liabilities	19	232,581,402	184,328,037
long term morabaha		38,876,084	19,438,042
Taxation			
Income tax		331,862,829	330,869,151
Sales tax		25,213,360	-
		1,872,650,185	1,203,098,536
CONTINGENCIES AND COMMITMENTS			
	20		
		<u>5,370,475,494</u>	<u>3,622,208,655</u>

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE



	Note	2006 Rupees	2005 Rupees
NON-CURRENT ASSETS			
Property, plant and equipment	21	2,740,956,338	1,729,807,527
Non-operating land - at cost	22	713,786,152	712,880,794
Long term investment	23	11,203,932	15,405,407
Long term loans and advances	24	761,397	1,133,515
Long term deposits	25	20,363,050	20,456,199
		3,487,070,869	2,479,683,442
CURRENT ASSETS			
Stores, spares and loose tools	26	210,104,864	182,406,368
Stock in trade	27	407,042,247	319,145,699
Trade debts	28	353,050,222	247,078,255
Loans and advances	29	495,779,205	300,679,979
Trade deposits and short term prepayments	30	5,022,304	3,985,279
Other receivables	31	7,243,685	4,325,693
Investments	32	4,180,475	2,313,814
Sales tax refundable		-	1,142,837
Cash and bank balances	33	400,981,623	81,447,289
		1,883,404,625	1,142,525,213
		5,370,475,494	3,622,208,655

DIRECTOR



**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2006**

	Note	2006 Rupees	2005 Rupees
Sales	34	3,811,890,043	3,942,390,774
Cost of goods sold	35	3,106,772,480	3,042,004,182
Gross profit		705,117,563	900,386,592
Other operating income	36	9,488,098	6,755,207
		714,605,661	907,141,799
Distribution cost	37	(54,522,873)	(63,080,491)
Administrative expenses	38	(140,981,544)	(129,744,989)
Other operating expenses	39	(23,453,412)	(95,813,400)
Finance cost	40	(137,785,602)	(129,373,612)
Share of profit/(loss) of associated company		359,465	(1,961,925)
Profit before taxation		358,221,695	487,167,382
Provision for taxation	41	91,709,031	141,551,583
Profit for the year after taxation		266,512,664	345,615,799
Loss on disposal of assets of discontinued operations		-	(50,067,798)
Profit for the year		266,512,664	295,548,001
Earnings per share-Basic	43	14.36	15.93

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR



CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2006

	2006 Rupees	2005 Rupees
a) CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	358,221,695	487,167,382
Adjustments for:		
Depreciation of property, plant and equipment	156,949,497	147,818,816
Impairment loss on investment in associated company	4,541,476	12,963,177
Finance cost	137,785,602	129,373,612
Share of (profit)/loss of associated company	(359,465)	1,961,925
Loss on disposal of property, plant and equipment- net	427,854	51,130,949
Provision for gratuity	2,434,263	2,922,493
Profit on deposits	(3,570,143)	(25,648)
Dividends / profits	-	(388,849)
Bad debts	19,609	5,600
Exchange loss	241,333	-
Operating cash flows before movements in working capital	656,691,721	832,929,457
(Increase) / decrease in current assets		
Stores, spares and loose tools	(27,698,496)	(19,487,886)
Stock in trade	(87,896,548)	28,404,791
Trade debts	(105,991,576)	50,893,540
Loans and advances	968,193	(15,896,795)
Deposits and prepayments	(1,037,025)	(431,247)
Other receivables	(2,043,761)	(2,651,714)
Tax refunds due from government - sales tax	26,356,197	-
Increase / (decrease) in current liabilities		
Trade and other payable	(43,097,566)	52,970,202
Cash generated from operations	416,251,139	926,730,348
Finance cost paid	(167,836,787)	(99,958,802)
Income tax paid	(196,067,419)	(76,690,709)
Gratuity paid	(1,265,410)	250,303
Net cash from operating activities	51,081,523	750,331,140



	2006 Rupees	2005 Rupees
b) CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,154,696,758)	(1,145,494,873)
Proceeds from disposal of property, plant and equipment	3,141,050	316,320,991
Investments	(175,810)	(181,880)
Long term loans and advances-net	372,118	242,689
Profit on deposits	2,695,912	25,648
Dividends received from associated company	-	2,334,153
Dividends received from available for sale investments	-	388,849
Long term deposits	93,149	(5,959,000)
Net cash used in investing activities	(1,148,570,339)	(832,323,423)
c) CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term financing	-	470,873,000
Proceeds from long term morabaha	-	116,628,257
Proceeds from redeemable capital - Islamic sukuk certificates	1,100,000,000	-
Repayment of redeemable capital		
Musharika term finance certificates	-	(50,000,000)
Term finance certificates	(118,800,000)	(118,800,000)
MTFC holders' contribution to takaful reserves	-	(13,165,223)
Repayment of long term financing	(72,911,632)	-
Repayment of long term morabaha	(19,438,042)	-
Repayment of principal portion of finance lease - Ijara	(18,286,849)	(39,939,474)
Net increase/(decrease) in short term financing	631,875,989	(175,000,000)
Long term deposits	2,163,969	329,616
Dividends paid	(86,638,289)	(144,475,369)
Net cash from financing activities	1,417,965,146	46,450,807
Net increase / (decrease) in cash and cash equivalents (a+b+c)	320,476,330	(35,541,476)
Cash and cash equivalents at the beginning of the year	80,490,724	116,032,200
Cash and cash equivalents at the end of the year (Note 48)	400,967,054	80,490,724

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2006

	Issued, subscribed and paid up capital Rupees	Capital Reserves (Note 4) Rupees	Revenue Reserves			Takaful Reserves Rupees	Total Rupees
			General Reserve Rupees	Unappropriated Profit Rupees	Total Rupees		
Balance as at July 01, 2004	185,535,990	97,490,410	700,000,000	146,089,088	846,089,088	90,000,000	1,219,115,488
Effect of change in accounting policies							
Unrealised gains on available for sale investments (IAS 39)	-	561,676	-	(9,965,369)	(9,965,369)	-	(9,403,693)
Company's share of profit from associate, net of dividend (IAS 28)	-	-	-	13,241,799	13,241,799	-	13,241,799
Impairment loss on investment in associated company	-	-	-	(3,838,106)	(3,838,106)	-	(3,838,106)
Appropriations of profits	-	-	(140,000,000)	140,000,000	-	-	-
Balance as at July 01, 2004 as restated	185,535,990	98,052,086	560,000,000	285,527,412	845,527,412	90,000,000	1,219,115,488
Transferred to unappropriated profit	-	-	-	40,000,000	40,000,000	(40,000,000)	-
Surplus realised on disposal of Property, plant and equipment - net of deferred tax	-	-	-	106,393,794	106,393,794	-	106,393,794
Unrealised gains on available for sale investments	-	551,258	-	-	-	-	551,258
Profit for the year	-	-	-	295,548,001	295,548,001	-	295,548,001
Transferred to general reserve	-	-	140,000,000	(140,000,000)	-	-	-
Final dividend for the year ended June 30, 2004 @ Rs. 5.50 per share	-	-	-	(102,044,795)	(102,044,795)	-	(102,044,795)
Interim dividend for the year ended June 30, 2005 @ Rs. 2.50 per share	-	-	-	(46,383,998)	(46,383,998)	-	(46,383,998)
Balance as at June 30, 2005	185,535,990	98,603,344	700,000,000	439,040,414	1,139,040,414	50,000,000	1,473,179,748
Unrealised gains on available for sale investments	-	1,690,851	-	-	-	-	1,690,851
Profit for the year	-	-	-	266,512,664	266,512,664	-	266,512,664
Transferred to general reserve	-	-	175,000,000	(175,000,000)	-	-	-
Final dividend for the year ended June 30, 2005 @ Rs. 4.50 per share	-	-	-	(83,491,196)	(83,491,196)	-	(83,491,196)
Balance as at June 30, 2006	185,535,990	100,294,195	875,000,000	447,061,882	1,322,061,882	50,000,000	1,657,892,067

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

1. GENERAL INFORMATION

Sitara Chemical Industries Limited (The Company) is limited by shares, incorporated in Pakistan and quoted on all Stock Exchanges in Pakistan. The business of the Company is operation of a Chlor Alkali plant and spinning unit. These units are located at Faisalabad-Sheikhupura Road, in the Province of Punjab. The registered office of the Company is situated at 601-602, Business Centre, Mumtaz Hasan Road, Karachi.

The Company is currently organised into two operating divisions and these divisions are the basis on which the Company reports its primary segment information.

Principal activities are as follows:

Chemical Division	Manufacturing of caustic soda and allied products
Textile Division	Manufacturing of yarn

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

Last year Board of Directors passed a special resolution under Section 196(3)(a) of the Companies Ordinance, 1984 on July 29, 2004 to dispose of property, plant and equipment of Spinning Unit II of its Textile Division. The Company also passed a special resolution in this regard in Extra-ordinary General meeting held on September 04, 2004. Pursuant to which the Company disposed of its operating assets of Textile Division - Spinning Unit II comprising 22,080 spindles. Disposal was completed in last year. Uptil its disposal Spinning Unit II earned revenue of Rs. 283.306 million, incurred expenses of Rs. 254.775 million and earned a pre-tax net profit of Rs. 28.531 million with related tax expense of Rs. 9.603 million. During the period, cash flows of Spinning Unit II were as follows:

	2005 Rupees (Million)
Cash used in operating activities	(152.425)
Cash from investing activities	115.990
Cash from financing activities	116.590

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared under the historical cost convention except that:

- Available for sale investments are valued at fair value
- Investment in associates are accounted for using equity method
- Certain staff retirement benefits are carried at present value



2.2 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards (IAS) 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 the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

Following amendments to existing standards applicable to the Company have been published that are mandatory for the Company's accounting periods beginning on or after the following dates:

IAS - 1 Presentation of Financial Statements - Capital disclosure	Effective from January 1, 2006
IAS - 19 (Amendments) - Employee Benefits	Effective from January 1, 2006

Adoption of the above amendments may only impact the extent of disclosures presented in the financial statements.

2.3 Employee Benefit Costs

Defined contribution plan

The Company operates approved funded contributory provident fund for all its employees of Chemical Division. Equal monthly contributions are made both by the Company and the employees at the rate from 6.50% to 8.33% of monthly salary depending upon the length of service of an employee.

Defined benefit plan

The Company operates unfunded gratuity scheme for all its employees of Textile Division who have completed the minimum qualifying period of service as defined under the respective scheme. Contributions are made to cover the obligations under the schemes on the basis of actuarial valuation and are charged to income. The most recent valuation was carried out as at June 30, 2005 using the "Project Unit Credit Method".

The amount recognised in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognized actuarial gains and losses and as reduced by the fair value of plan assets. Cumulative net unrecognized actuarial gains and losses which exceeds 10% of the present value of the gratuity is amortised over the average expected remaining working lives of the participating employees.

2.4 Trade and other payable

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

2.5 Provisions

Provisions are recognised when the Company has a present, legal or constructive obligation as a result of past event, 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 can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.



2.6 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. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime.

Deferred

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

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

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

2.7 Dividend and other appropriations

Dividend is recognised as a liability in the period in which it is approved. Appropriations of profits are reflected in the statement of changes in equity in the period in which such appropriations are made.

2.8 Property, plant and equipment

Property, plant and equipment except freehold land and capital work in progress are stated at cost less accumulated depreciation and impairment in value, if any. Cost includes borrowing cost as described in policy for borrowing cost.

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

When parts of an item of Property, plant and equipment have different useful lives, they are recognised as a separate items of Property Plant and Equipment.

Depreciation is charged to income applying the reducing balance method at the rates specified in property, plant and equipment note.

Depreciation on additions and deletions during the year is charged on the basis of proportionate period of use.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised.

Gains and losses on disposal of property, plant and equipment are included in current income.

All costs / expenditure connected with specific assets, incurred during installation and construction period, are carried under this head. These are transferred to specific assets as and when these assets are available for intended use.



2.9 Non-operating land

Non operating land is stated at cost.

2.10 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 capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.11 Stores, spares and loose tools

These are valued at moving average cost. Items in transit are valued at cost comprising invoice value and other charges incurred thereon.

2.12 Stock in trade

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

Raw and packing materials	Average cost except items in transit which are valued at cost accumulated up to the balance sheet date
Work in process	
Chemical Products	- Prime cost
Textile Product	- Average manufacturing cost
Finished goods	- Average manufacturing cost

Wastes are valued at net realisable value.

Net realisable value represents estimated selling price in the ordinary course of business, less estimated cost of completion and estimated cost to make the sales.

2.13 Trade debts and other receivables

Trade debts are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified. Other receivables are recognised at nominal amount which is fair value of the consideration to be received in future.

2.14 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 short-term running finance under mark-up arrangements.



2.15 Investments

Regular way purchase or sale of investments

All purchases and sales of investments are recognised using trade date accounting. Trade date is the date that the Company commits to purchase or sell the investment.

Investments in equity instruments of associated companies

These investments are initially recognised at cost and subsequently accounted for using equity method of accounting less accumulated impairment in value, if any.

Available for sale

Investment securities held by the Company which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available for sale. These investments are initially recognised at fair value plus transaction cost and subsequently remeasured at fair value. The investments for which quoted market price is not available, are measured at costs as it is not possible to apply any other valuation methodology. Gains and losses arising from remeasurement at fair value is recognised directly in the equity under fair value reserve until sold, collected, or otherwise disposed off at which time, the cumulative gain or loss previously recognised in equity is included in profit and loss account.

Derecognition

All investments are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

2.16 Impairment

The company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts 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 recognised in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of initial cost of the asset. Reversal of impairment loss is recognised as income.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

2.17 Foreign currency translation

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 retranslated 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 net profit or loss for the period.



2.18 Financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and derecognised 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.

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

2.19 Off-setting of financial assets and liabilities

A financial asset and a financial liability is off-set and net amount is reported in the balance sheet, if the Company has a legally enforceable right to set-off the recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.20 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.

Sales of goods are recognised when goods are delivered and title has passed.

Export rebate is recognised on accrual basis at the time of making the export sale.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

2.21 Related party transactions

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

2.22 Segment (division)

A segment is a distinguishable component of the company that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2.23 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IASs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, incomes and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results



of which form the basis of making judgments about carrying values 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 recognised in the period in which the estimates are revised.

Significant areas requiring the use of management estimates in these financial statements relate to the useful life of depreciable assets, provision for doubtful receivables and slow moving inventory. However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year.

2.24 Adoption of revised International Accounting Standards

In the current year, the Company has adopted all of revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting period beginning on or after January 01, 2005. The adoption of these revised Standards and Interpretations has resulted in changes to the Company's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- Unrealised gains and losses arising from changes in fair value of available for sale investments (IAS 39 (Revised)).
- Measurement of investment in associates (IAS 28 (Revised)).
- Appropriations of profits (Fourth schedule to the Companies Ordinance, 1984)

The impact of changes in accounting policies is discussed in details as follows:

a. Unrealised gains and losses on available for sale investments

IAS 39 (as revised in 2003) requires unrealised gains and losses arising from changes in the fair value of available for sale investments to be recognised directly in equity in the period in which these arise. Cumulative gains and losses arising from changes in fair value are included in net profit or loss for the period in which an investment is derecognised. Prior to adoption of the revised standard, the Company included such unrealised gains and losses in the net profit or loss for the period in which these arise.

The change in accounting policy has been applied retrospectively in accordance with the treatment specified in IAS-39 "Financial Instruments: Recognition and Measurement". Had there been no change in accounting policy, net profit for the year after taxation would have been higher by Rs. 1,606,308/- (2005 : Rs. 551,258/-) and earning per share would have been higher by Rs 0.09 (2005 : Rs. 0.03) per share. However, there is no effect on shareholders' equity for the current or prior years.

b. Investment in associate accounted for using equity method

In the previous period/year, long term investment in associate was carried at "cost" and any distribution of profit was included in profit and loss account for the year / period.

However, in accordance with change in International Accounting Standard (IAS) 28 "Investment In Associates", the Company has changed its policy, during the current year, to account for its investment in associate under the equity method.



The change in accounting policy has been applied retrospectively in accordance with the treatment specified in IAS-8 "Accounting Policies, Change in Accounting Estimates and Errors". However, there is no effect of change in accounting policy on carrying amount of investment because of the recognition of impairment loss, hence, there is no change in profit for the year and shareholders' equity.

c. Appropriations of profits

During the current year the Company has changed its accounting policy pertaining to transfers between reserves made subsequent to year end. The change has been made consequent to the amendment made by the Securities and Exchange Commission of Pakistan in the fourth schedule to the Companies Ordinance, 1984 and the new policy is in accordance with the requirements of IAS-10 Events After the Balance Sheet Date. As per the new policy, transfers between reserves made subsequent to the balance sheet date are considered as non adjusting events and are not recognised in the financial statements. Previously such transfers between reserves were being treated as adjusting events in the financial statements of the Company.

The change in accounting policy has been applied retrospectively in accordance with the treatment specified in IAS-8 "Accounting Policies, Changes in Accounting Estimates and Errors". Had this policy not been changed, the inappropriate profit would have been higher by Rs.175 million (2005- lower by Rs. 175/- million) and general reserves would have been lower by Rs.175/- million (2005- higher by Rs. 175/- million).

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2006	2005		2006 Rupees	2005 Rupees
8,640,000	8,640,000	Ordinary shares of Rs. 10/- each fully paid in cash	86,400,000	86,400,000
7,928,590	7,928,590	Ordinary shares of Rs. 10/- each issued as fully paid bonus shares	79,285,900	79,285,900
1,985,009	1,985,009	Ordinary shares of Rs. 10/- each issued as fully paid under scheme of arrangement for amalgamation	19,850,090	19,850,090
<u>18,553,599</u>	<u>18,553,599</u>		<u>185,535,990</u>	<u>185,535,990</u>

4. Capital reserves

Share premium	34,551,000	34,551,000
Book difference of capital under scheme of arrangement for amalgamation	62,939,410	62,939,410
Effect of change in accounting policy		
Fair value reserves on available for sale investments	2,803,785	1,112,934
	<u>100,294,195</u>	<u>98,603,344</u>



	2006 Rupees	2005 Rupees
5. Revenue reserves		
General reserve		
Opening balance	700,000,000	700,000,000
Effects of change in accounting policy relating to appropriations of profits	-	(140,00,000)
Opening balance as restated	700,000,000	560,000,000
Transferred from profit and loss appropriation account	175,000,000	140,000,000
	<u>875,000,000</u>	<u>700,000,000</u>
Unappropriated profit		
Opening balance	439,040,414	146,089,088
Effects of change in accounting policies		
Unrealised gains on value of available for sale investments	-	(9,965,369)
Company's share of profit from associate, net of dividend	-	13,241,799
Impairment loss	-	(3,838,106)
Appropriations of profits	-	140,000,000
Opening balance as restated	439,040,414	285,527,412
Net profit for the year	266,512,664	295,548,001
Transferred from takaful reserves	-	40,000,000
Final dividend of 2005 Rs. 4.50 per share (2004: Rs. 5.50 per share)	(83,491,196)	(102,044,795)
Interim dividend Rs. Nil (2005: Rs. 2.50) per share	-	(46,383,998)
Transferred to general reserve	(175,000,000)	(140,000,000)
Incremental depreciation on revalued assets for the year - net of deferred tax	-	106,393,794
	<u>447,061,882</u>	<u>439,040,414</u>
	<u>1,322,061,882</u>	<u>1,139,040,414</u>
6. Takaful reserve		
Term finance certificates (TFCs)	<u>50,000,000</u>	<u>50,000,000</u>
7. Term Finance Certificates (TFCs) - Secured (Participatory)		
Opening balance	241,200,000	360,000,000
Redeemed during the year	(118,800,000)	(118,800,000)
	<u>122,400,000</u>	<u>241,200,000</u>
Redeemable within one year shown under current liabilities	(122,400,000)	(118,800,000)
	<u>-</u>	<u>122,400,000</u>



These represent amount received against 72,000 certificates of Rs. 5,000/- each, issued for cash on July 01, 2002. Rs. 255 Million were subscribed by private investors and balance by general public. These are redeemable in three parts i.e., Rs. 1,650/- each at the end of 3rd and 4th year and Rs. 1,700/- each at the end of 5th year from the date of issue.

On any redemption date, if the issuer suffers from cash flow constraints, due to any unfavourable business cycle, it shall have the right for postponement of the redemption dates of any series of the TFCs for the period of six months.

7.1 Profit and loss sharing

TFC holders are entitled to two level share in the profits of Chemical Division of the Company in the following manner:

1. On first Rs.100 million of yearly operating profit @ 12% per annum of the face value of outstanding TFCs, payable on six monthly basis – Level One Profit, to be paid, on account, even in case of loss or lesser profit and is deductible from principal at the time of redemption in case these payments do not correspond with sufficient profit in respective years.
2. 2% per annum of the face value of outstanding TFCs for each Rs. 100 million additional operating profit (proportion to apply on profit not in multiple of Rs.100 million) – Level Two Profit, 75% of such profit shall be paid along with next six monthly payment of Level One Profit and the remaining 25% shall be retained on account of takaful arrangement.
3. Sharing of profit is on the basis of operating profit of financial year.
4. Loss if any, shall be shared in proportions of equity of both parties subject to takaful arrangement.

7.2 Takaful arrangement

1. In order to mitigate risk of loss to the TFC holders, a shariah compliant takaful arrangement has been made, to which the Company has contributed its share of Rs.50 Million.
2. 25% of Level-Two Profit shall be allocated to Takaful Reserve.
3. In case of loss, TFC holder's share of loss shall be first applied against Takaful Reserve and in case the same is insufficient, excessive share of loss shall be deductible from TFC principal amount, on redemption.
4. As each part of TFC series matures, the proportionate balance of Takaful Reserve of TFC holders relating to that series, if positive, will be paid out to them.

7.3 Security

These are secured by way of a charge of Rs. 360 million as an equitable mortgage of land and building and first hypothecation charge over plant and machinery and other present and future fixed assets of Chemical Division of the Company in favour of the Trustee acting on trust for TFC holders.

The Trustee has the right to nominate one representative as a director on the Board of Directors of the Company.



	2006 Rupees	2005 Rupees
8. Contribution to takaful reserve by TFC holders		
Opening balance	20,384,563	12,059,563
Contribution for the year	<u>3,829,050</u>	<u>8,325,000</u>
	24,213,613	20,384,563
Paid during the year	<u>(6,726,960)</u>	<u>-</u>
	17,486,653	20,384,563
Due with in one year shown under current liabilities	<u>(8,612,829)</u>	<u>(6,726,906)</u>
	<u>8,873,824</u>	<u>13,657,657</u>
9. Islamic Sukuk Certificates	<u>1,100,000,000</u>	<u>-</u>

9.1 These represent amount received against 220,000 certificates of Rs. 5,000/- each issued on June 30, 2006. Rs. 1,100 million were subscribed by private investors as their respective share towards the Musharika. During the musharika, the legal title to the musharika assets will remain with the Company, however, a trustee will hold the beneficial title on behalf of the investors.

These are redeemable in twelve equal quarterly instalments commencing from September 30, 2008 and ending on June 30, 2011.

The certificate holders are entitled to rental payments for use of musharika assets. Rental payments shall be calculated to provide return equivalent to bench mark plus incremental rental plus service agency charges incurred by the trustee during the previous quarter.

Bench mark is defined as 3 months KIBOR and incremental rental is defined as margin of 1.65% plus a production link factor based on following schedule of capacity utilisation:

Capacity utilisation	Production link factor
100%	5 bps
80% to 100%	4 bps
60% to 80%	3 bps
40% to 60%	2 bps
20% to 40%	1 bps

Effective yield rate of rental for the current year is 10.89% per annum.



		2006 Rupees	2005 Rupees
10. Long term financing			
Sacured			
From banking companies			
Diminishing musharika	10.1	306,742,050	360,873,000
Diminishing musharika	10.2	91,219,318	110,000,000
		<u>397,961,368</u>	<u>470,873,000</u>
Shown under current liabilities			
Instalment due		-	2,750,000
Payable within one year		101,568,573	52,117,981
		<u>101,568,573</u>	<u>54,867,981</u>
		<u>296,392,795</u>	<u>416,005,019</u>

10.1 The facility is repayable in 20 equal quarterly instalments commenced from January 01, 2006 and ending on October 01, 2010. This is secured by way of first pari passu charge of Rs. 494 million over fixed assets of Chemical Division. It carries profit at average six months KIBOR plus 150 basis points payable on quarterly basis. KIBOR will be set three working days prior to each quarterly period.

Effective rate of profit for the year was from 10.26% per annum to 10.85% per annum (2005 : from 5.50% to 8.14% per annum).

10.2 The facility is repayable in 21 quarterly instalments commenced from April 18, 2005 and ending on April 17, 2010. This is secured by way of exclusive charge over imported plant of Chemical Division purchased through this facility. It carries profit at six months KIBOR plus 200 basis points payable on quarterly basis.

Effective rate of profit for the year was from 8.23% per annum to 11.55% per annum (2005 : 8.23% per annum).

		2006 Rupees	2005 Rupees
11. Liability against asset subject to finance lease (Ijara)			
Opening balance		18,286,849	58,226,323
Paid during the year		(18,286,849)	(39,939,474)
		-	<u>18,286,849</u>
Due with in one year shown under current liabilities		-	(3,933,150)
		<u>-</u>	<u>14,353,699</u>

The Company has terminated its sales and lease back arrangement for plant and machinery by exercising its option to purchase these assets. All the amounts payable to leasing company on premature termination were settled.



	2006 Rupees	2005 Rupees
12. Long term morabaha		
Secured		
From banking company		
Morabaha term finance	97,190,215	116,628,257
Due within one year shown under current liabilities	<u>(38,876,084)</u>	<u>(19,438,042)</u>
	<u>58,314,131</u>	<u>97,190,215</u>

12.1 The facility is repayable in 12 equal quarterly instalments commenced from January 29, 2006 and ending on October 29, 2008. This is secured by way of first exclusive hypothecation charge of Rs. 153 million over plant and machinery imported through this facility. This is further secured against personal guarantee of directors. It is subject to profit at the following rates payable on quarterly basis:

First 18 months	At Six months KIBOR plus 3.5% per annum with cap of 8.25%.
Next 12 months	At Six months KIBOR plus 4.5% per annum with cap of 9.25%.
Next 12 months	At Six months KIBOR plus 5.5% per annum with cap of 10.25%.

Effective rate of profit for the year was 8.25% per annum (2005: 8.25% per annum)

	2006 Rupees	2005 Rupees
13. Long term deposits		
From customers	14,455,543	12,291,574
From transporters (13.1)	<u>1,670,000</u>	<u>1,670,000</u>
	<u>16,125,543</u>	<u>13,961,574</u>

13.1 These represent interest free security deposits received from transporters and are repayable on cancellation or withdrawal of contracts.

14. Deferred taxation

14.1 Opening balance	264,443,520	264,666,036
Adjustment due to discontinuance of operations	-	(70,534,041)
Provided during the year	<u>90,695,889</u>	<u>70,311,525</u>
	<u>355,139,409</u>	<u>264,443,520</u>

14.2 This comprises of following

Deferred tax liability		
Difference of tax and accounting bases of assets	452,929,946	273,154,527
Deferred tax asset		
Provision for doubtful debts	939,069	939,069
Liability against asset subject to finance lease	-	6,400,398
Provision for gratuity	851,992	1,371,540
Unused tax losses / credits	<u>95,999,476</u>	<u>-</u>
	<u>97,790,537</u>	<u>8,711,007</u>
	<u>355,139,409</u>	<u>264,443,520</u>



15. Staff retirement gratuity

15.1 General description

The scheme provides terminal benefits for all employees of Textile Division who attain the minimum qualifying period. Annual charge is based on actuarial valuation using Projected Unit Credit Method.

	2006 Rupees	2005 Rupees
15.2 Movement in the liability		
Opening liability	3,918,687	5,834,141
Liabilities of employees of discontinued operation transferred	-	(5,088,250)
Charge for the year (15.4)	2,434,263	5,138,213
Paid during the year	<u>(1,265,410)</u>	<u>(1,965,417)</u>
	<u>5,087,540</u>	<u>3,918,687</u>
15.3 Balance sheet reconciliation as at June 30		
Present value of obligations	5,747,205	4,643,458
Unrecognised actuarial losses	<u>(659,665)</u>	<u>(724,771)</u>
	<u>5,087,540</u>	<u>3,918,687</u>
15.4 Charge for the year		
Current service cost	1,951,246	2,463,203
Interest cost	417,911	517,081
Net actuarial loss recognised during the year	65,106	2,157,929
	<u>2,434,263</u>	<u>5,138,213</u>
15.5 Principal actuarial assumptions used		
	2006	2005
Expected rate of increase in salaries (% per annum)	8	8
Discount factor used (% per annum)	9	9
Expected average remaining working lives of participating employees	4 Years	4 Years



		2006 Rupees	2005 Rupees
16. Trade and other payables			
Creditors	16.1	208,204,585	251,287,239
Bills payable		12,855,649	25,545,745
Accrued liabilities	16.2	192,770,392	171,654,508
Advances from customers	16.3	66,592,812	74,932,011
Provident fund		826,349	-
Unclaimed dividend		3,480,305	6,627,398
Retentions / security deposits		19,178,886	14,774,930
Withholding tax		1,919,755	1,505,507
Workers' profit participation fund	16.4	18,242,749	23,467,832
Workers' welfare fund		17,569,592	17,569,592
Unclaimed workers' profit participation fund		1,022,130	924,130
Due to associated undertaking		-	377,638
		<u>542,663,204</u>	<u>588,666,530</u>

16.1 It includes Rs. 158,062,369/- (2005 - Rs. 217,479,961/-) due to associated undertakings.

16.2 It includes Rs. 102,387,396/- (2005 - Rs. 81,531,877/-) due to an associated undertaking.

16.3 It includes Rs. 41,506,979/- (2005 - Rs. Nil) due to an associated undertaking.

16.4 Workers' profit participation fund

Balance as at July 01	23,467,832	19,985,129
Less:		
Amount paid to workers on behalf of the fund	6,582,000	7,484,100
Amount deposited in workers' welfare fund	16,885,832	12,501,029
	<u>23,467,832</u>	<u>19,985,129</u>
	-	-
Allocation for the year	18,242,749	23,467,832
	<u>18,242,749</u>	<u>23,467,832</u>

17. Profit / financial charges payable on:

Secured			
Musharika term finance certificates		59,917	66,667
Term finance certificates		17,021,025	27,738,192
Islamic sukuk certificates		328,192	-
Long term financing		3,525,863	13,060,001
Liability against asset subject to finance lease		-	206,150
Short term financing		13,627,751	2,769,201
		<u>34,562,748</u>	<u>43,840,211</u>



	Limit Million	2006 Rupees	2005 Rupees
18. Short term financing			
Secured - under mark up arrangements			
From banking companies			
Morabaha finance (18.1)	1,650	666,875,989	35,000,000
Unsecured			
Books overdrawn		14,569	956,565
		<u>666,890,558</u>	<u>35,956,565</u>
18.1 These are secured against first pari passu charge over present and future current assets of the Chemical Division and pledge of stocks and charge over present and future current assets of the Textile Division.			
These are subject to profit margin ranging from @ 8.96% to 11.20% per annum (2005: from 2.5% to 10.85% per annum).			
19. Current portion of non-current liabilities			
Term finance certificates (TFCs)	(Note 7)	122,400,000	118,800,000
TFC holders contribution to takaful reserve	(Note 8)	8,612,829	6,726,906
Long term financing	(Note 10)	101,568,573	54,867,981
Liability against asset subject to finance lease (Ijara)	(Note 11)	-	3,933,150
		<u>232,581,402</u>	<u>184,328,037</u>
20. Contingencies and commitments			
Contingencies			
Sales tax demand not acknowledged in view of pending appeals		3,398,136	3,398,136
Suppliers' claim not acknowledged in view of pending case in Civil Court		889,867	889,867
Guarantees issued by banks on behalf of the Company		111,438,658	97,500,607
Commitments			
Capital expenditure		620,939,404	10,804,310
Outstanding letters of credit for: Raw material and spares		245,919,773	134,783,679
21. Property, plant and equipment			
Operating assets			
Chemical Division (21.1)		2,170,433,171	1,302,988,460
Textile Division (21.2)		331,070,831	254,188,124
Capital work in progress (21.6)		239,452,336	172,630,943
		<u>2,740,956,338</u>	<u>1,729,807,527</u>



21.1 Property, plant and equipment (Chemical Division)

Particulars	COST			DEPRECIATION				Written down value at June 30, 2006	Rate %
	At July 01, 2005	Additions/ (deletions)/ transfers	At June 30, 2006	Accumulated at July 01, 2005	Adjustments	For the Year	Accumulated at June 30, 2006		
Company owned									
Freehold land	30,664,164	11,699,809 (368,840)	41,995,133	-	-	-	-	41,995,133	
Building on freehold land									
Mills	264,009,991	54,677,544	318,687,535	119,429,478	-	14,879,735	134,309,213	184,378,322	10
Head Office	23,724,876	-	23,724,876	7,829,285	-	794,780	8,624,065	15,100,811	5
Plant and machinery	1,762,654,497	860,740,568 (2,959,970)	2,620,435,095	772,165,663	(895,241)	100,814,213	872,084,635	1,748,350,460	10
Grid station and electric installation	92,950,252	55,760,120	148,710,372	50,119,557	-	4,336,575	54,456,132	94,254,240	10
Containers and cylinders	34,637,652	- (170,582)	34,467,070	18,173,625	(132,654)	1,645,980	19,686,951	14,780,119	10
Factory equipment	18,089,663	7,470,947 (105,000)	25,455,610	8,740,493	(64,223)	1,308,039	9,984,309	15,471,301	10
Electric equipment	10,936,745	955,225 (188,570)	11,703,400	5,627,457	(103,249)	561,372	6,085,580	5,617,820	10
Office equipment	21,611,075	1,813,064 (364,852)	23,059,287	8,839,049	(251,900)	1,357,640	9,944,789	13,114,498	10
Furniture and fittings	7,931,499	1,064,051	8,995,550	3,123,137	-	522,462	3,645,599	5,349,951	10
Vehicles	61,445,694	9,725,218 (2,911,720)	68,259,192	31,619,904	(2,289,460)	6,908,232	36,238,676	32,020,516	20
Rupees	2,328,656,108	1,003,906,546 (7,069,534)	3,325,493,120	1,025,667,648	(3,736,727)	133,129,028	1,155,059,949	2,170,433,171	
2005 Rupees	2,034,772,502	382,098,550 (88,214,944)	2,328,656,108	953,402,007	49,300,652	121,566,293	1,025,667,648	1,302,988,460	

21.1.1 Additions to plant and machinery include borrowing cost capitalised amounting to Rs. 17,875,812/- in respect of specific borrowings obtained carrying profit at the rate from 10.01% to 10.80% per annum.



21.2 Property, plant and equipment (Textile Division)

Particulars	COST				DEPRECIATION					Written down value at June 30, 2006	Rate %
	At July 01, 2005	Additions/ (deletions) / transfers	Transfers from/(to) lease assets	At June 30, 2006	Accumulated at July 01, 2005	Adjustments	Transfers from/(to) lease assets	For the Year	Accumulated at June 30, 2006		
UNIT-I											
Company owned											
Freehold land	22,220,314	98,750,000	-	120,970,314	-	-	-	-	-	120,970,314	
Building on freehold land	139,349,789	-	-	139,349,789	84,647,254	-	-	5,470,254	90,117,508	49,232,281	10
Plant and machinery	264,427,356	155,750	22,000,000	286,583,106	118,538,479	-	4,180,000	16,373,210	139,091,689	147,491,417	10
Electric installation	12,322,120	-	-	12,322,120	6,788,377	-	-	553,374	7,341,751	4,980,369	10
Factory equipment	1,185,508	-	-	1,185,508	673,974	-	-	51,153	725,127	460,381	10
Electric appliances	3,886,192	42,050	-	3,928,242	2,246,697	-	-	164,173	2,410,870	1,517,372	10
Office equipment	3,968,340	36,500 (44,729)	-	3,960,111	1,949,033	(27,547)	-	202,297	2,123,783	1,836,328	10
Furniture and fittings	779,802	7,800	-	787,602	371,399	-	-	41,101	412,500	375,102	10
Vehicles	9,558,556	1,947,173 (1,022,850)	-	10,482,879	6,114,640	(803,935)	-	964,907	6,275,612	4,207,267	20
Rupees	457,697,977	100,939,273 (1,067,579)	22,000,000	579,569,671	221,329,853	(831,482)	4,180,000	23,820,469	248,498,840	331,070,831	
Assets held under finance lease											
Plant and Machinery	22,000,000	-	(22,000,000)	-	4,180,000	-	(4,180,000)	-	-	-	10
Rupees	479,697,977	100,939,273 (1,067,579)	-	579,569,671	225,509,853	-	-	23,820,469	248,498,840	331,070,831	
2005 Rupees	453,301,638	40,814,866 (14,418,527)	-	479,697,977	204,721,760	1,274,415 (6,738,845)	-	26,252,523	225,509,853	254,188,124	
UNIT-II											
Rupees	-	-	-	-	-	-	-	-	-	-	
2005 Rupees	611,328,401	81,245,523 (692,573,924)	-	-	255,593,652	7,482,050 (263,075,702)	-	-	-	-	

21.3 Depreciation for the year has been allocated as under:

		Chemical Division		Textile Division		Total	
		2006	2005	2006	2005	2006	2005
Cost of goods manufactured	(35.1)	125,272,972	113,183,972	22,612,164	25,121,798	147,885,136	138,305,770
Administrative expenses	(38)	7,856,056	8,382,321	1,208,305	1,130,725	9,064,361	9,513,046
	Rupees	133,129,028	121,566,293	23,820,469	26,252,523	156,949,497	147,818,816

21.4 In accordance with IAS 16 (Revised), the basis for charge of depreciation has been changed during the current year. This change has been applied as change in accounting estimate following which depreciation on additions and deletions during the year is charged on the basis of proportionate period of use. Previously, the Company charged depreciation on additions during the year on the basis of whole year, except major project cost capitalised during the year on which depreciation was charged on proportionate period of use, whereas no depreciation was charged on deletions during the year. Had there been no change in accounting estimate, written down value of operating assets and net profit after tax would have been decreased by Rs. 5,077,502/- and Rs. 3,135,357/-, respectively.



21.5 The following assets were disposed off during the year:

Description	Cost	Accumulated depreciation	Written down value	Net disposal value	Mode of disposal	Particulars of purchaser
Chemical Division						
Operating land	368,840	-	368,840	55,550	Negotiation	Sui Northern Gas Pipelines Faisalabad.
Plant and machinery	2,959,970	895,241	2,064,729	-	Note 21.5.1	
Containers and cylinders	34,604	27,928	6,676	37,380	Insurance claim Adamjee Insurance Company Limited, Karachi	
Containers and cylinders	34,604	27,928	6,676	37,380	Insurance claim Adamjee Insurance Company Limited, Karachi	
Containers and cylinders	61,405	41,743	19,662	47,460	Insurance claim Adamjee Insurance Company Limited, Karachi	
Containers and cylinders	39,969	35,055	4,914	45,780	Insurance claim Adamjee Insurance Company Limited, Karachi	
	<u>170,582</u>	<u>132,654</u>	<u>37,928</u>	<u>168,000</u>		
Factory equipment	105,000	64,223	40,777	-	Note 21.5.1	
Electrical equipment	188,570	103,249	85,321	-	Note 21.5.1	
Office equipment	364,852	251,900	112,952	-	Note 21.5.1	
Vehicle	850,000	781,947	68,053	556,000	Negotiation	Faiz ul Hasaan, Chack # 222, Faisalabad
Vehicle	376,220	203,544	172,676	498,500	Negotiation	Khawaja Waqas Javaid, C-495 Khiaban-e-Sir Syeed, Rawalpindi
Vehicle	417,000	198,085	218,915	299,000	Negotiation	Muhammad Saleem, Chack # 187 RB, Chack Jhumra, Faisalabad
Vehicle	755,000	701,837	53,163	500,000	Negotiation	Sayyed Safder Ali, 276. A Satellite Town, Sargudha
Vehicle	363,500	259,791	103,709	242,000	Negotiation	Muhammad Arshad, P22/1, Street #2 Khalsa College, Faisalabad.
Vehicle	150,000	144,256	5,744	135,000	Negotiation	Mehdi Abbas, G.M. Park View Aparment Soldier Bazar-2, Karachi.
	<u>2,911,720</u>	<u>2,289,460</u>	<u>622,260</u>	<u>2,230,500</u>		
	7,069,534	3,736,727	3,332,807	2,454,050		
Textile Division - I						
Office Equipment	44,729	27,547	17,182	2,000	Negotiation	Muhammad Iqbal Athar, P-165, Batala Colony, Faisalabad.
Vehicle	1,022,850	803,935	218,915	685,000	Insurance claim	International General Insurance Company of Pakistan Limited, Faisalabad.
	<u>1,067,579</u>	<u>831,482</u>	<u>236,097</u>	<u>687,000</u>		
	8,137,113	4,568,209	3,568,904	3,141,050		
	<u>721,401,498</u>	<u>303,366,060</u>	<u>418,035,438</u>	<u>316,836,691</u>		

21.5.1 This plant and machinery, factory equipment, electric equipment and office equipment, having lost their economically viable life, have been cannibalised and dismantled. The disposal value of Rs. Nil (2005 - Rs. 567,568/-) represents the fair value of components taken out for future use and scrap.



	2006 Rupees	2005 Rupees
21.6 Capital work in progress		
Civil work	20,146,409	1,943,322
Plant and machinery including in transit Rs. 45,977,525/- (2005: Rs. 4,747,043)	50,831,311	7,403,502
Advance for property, plant and equipment	168,474,616	163,284,119
	<u>239,452,336</u>	<u>172,630,943</u>
22. Non-operating land-at cost		
Opening balance	595,965,464	115,204,277
Purchased during the year	25,340,963	480,761,187
Advance for purchase	92,479,725	116,915,330
	<u>713,786,152</u>	<u>712,880,794</u>
Fair value of land approximates its cost.		
23. Long term investment		
Associate - using equity method		
Listed Company		
Sitara Energy Limited		
Ownership interest	4.89%	4.89%
Cost of 933,661 (2005 - 933,661) fully paid ordinary shares of Rs. 10/- each	23,274,442	23,274,442
Share of post acquisition profit, net of dividend received	9,272,249	8,932,248
	<u>32,546,691</u>	<u>32,206,690</u>
Accumulated impairment loss	(21,342,759)	(16,801,283)
	<u>11,203,932</u>	<u>15,405,407</u>

The Company holds less than 20 per cent of the voting power in Sitara Energy Limited, however, the Company exercises significant influence by virtue of common directorship with the associate.

Impairment loss has been recognised to carry the investment at fair value.

Summarised financial information in respect of the Company's associate is set out below:

	2006 Rupees	2005 Rupees
Total assets	2,095,777,722	1,747,951,328
Total liabilities	(1,128,164,911)	(787,291,045)
Net assets	<u>967,612,811</u>	<u>960,660,283</u>
Company's share of net assets	<u>47,316,266</u>	<u>46,976,288</u>
Revenue	<u>1,346,030,924</u>	<u>1,154,752,436</u>
Profit/(loss) for the year	<u>6,952,528</u>	<u>(40,394,006)</u>
Company's share of associate's profit/(loss) for the year	<u>340,001</u>	<u>(1,975,398)</u>



		2006 Rupees	2005 Rupees
24. Long term loans and advances			
Considered good			
Secured	(24.1)		
Executives	(24.2)	690,290	-
Staff		704,359	1,966,615
		1,394,649	1,966,615
Unsecured			
Staff		47,300	93,296
Due within one year shown under current assets		(680,552)	(926,396)
		761,397	1,133,515

24.1 These are secured by way of registration of vehicles in the name of the Company and lien on Provident Fund balances.

24.2 Loans and advances to executives represent car loans given as per the Company's policy. Reconciliation of carrying amount for current year is as under:

	Rupees
Opening balance	-
Effect of promotions to executives during the year	983,952
Repayments during the year	(293,662)
	690,290
Current portion included in note 29	(310,310)
	379,980

The maximum aggregate amount due from at the end of any month during the year was Rs. 983,952/- (2005: Rs. Nil).

	2006 Rupees	2005 Rupees
25. Long term deposits		
Security deposits		
Electricity	20,309,450	20,402,599
Other	53,600	53,600
	20,363,050	20,456,199

26. Stores, spares and loose tools

Stores	59,546,746	54,684,369
Spares		
In hand	127,330,716	115,681,627
In transit	22,095,563	11,237,640
	149,426,279	126,919,267
Loose tools	1,131,839	802,732
	210,104,864	182,406,368

Stores and spares include items that may result in fixed capital expenditure but are not distinguishable.



	2006 Rupees	2005 Rupees
27. Stock in trade		
Raw and packing material	114,581,643	190,432,020
Work in proces	19,415,705	14,119,192
Finished goods	272,822,040	112,798,460
Waste	222,859	1,796,027
	<u>407,042,247</u>	<u>319,145,699</u>
Stock in trade includes pledged stock of Rs. 238,407,213/- (2005: Rs. Nil)		
28. Trade debts		
Considered good		
Secured		
Foreign	2,056,161	12,676,492
Local	5,218,524	5,025,151
	7,274,685	17,701,643
Unsecured		
Related parties (28.1)	10,588,807	13,181,550
Others	335,186,730	216,195,062
	345,775,537	229,376,612
Considered doubtful	2,683,057	2,683,057
Less: Provision for doubtful debts	(2,683,057)	(2,683,057)
	-	-
	<u>353,050,222</u>	<u>247,078,255</u>
28.1 It includes the following balances due from related parties:-		
Sitara Fabrics Limited	2,492	1,253
Sitara International (Private) Limited	-	5,090,950
Sitara Textile Industries Limited	10,586,315	8,089,347
	<u>10,588,807</u>	<u>13,181,550</u>
29. Loans and advances		
Considered good		
Loans		
Executive	22,500	100,000
Employees other than executives	264,534	264,297
Current portion of long term loans and advances (Note 24)	680,552	926,396
	967,586	1,290,693
Advances		
For expenses	9,415,450	9,881,646
Letters of credit fee, margin and expenses	11,157,385	11,164,215
Income tax	462,225,413	266,157,994
Suppliers and Contractors	12,013,371	12,185,431
	<u>495,779,205</u>	<u>300,679,979</u>



	2006 Rupees	2005 Rupees
30. Trade deposits and short term prepayments		
Trade deposits	4,656,569	3,318,988
Short term prepayments	365,735	666,291
	<u>5,022,304</u>	<u>3,985,279</u>
31. Other receivables		
Considered good		
Related parties (Note 31.1)	2,117,334	328,523
Export rebate	197,047	197,047
Insurance claim	3,202,723	1,364,650
Other	1,726,581	2,435,473
	<u>7,243,685</u>	<u>4,325,693</u>
31.1 It includes the following balances due from related parties:-		
Aziz Fatima Trust Hospital	406,988	-
Sitara Spinning Mills Limited	1,251,464	-
Sitara Fabrics Limited	169,831	93,856
Sitara Peroxide Limited	218,640	215,275
Sitara Textile Industries Limited	67,510	16,491
Sitara Trade and Services	2,901	2,901
	<u>2,117,334</u>	<u>328,523</u>
32. Investments		
Available for sale - at fair value		
Listed Companies		
Ittehad Chemicals Limited		
30,000 (2005 - 30,000) fully paid ordinary shares of Rs. 10/- each	444,000	444,000
Al-Meezan Investment Bank Limited		
122,369 (2005 - 87,910) fully paid ordinary shares of Rs. 10/- each	932,690	756,880
	<u>1,376,690</u>	<u>1,200,880</u>
Surplus in value of investments	2,803,785	1,112,934
	<u>4,180,475</u>	<u>2,313,814</u>
33. Cash and bank balances		
Cash in hand	12,127,188	16,736,025
Cash at banks		
On current accounts	38,363,697	64,637,969
On deposit accounts	350,490,738	73,295
	<u>388,854,435</u>	<u>64,711,264</u>
	<u>400,981,623</u>	<u>81,447,289</u>



34. OPERATING RESULTS

	Continuing operations				Discontinued operations		Total	
	(Chemical Division)		(Textile Division-I)		(Textile Division-II)			
	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees
Sale								
Own products								
Local								
Caustic soda	3,014,307,678	2,647,554,738	-	-	-	-	3,014,307,678	2,647,554,738
Sodium hypochlorite	262,238,906	265,353,005	-	-	-	-	262,238,906	265,353,005
Bleaching powder	73,200,958	64,690,245	-	-	-	-	73,200,958	64,690,245
Liquid chlorine	77,377,186	62,314,009	-	-	-	-	77,377,186	62,314,009
Hydrochloric acid	136,756,018	115,266,837	-	-	-	-	136,756,018	115,266,837
Ammonium chloride	26,583,241	25,316,866	-	-	-	-	26,583,241	25,316,866
Hydrated lime and others	29,417,235	19,457,978	-	-	-	-	29,417,235	19,457,978
Agri chemicals	39,534,703	48,349,910	-	-	-	-	39,534,703	48,349,910
Yarn	-	-	663,992,231	787,051,675	-	447,555,880	663,992,231	1,234,607,555
Waste	-	-	4,534,712	2,824,141	-	2,674,716	4,534,712	5,498,857
Export								
Hydrochloric acid	24,051,520	50,925,214	-	-	-	-	24,051,520	50,925,214
Liquid chlorine	9,453,208	3,886,444	-	-	-	-	9,453,208	3,886,444
Bleaching powder	8,566,981	17,862,723	-	-	-	-	8,566,981	17,862,723
Ammonium chloride	3,902,218	2,438,685	-	-	-	-	3,902,218	2,438,685
Others	9,381,380	20,856,524	-	-	-	-	9,381,380	20,856,524
	3,714,771,232	3,344,273,178	668,526,943	789,875,816	-	450,230,596	4,383,298,175	4,584,379,590
Commission and discount	(87,373,965)	(76,225,548)	(442,433)	(1,384,707)	-	(461,185)	(87,816,398)	(78,071,440)
	3,627,397,267	3,268,047,630	668,084,510	788,491,109	-	449,769,411	4,295,481,777	4,506,308,150
Sales tax	(483,591,734)	(406,888,630)	-	(98,672,699)	-	(58,356,047)	(483,591,734)	(563,917,376)
	3,143,805,533	2,861,159,000	668,084,510	689,818,410	-	391,413,364	3,811,890,043	3,942,390,774
Cost of goods sold (Note 35)	(2,551,479,392)	(2,130,072,025)	(555,293,088)	(588,284,953)	-	(323,647,204)	(3,106,772,480)	(3,042,004,182)
	592,326,141	731,086,975	112,791,422	101,533,457	-	67,766,160	705,117,563	900,386,592
Other operating income (Note 36)	4,951,474	2,345,874	4,536,624	422,648	-	3,986,685	9,488,098	6,755,207
	597,277,615	733,432,849	117,328,046	101,956,105	-	71,752,845	714,605,661	907,141,799
Operating expenses								
Distribution (Note 37)	52,919,639	61,302,134	1,603,234	1,175,105	-	603,252	54,522,873	63,080,491
Administrative expenses (Note 38)	121,805,376	107,308,448	19,176,168	15,502,008	-	6,934,533	140,981,544	129,744,989
Other operating expenses (Note 39)	23,904,315	80,108,224	(450,903)	995,307	-	14,709,869	23,453,412	95,813,400
	198,629,330	248,718,806	20,328,499	17,672,420	-	22,247,654	218,957,829	288,638,880
	398,648,285	484,714,043	96,999,547	84,283,685	-	49,505,191	495,647,832	618,502,919
34.1 Segment assets	3,250,698,984	1,880,788,790	942,022,489	670,542,498	-	90,705,064	4,192,721,473	2,642,036,352
Segment liabilities	2,643,672,261	1,393,688,386	346,196,734	87,476,295	-	58,589,981	2,989,868,995	1,539,754,662
Segment fixed assets employed (%)	87	84	13	16	-	-		

35.2 Inter-segment pricing/sales

There is no purchase and sale between the segments.

35. Cost of goods sold

Finished goods - opening stock	17,821,675	22,661,992	96,772,812	65,113,761	-	51,209,805	114,594,487	138,985,558
Inter unit transfer	-	-	-	5,676,238	-	(5,676,238)	-	-
Purchase of finished goods	12,947,747	-	-	-	-	-	12,947,747	-
Cost of goods manufactured (35.1)	2,559,922,259	2,125,231,708	692,352,886	614,267,766	-	278,113,637	3,252,275,145	3,017,613,111
	2,590,691,681	2,147,893,700	789,125,698	685,057,765	-	323,647,204	3,379,817,379	3,156,598,669
Finished goods - closing stock	(39,212,289)	(17,821,675)	(233,832,610)	(96,772,812)	-	-	(273,044,899)	(114,594,487)
	2,551,479,392	2,130,072,025	555,293,088	588,284,953	-	323,647,204	3,106,772,480	3,042,004,182



35.1 Cost of goods manufactured

	Continuing operations				Discontinued operations		Total	
	(Chemical Division)		(Textile Division-I)		(Textile Division-II)			
	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees
Raw material consumed								
Opening stock	42,760,760	40,927,767	147,671,260	98,550,726	-	51,881,026	190,432,020	191,359,519
Purchases - including purchase expenses	397,938,605	331,515,981	433,718,212	589,912,191	-	251,570,058	831,656,817	1,172,998,230
Sales	-	-	-	(65,886,143)	-	(80,271,668)	-	(146,157,811)
	440,699,365	372,443,748	581,389,472	622,576,774	-	223,179,416	1,022,088,837	1,218,199,938
Closing stock	(59,140,397)	(42,760,760)	(55,441,246)	(147,671,260)	-	-	(114,581,643)	(190,432,020)
	381,558,968	329,682,988	525,948,226	474,905,514	-	223,179,416	907,507,194	1,027,767,918
Fuel and power	1,810,815,180	1,454,476,593	81,826,351	61,821,473	-	29,549,616	1,892,641,531	1,545,847,682
Salaries, wages and benefits	78,860,488	80,773,919	34,834,642	28,954,516	-	12,882,891	113,695,130	122,611,326
Retirement benefits	1,353,470	1,231,395	1,890,773	2,269,998	-	1,323,617	3,244,243	4,825,010
Overheads								
Stores and spares	115,420,979	99,828,043	27,285,328	19,707,436	-	11,674,864	142,706,307	131,210,343
Repair and maintenance	18,257,383	22,406,621	506,642	966,916	-	181,820	18,764,025	23,555,357
Vehicle running & maintenance	10,952,513	8,785,242	363,282	195,839	-	169,015	11,315,795	9,150,096
Travelling and conveyance	7,194,418	5,532,166	41,975	53,302	-	15,042	7,236,393	5,600,510
Insurance	6,874,922	6,088,621	1,233,565	1,212,953	-	590,152	8,108,487	7,891,726
Depreciation (21.3)	125,272,972	113,183,972	22,612,164	25,121,798	-	-	147,885,136	138,305,770
Other	4,360,254	3,763,846	107,163	186,439	-	110,444	4,467,417	4,060,729
	2,560,921,547	2,125,753,406	696,650,111	615,396,184	-	279,676,877	3,257,571,658	3,020,826,467
Work in process								
Opening stock	7,359,070	6,837,372	6,760,122	5,631,704	-	4,736,337	14,119,192	17,205,413
Sold	-	-	-	-	-	(6,299,577)	-	(6,299,577)
Closing stock	(8,358,358)	(7,359,070)	(11,057,347)	(6,760,122)	-	-	(19,415,705)	(14,119,192)
	(999,288)	(521,698)	(4,297,225)	(1,128,418)	-	(1,563,240)	(5,296,513)	(3,213,356)
	2,559,922,259	2,125,231,708	692,352,886	614,267,766	-	278,113,637	3,252,275,145	3,017,613,111

36. Other operating income

Sale of scrap and waste	1,538,865	1,298,317	408,412	408,248	-	639,126	1,947,277	2,345,691
Income from investment in available for sale investment	-	388,849	-	-	-	-	-	388,849
Profit on deposits	2,895,427	-	674,716	-	-	25,648	3,570,143	25,648
Rent income	-	658,708	3,439,096	-	-	3,321,911	3,439,096	3,980,619
Other	517,182	-	14,400	14,400	-	-	531,582	14,400
	4,951,474	2,345,874	4,536,624	422,648	-	3,986,685	9,488,098	6,755,207

37. Distribution cost

Staff salaries and benefits	11,578,087	7,006,670	-	-	-	-	11,578,087	7,006,670
Retirement benefits	271,496	200,742	-	-	-	-	271,496	200,742
Freight, octrol and insurance	30,632,849	45,464,163	1,148,249	904,857	-	529,343	31,781,098	46,898,363
Advertisement	1,636,683	318,519	-	-	-	-	1,636,683	318,519
Bank charges	-	1,571,097	145,607	11,731	-	-	145,607	1,582,828
Vehicles running and maintenance	4,625,726	3,245,368	60,000	61,660	-	-	4,685,726	3,307,028
Travelling and conveyance	2,116,429	1,061,264	66,559	8,935	-	2,935	2,182,988	1,073,134
Postage and telephone	858,872	781,263	95,956	91,183	-	28,855	954,828	901,301
Printing and stationery	307,799	620,384	-	4,783	-	2,912	307,799	628,079
Other	891,698	1,032,664	86,863	91,956	-	39,207	978,561	1,163,827
	52,919,639	61,302,134	1,603,234	1,175,105	-	603,252	54,522,873	63,080,491



38. Administrative expenses

	Continuing operations				Discontinued operations		Total	
	(Chemical Division)		(Textile Division-I)		(Textile Division-II)			
	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees
Directors' remuneration	18,062,500	16,364,161	4,076,594	3,338,775	-	1,103,464	22,139,094	20,806,400
Staff salaries and benefits	43,086,765	35,497,031	8,238,237	6,506,231	-	2,990,909	51,325,002	44,994,171
Retirement benefits	1,114,485	941,797	543,490	652,495	-	892,103	1,657,975	2,486,395
Postage, telephone and telex	2,930,555	3,027,940	432,001	424,778	-	254,885	3,362,556	3,707,603
Vehicles running and maintenance	5,308,712	4,082,914	490,214	399,051	-	179,530	5,798,926	4,661,495
Printing and stationery	4,482,174	3,035,877	-	-	-	-	4,482,174	3,035,877
Electricity	2,628,320	2,109,570	389,584	271,529	-	190,502	3,017,904	2,571,601
Rent, rates and taxes	420,606	327,871	10,060	7,333	-	5,258	430,666	340,462
Travelling and conveyance	3,958,304	3,002,347	171,176	658,869	-	609,407	4,129,480	4,270,623
Advertisement	7,582,992	8,656,506	37,720	204,695	-	105,000	7,620,712	8,966,201
Books and periodicals	76,629	248,119	-	-	-	-	76,629	248,119
Fees and subscription	2,354,385	2,522,086	305,436	222,314	-	119,821	2,659,821	2,864,221
Legal and professional	1,076,690	958,877	85,260	25,854	-	17,610	1,161,950	1,002,341
Repairs and maintenance	4,016,302	3,165,998	165,276	136,499	-	126,719	4,181,578	3,429,216
Auditors' remuneration (38.1)	1,122,000	1,643,500	173,000	78,500	-	78,500	1,295,000	1,800,500
Entertainment	1,511,127	1,479,117	125,653	332,010	-	54,200	1,636,780	1,865,327
Donations (38.2)	10,400,031	7,207,574	2,518,514	793,998	-	80,000	12,918,545	8,081,572
Insurance	1,191,330	1,327,313	192,583	279,166	-	124,318	1,383,913	1,730,797
Depreciation (21.3)	7,856,056	8,382,321	1,208,305	1,130,725	-	-	9,064,361	9,513,046
Bad debts	19,609	5,600	-	-	-	-	19,609	5,600
Other	2,605,804	3,321,929	13,065	39,186	-	2,307	2,618,869	3,363,422
	121,805,376	107,308,448	19,176,168	15,502,008	-	6,934,533	140,981,544	129,744,989

38.1 Auditors' remuneration

Statutory audit	307,000	307,000	133,000	66,500	-	66,500	440,000	440,000
Tax advisory services	385,000	1,230,500	-	-	-	-	385,000	1,230,500
Consultancy and sundry services	430,000	106,000	40,000	12,000	-	12,000	470,000	130,000
	1,122,000	1,643,500	173,000	78,500	-	78,500	1,295,000	1,800,500

38.2 All the directors of the Company, including Chief Executive, except Mr. Haseeb Ahmed and Mrs. Rukhsana Adrees are the trustees of Aziz Fatima Trust, Faisalabad to whom Rs. 7,391,174/- (2005 - Rs. 6,206,383/-) have been donated.

	Continuing operations				Discontinued operations		Total	
	(Chemical Division)		(Textile Division-I)		(Textile Division-II)			
	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees

39. Other operating expense

Loss on disposal of property, plant and equipment	878,757	35,425,773	(450,903)	995,307	-	14,709,869	427,854	51,130,949
Exchange loss	241,333	-	-	-	-	-	241,333	-
Workers' profit participation fund	18,242,749	23,467,832	-	-	-	-	18,242,749	23,467,832
Workers' welfare fund	-	8,251,442	-	-	-	-	-	8,251,442
Impairment loss on investment in associated Co.	4,541,476	12,963,177	-	-	-	-	4,541,476	12,963,177
	23,904,315	80,108,224	(450,903)	995,307	-	14,709,869	23,453,412	95,813,400

40. Finance costs

Islamic sukuk certificate	328,192	-	-	-	-	-	328,192	-
MTFC holders' profit share	-	7,759,829	-	-	-	-	-	7,759,829
TFC holders' profit share	44,260,200	76,500,000	-	-	-	-	44,260,200	76,500,000
Profit on								
Long term financing	47,547,456	23,602,297	-	-	-	-	47,547,456	23,602,297
Long term morabaha	9,166,272	2,599,251	-	-	-	-	9,166,272	2,599,251
Liabilities against assets subject to finance lease	-	-	414,858	1,153,757	-	2,364,650	414,858	3,518,407
Short term bank borrowings	30,587,913	-	3,876,089	10,050,926	-	4,162,161	34,464,002	14,213,087
Bank charges and commission	1,572,189	859,381	32,433	148,821	-	172,539	1,604,622	1,180,741
	133,462,222	111,320,758	4,323,380	11,353,504	-	6,699,350	137,785,602	129,373,612



	2006 Rupees	2005 Rupees
41. Taxation		
Current		
Continued operations	993,678	132,675,792
Discontinued operations	-	7,035,165
Gain on discontinuance	-	2,049,669
Company's share of associates tax	19,464	13,473
	1,013,142	141,774,099
Deferred		
Continuing operation	90,695,889	70,311,525
Reversal of deferred tax relating to discontinued operations	-	(70,534,041)
	90,695,889	(222,516)
	91,709,031	141,551,583

41.1 Reconciliation between tax expense and accounting profit

Accounting profit before tax	358,221,695	437,099,584
Tax rate %	35	35
Tax on accounting profit	125,377,593	152,984,854
Tax effect of:		
expenses that are inadmissible in determining taxable profits	6,919,946	5,223,786
Income chargeable to tax at special rate		
Dividend	-	(136,097)
Export sales	2,055,227	(4,531,265)
Income subject to minimum tax	(126,419,678)	13,473
change in tax WDV	179,453,835	(12,003,168)
taxable losses	(95,999,476)	-
Other	321,584	-
Tax expense for the year	91,709,031	141,551,583

42. Dividend

In respect of current year, the directors propose to pay cash dividend of Rs. 111,321,594/- @ Rs. 6.00 per ordinary share of Rs. 10/- each. This dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and has not been included as a liability in these financial statements. This will be accounted for subsequently in the year of payment

	2006	2005
43. Earnings per share - Basic		
Profit for the year (Rs)	266,512,664	295,548,001
Weighted average number of ordinary shares outstanding	18,553,599	18,553,599
Earnings per shares (Rs)	14.36	15.93

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



44. REMUNERATION TO CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2006 Rupees			2005 Rupees		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Remuneration	5,472,000	4,849,532	8,743,619	4,560,000	4,850,007	4,659,192
Retirement benefits	-	-	435,594	-	-	360,552
House rent	2,188,800	2,042,298	3,307,764	1,824,000	2,042,496	1,842,096
Utilities	547,200	382,470	874,678	456,000	382,497	465,912
Conveyance allowance	-	-	43,070	-	-	21,600
Special allowance	-	-	107,723	-	-	54,000
Income tax	3,158,880	2,428,974	-	2,882,771	2,786,552	-
Reimbursement of expenses	122,691	946,249	-	385,180	636,897	-
	11,489,571	10,649,523	13,512,448	10,107,951	10,698,449	7,403,352
Number of persons	1	2	12	1	2	6

The Directors have waived their meeting fee.

The Chairman, Chief Executive and two Directors are entitled to free use of the Company maintained car and telephone. The monetary value of these benefits approximate Rs. 1,373,962/- (2005 - Rs. 1,468,925/-).

45. AGGREGATE TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of local associates, trusts, directors and executives. Transactions with related parties other than remuneration and benefits to directors and executives, disclosed in note 44, under the terms of their employment are as follows:

	2006 Rupees	2005 Rupees
Sales	35,202,180	42,846,427
Purchases	56,488,033	806,400
Dividend received	-	2,334,152
Organizational expenses recovered	1,855,721	914,086
Organizational expenses paid	62,000	206,494
Power charges paid	1,143,665,458	969,223,715

All transactions with related parties and associated undertakings are carried out at arm's length determined in accordance with comparable uncontrolled price method. The power is purchased from associated undertaking at NEPRA power tariff.

46. CAPACITY AND PRODUCTION (CHEMICAL DIVISION)

	Designed capacity		Actual production		Reason for short fall
	Tons		Tons		
	2006	2005	2006	2005	
Caustic soda	178,200	129,500	129,838	124,374	
Sodium hypochlorite	49,500	36,500	26,707	28,410	Due to BMR conducted during the year
Bleaching powder	7,500	7,500	4,121	4,643	
Liquid chlorine	8,000	8,000	8,129	8,183	
Ammonium chloride	3,000	3,000	2,740	2,538	
Hydrochloric acid	143,000	110,000	115,832	109,120	

(TEXTILE DIVISION)

	2006	2005
Ring Spinning		
Number of spindles installed	22,080	45,408
Number of spindles worked	22,080	45,408
Number of shifts per day	3	3
Installed capacity after conversion into 20/s count (Kgs.)	10,110,166	20,791,776
Actual production of yarn after conversion into 20/s count (Kgs.)	10,991,174	14,681,620



47. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

47.1 Financial assets and financial liabilities of the company are as follows:

Interest/mark-up rate risk arise from the possibility that changes interest/mark-up rates will affect the value of financial instruments.

	Profit / mark up bearing			Non profit / mark up bearing				2006	2005
	maturity upto one year	maturity after one year but before five years	Sub total	maturity upto one year	maturity after one year but before five years	maturity after five years	Sub total	Total	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets:									
Investments	-	-	-	4,180,475	-	11,203,932	15,384,407	15,384,407	17,719,221
Lons and advances	-	-	-	967,586	761,397	-	1,728,983	1,728,983	2,424,208
Security deposits	-	-	-	4,656,569	20,363,050	-	25,019,619	25,019,619	23,775,187
Trade debts	-	-	-	353,050,222	-	-	353,050,222	353,050,222	247,078,255
Other receivables	-	-	-	-	6,614,160	-	6,614,160	6,614,160	3,255,877
Cash and bank balances	350,490,738	-	350,490,738	50,490,885	-	-	50,490,885	400,981,623	81,447,289
	350,490,738	-	350,490,738	413,345,737	27,738,607	11,203,932	452,288,276	802,779,014	375,700,037
Financial liabilities:									
Term finance certificates	122,400,000	-	122,400,000	-	-	-	-	122,400,000	241,200,000
Contribution to takaful reserves by TFC holders	-	-	-	8,873,824	8,612,829	-	17,486,653	17,486,653	20,384,563
Islamic sukuk certificates	-	1,100,000,000	1,100,000,000	-	-	-	-	1,100,000,000	-
Long term financing	296,392,795	101,568,573	397,961,368	-	-	-	-	397,961,368	470,873,000
Long term morabaha	38,876,084	58,314,131	97,190,215	-	-	-	-	97,190,215	116,628,257
Liability against assets subject to finance lease (Ijra)	-	-	-	-	-	-	-	-	18,286,849
Long term deposits	-	-	-	-	16,125,543	-	16,125,543	16,125,543	13,961,574
Trade and other payables	-	-	-	-	436,489,817	-	436,489,817	436,489,817	469,889,820
Profit on financing payable	-	-	-	34,562,748	-	-	34,562,748	34,562,748	43,840,211
Short term financing	-	-	-	-	666,890,558	-	666,890,558	666,890,558	35,956,565
	457,668,879	1,259,882,704	1,717,551,583	43,436,572	1,128,118,747	-	1,171,555,319	2,889,106,902	1,431,020,839
Off balance sheet items:									
Commitments (other than letter of credit)	-	-	-	39,482,734	-	-	39,482,734	39,482,734	9,536,720
Letter of credit	-	-	-	827,376,443	-	-	827,376,443	827,376,443	136,051,269
Bank guarantees	-	-	-	111,438,658	-	-	111,438,658	111,438,658	97,500,607
	-	-	-	978,297,835	-	-	978,297,835	978,297,835	243,088,596
Total	457,668,879	1,259,882,704	1,717,551,583	1,021,734,407	1,128,118,747	-	2,149,853,154	3,867,404,737	1,674,109,435
On balances sheets gap	(107,178,141)	(1,259,882,704)	(1,367,060,845)	369,909,165	(1,100,380,140)	11,203,932	(719,267,043)	(2,086,327,888)	(1,055,320,802)
Onbalance sheet gap	-	-	-	(978,297,835)	-	-	(978,297,835)	(978,297,835)	(243,088,596)

47.2 The effective interest / mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.



47.3 Risk Management

a) Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail to perform as contracted. Out of the total financial assets of Rs. 802.779 (2005: Rs. 375.700) million, the financial assets which are subject to credit risk amounted to Rs. 377.457 (2005: Rs. 229.834) million. The company manages credit risk in trade receivables by limiting significant exposure to any individual customers by obtaining advance against sales.

The company is exposed to credit risk on loans, advances, deposits, trade debts and other receivables. The company seeks to minimize the credit risk exposure through dealings with customers considered credit worthy and obtaining securities where applicable.

b) Liquidity risk

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 customer.

c) Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. However, the company is not exposed to any significant foreign currency risk. As at June 30, 2006, the total foreign currency risk exposure was Rs. 2.056 (2005: Rs. 12.676) million in respect of trade debts.

d) Yield rate risk

Yield rate risk arises from the possibility that changes in yield rates will affect the value of financial instruments. The Company is exposed to yield rate risk as discussed in the respective notes. The yield rates are disclosed in respective notes.

47.4 Fair value of financial assets and liabilities

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

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

	2006 Rupees	2005 Rupees
48. CASH AND CASH EQUIVALENTS		
Books overdrawn	(14,569)	(956,565)
Cash and bank balances	400,981,623	81,447,289
	<u>400,967,054</u>	<u>80,490,724</u>



49. DATE OF AUTHORISATION FOR ISSUE

The financial statements were authorised for issue on September 29, 2006 by the Board of Directors of the Company.

50. RECLASSIFICATION

50.1 Corresponding figures have been rearranged and reclassified to reflect more appropriate presentation of events and transactions for the purposes of comparison. Significant reclassifications made are as follows:

- Investment in associate amounting to Rs. 15,405,407/- is reclassified in financial statements as long term investment to incorporate change as per IAS 28 (revised), Investments in Associates. Previously this investment was classified under current assets.
- Sales tax refundable amounting to Rs. 1,142,837/- is presented on the face of balance sheet. Previously, it was grouped with other receivables.
- Amount of Rs. 4,747,043/- has been regrouped in plant and machinery in transit appearing under the head of capital work in progress to reflect more appropriate presentation. Previously this amount was grouped in advances for property, plant and equipment appearing under the same head.

50.2 Nomenclature of following accounts have been changed:

Previous financial statement	Current financial statements
Provision for taxation	Taxation
Security deposit	Trade deposit
Selling and distribution expenses	Distribution cost

51. GENERAL

Figures have been rounded off to nearest Rupee.



FORM OF PROXY

IMPORTANT

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

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

Please quote Registered Folio Number

I/We _____

of _____

being a member of Sitara Chemical Industries Limited entitled to vote and holder of _____

ordinary shares, hereby appoint _____

of _____

who is also a member of Company, as my/our proxy in my/our absence to attend and vote for me/us on my/our behalf at the Twenty Fifth Annual General Meeting of the Company to be held at Dr. Abdul Qadeer Khan Auditorium, Haji Abdullah Haroon Muslim Gymkhana, Near Shaheen Complex, Aiwana-e-Sadr, Karachi, on Tuesday, October 31, 2006 at 3:00 p.m. and at any adjournment thereof.

As witness my/our hand this _____ day of _____ 2006

Signed by the said _____

(Member's Signature)

(Witness's Signature)

Place _____

Date _____

Affix Rs. 5/-

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