





## Flood Victims we are with you

Recent flood has inserted devastating effect on economy and industry. Officials estimated total economic impact to be as much as 43 Billion US\$.



Director global sales and finance personally involved in distribution of aid to flood victims.



Truck of aid for flood victims being dispatched from factory site.

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# Corporate Values

## 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.

# Company Information

## Board of Directors

Haji Bashir Ahmed

(Chairman)

Mr. Javed Iqbal

Mr. Haseeb Ahmed

Mr. Muhammad Adrees

(Chief Executive Officer)

Mr. Muhammad Anis

Mr. Muhammad Khalil

Mr. Imran Ghafoor

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 (FCA)

## Audit Committee

### Chairman

Mr. Muhammad Anis

### Members

Mr. Haji Bashir Ahmed

Mr. Javed Iqbal

## Head of Internal Audit

Mr. Muhammad Yameen (FCA)

## 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  
Al-Baraka Islamic Bank B.S.C. (E.C.)  
Askari Commercial Bank Limited  
Faysal Bank Limited  
Habib Bank Limited  
Dawood Islamic Bank Limited  
Bank Islami Pakistan Limited  
Royal Bank of Scotland  
Arif Habib Bank Limited  
Barclays Bank PLC Pakistan  
Emirates Global Islamic Bank  
Pak Oman Investment Company Ltd.  
Silk Bank Limited

## Registered Office

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

## Factories

28/32 KM, Faisalabad - Shekhupura Road,  
Faisalabad.

# Chairman's Statement

It's a pleasure for me to present the audited financial statements of the company for the year ended June 30, 2010.

Your company performed well during the last year despite the shortage of Power & Gas in the country. As our product is Electrolysis based, thus Electricity is a major component, which affected our production. The company has achieved Sales volume of Rs. 5,736 (M) and the net profit after tax is Rs. 463 (M).

Your company has put up the new 135 MT / Day Caustic Soda Plant this year with the latest technology using minimum Electricity for the production thus giving us a competitive edge over the competitors in the years to come and would make us more cost effective and efficient.

The company has also put up the new 100 MT / Day Caustic Soda Solidification Plant, which has enhanced the total capacity of Caustic Soda solidification plant to 240 MT / Day. Our Product was very well accepted in the international market, particularly in India and Sri Lanka because of its quality. Adding another advantage to the company this year is the initiation of anti dumping case for the dump import of Caustic Soda Flakes in the country by National Tariff Commission.

I feel proud in announcing that the Textile Division of the company has paid off its all short term and long term loans and thus has become completely borrowing cost free Textile Unit. The Textile Division is rich in cash to purchase the Polyester and Viscose for the up coming year.

The company is very much proactive in the sale of its non operative assets (such as lands) to generate the additional cash flows for the further diversification and expansion.

## Financial Performance:

Even during difficult times your company has performed well during the year. Net sales of the company during the year are Rs 5.736 billion a decrease of 7% over last year. Chemical division gross sale is Rs 5.106 billion i.e. decrease of 18% over last year while textile division net sale increased by 62% to Rs. 1.317 billion due to increase in demand in export market and as a result demand of local market has also improved. Net profit before tax decrease to Rs. 610 Million from Rs. 988 Million of last year.

## Acknowledgement:

In the end I would like to thank all our stakeholders for their continued help, support, guidance and prayers.



Haji Bashir Ahmed

Date: September 24, 2010

Faisalabad



# Directors' Report

Gentlemen,

The Directors have pleasure in submitting their report and audited accounts of the Company for the year ended June 30, 2010.

① Company has maintained recognized provident fund, based on audited accounts as at June 30, 2010 Value of investment there of was Rs. 31,956,887. ②

Profit and Loss Account	Rupees
Net profit for the year after tax before WPPF	495,475,849
Workers Profit Participation Fund	(32,758,428)
Net profit for the year	462,717,421
Incremental depreciation including deferred tax	61,928,758
Un-appropriated profit brought forward	1,293,062,302
Amount available for appropriation	1,817,708,481
Appropriations:	
Proposed cash dividend @ Rs. 2.50 per share	(51,022,398)
Proposed Bonus share@ 5%	(10,204,470)
Un-appropriated profit carried forward	1,756,481,613
Earnings per share - basic and diluted	22.67

## Staff Retirement Benefits

Company has maintained recognized provident fund, based on audited accounts as at June 30, 2010 Value of investment thereof was Rs. 31,956,887.

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 five executive and three 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. We would like to place on record our appreciation and gratitude to the Board of Directors, for guidance and support to the Management.

## Board of Directors Meeting

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

Name of Director	Meetings Attended
1. Haji Bashir Ahmed	4
2. Mr. Muhammad	4
3. Mr. Javed Iqbal	4
4. Mr. Muhammad Anis	4
5. Mr. Imran Ghafoor	4
6. Mr. Haseeb Ahmed	4
7. Mr. Muhammad Khalil	4
8. Mr. Rashid Zahir (Nominee Director)	1

② The Board comprises of five executive and three non-executive directors. ②

Leave of absence was granted to nominee directors, who could not attend any 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 29th Annual General Meeting. Being eligible, they have offered themselves for re-appointment as Auditors of the Company to hold office from conclusion of the 29th Annual General Meeting until the conclusion of 30th 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, 2011. 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. 683.68 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 my 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 2010 despite heavy odds. Our thanks also go to the financial institutions and shareholders for their continued support, which is the key to the success of the Company.

② During the year, the Company's contribution to the national exchequer amounted to Rs. 683.68 million in respect of Payments toward sales tax and income tax. ②

② 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, 2011.

The external auditors have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP). ②

### Caustic Soda Liquid Plant M-I-135 MT / Day

The caustic soda liquid plant was successfully commissioned (BMR) during the year with the production capacity of 135 MT / Day. This plant has state of the art technology, more cost efficient and it is expected that it will reduce our production cost. The overall capacity of the company has increased to 610 MT / Day from 540 MT / Day.

### Caustic Solidification Plant-CSP IV-100 MT / Day

The new Caustic Soda Flakes (CSF) plant is the fourth plant for flakes set up during the year keeping in view the increasing demand in the local market as well as around the world. The plant has the capacity of 100 MT / Day which will further increase the caustic soda Flakes capacity from 46,200 to 79,200 M Tons per year. Caustic Flakes are manufactured in solid form and easy to export. Company carried out massive research before finalizing this plant and has found that there is a huge potential for export of Caustic Soda Flakes around the world especially in the Middle East and by road to Indian markets.

### Future Outlook

Despite damaging affect of natural disaster in the country and challenging economic condition, we believe and expect our economic condition will improve in the future. This will ease out the overall business environment in the country. As a result overall demand in the country will rise and we will be able to produce our products at optimum level. To further augment sales and improve margins, SCIL intends to aggressively explore and penetrate the international markets thus our export business will improve.

### Research and Development:

Research and development is imperative for the survival and growth in the company. We have an independent R& D department which has developed various products since its inception. During the year another product in the name of Single Super Phosphate (SSP) was successfully introduced as a result of development of production technique by our R& D department.

### Health Safety and Environment (HSE):

Being an ISO 9001:2008 and ISO 14001:2004 certified company; we are much concerned to maintain health, safety and environment protection standards. We are committed to achieve excellence in Health, Safety and Environmental protection. Our goal is to minimize all adverse environmental and health impacts arising out of our operations, conserve all kinds of resources and adhere to all legal regulations. Drills and rehearsals are made regularly in order to educate the user to handle emergency situation.

### Human resource:

It is our firm belief that a good human resource is also an asset for the company and always plays a vital role in achieving company's objective. As usual 30 in-house and outside training courses conducted for employees during the year.

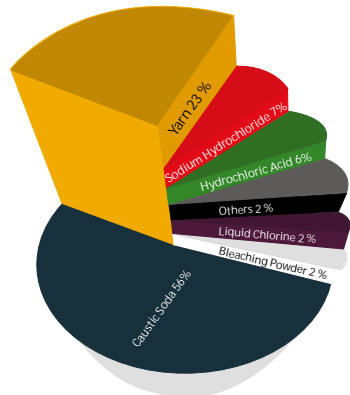


Annual Haj draws being drawn by director global sales and finance.



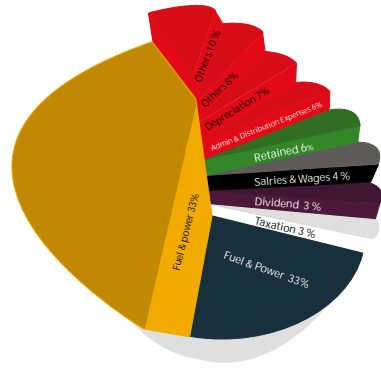
Head of Finance and Accounts along with their team of professionals in a brainstorming session.





### Sources of revenue

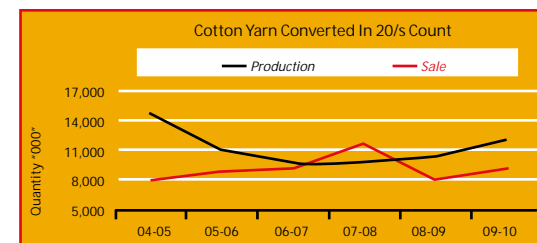
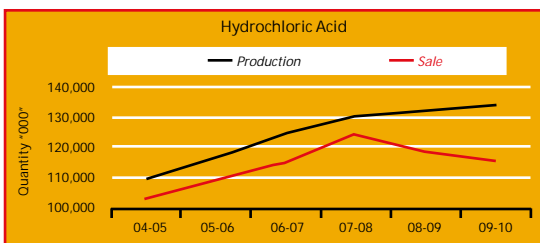
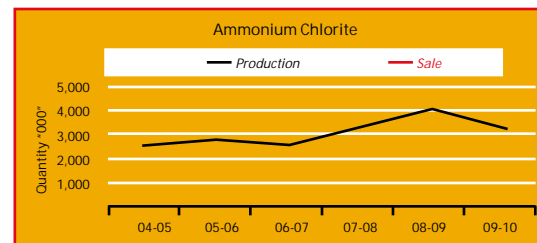
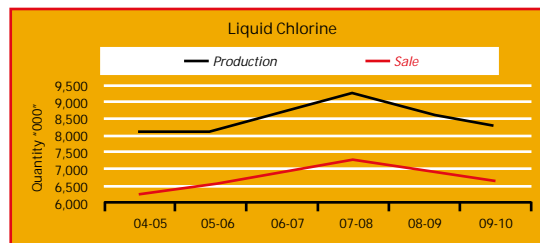
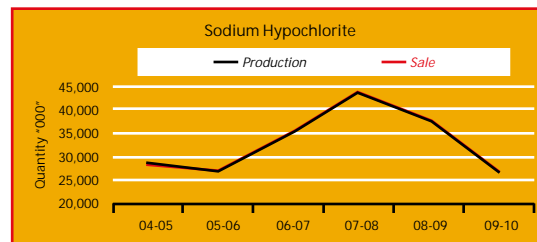
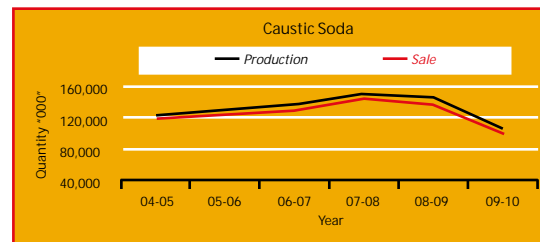
	Rs.(Millions)	%
Caustic soda	3196	56%
Sodium hypochlorite	423	7%
Bleaching powder	108	2%
Liquid chlorine	121	2%
Hydrochloric acid	315	5%
Yarn	1,311	23%
Others	290	5%
	<b>5,764</b>	<b>100%</b>



### Application of Revenue

	Rs.(Millions)	%
Fuel and power	1,919	33%
Raw materials	1,138	20%
Salaries & wages	217	4%
Depreciation	420	7%
Admin and distribution expenses	355	6%
Finance cost	601	10%
Dividend	153	3%
Taxation	147	3%
Others	442	8%
Retained	372	6%
	<b>5,764</b>	<b>100%</b>

### Chemical and Textile Division



For and on behalf of the  
BOARD OF DIRECTORS

MUHAMMAD ADREES  
Chief Executive Officer

Date: September 24, 2010  
Faisalabad

## Your Company's Rating

Short term A-1

Long term AA-

JCR-VIS Credit Rating Company Limited has maintained the medium to long-term entity rating of Sitara Chemical Industries Limited (SCIL) at 'AA-' (Double A Minus) and short-term rating at 'A-1' (A-One).



# 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, in the preparation of financial 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, 2010

	Number	Shares Held	%
Associated Companies, Undertaking and Related Parties	-	-	-
NIT & ICP			
National Bank of Pakistan - Trustee Department Investment Corporation of Pakistan	5	751,067	3.68
Directors, CEO & their Spouse and Minor Children			
Haji Bashir Ahmed	1	550	0.00
Mr. Muhammad Adrees	1	12,663,382	62.05
Mr. Javed Iqbal	1	11,000	0.05
Mr. Muhammad Anis	1	2,200	0.01
Mr. Imran Ghafoor	1	2,200	0.01
Mr. Haseeb Ahmed	1	448,789	2.20
Mr. Muhammad Khalil	1	500	0.00
Executive	-	-	-
Public Sector Companies and Corporation	-	-	-
Bank, Development Finance Institutions, Non Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds.	12	1,874,678	9.19
Foreign Investors	3	302,027	1.48
Investment Companies	3	613,441	3.01
Co-Operative Societies	-	-	-
Charitable Trusts	1	1,773	0.01
Shareholders holding ten Percent or more voting interest in the Company	-	-	-
Individuals	1750	2,877,829	14.10
Joint Stock Companies, others, etc.	31	218,430	1.07
Others	13	641,093	3.14
	1,825	20,408,959	100.00

## Pattern of Shareholding as at June 30, 2010

Number of Shareholders	Shareholding From	To	Total Number of Shares
818	1	100	27,706
613	101	500	161,554
134	501	1,000	97,612
162	1,001	5,000	362,195
27	5,001	10,000	191,021
17	10,001	15,000	200,741
9	15,001	20,000	161,600
5	20,001	25,000	118,400
3	25,001	30,000	81,973
3	30,001	35,000	96,487
1	35,001	40,000	39,490
1	40,001	45,000	43,322
4	45,001	50,000	192,910
2	50,001	55,000	105,657
1	55,001	60,000	59,508
1	60,001	65,000	63,300
1	75,001	80,000	77,000
3	80,001	85,000	246,098
1	95,001	100,000	98,564
1	100,001	105,000	100,120
2	110,001	115,000	222,142
3	115,001	120,000	346,500
1	145,001	150,000	145,951
1	165,001	170,000	168,410
1	175,001	180,000	177,200
1	265,001	270,000	268,492
1	270,001	275,000	275,000
2	295,001	300,000	598,875
1	410,001	415,000	412,515
1	445,001	450,000	448,789
1	610,001	615,000	613,045
1	680,001	685,000	682,080
1	860,001	865,000	861,320
1	12,660,001	12,665,000	12,663,382

1825

20,408,959

Detail of purchase/sale of shares by Directors, Company Secretary, Head of Internal Audit Department, Chief Financial Officer and their spouses/minor children during 2009-2010:

There has been no sale/purchase of shares held by aforesaid officials of the company, during the year.

## Six Years at a Glance

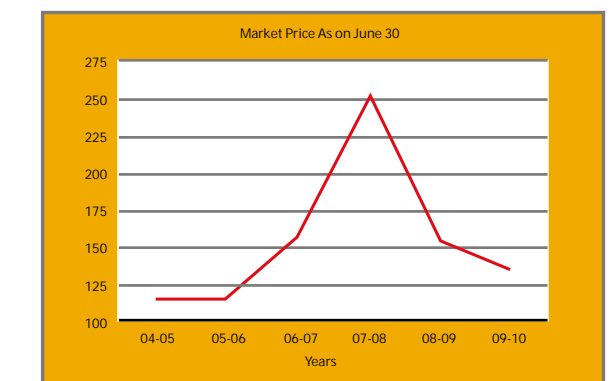
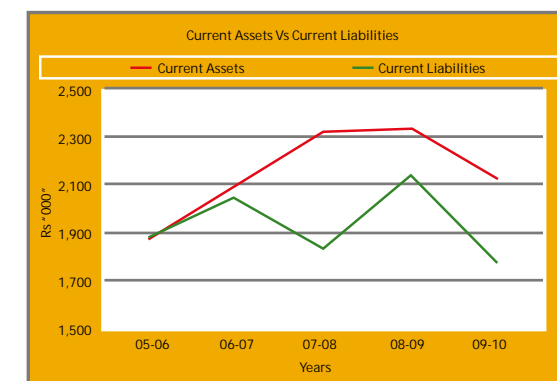
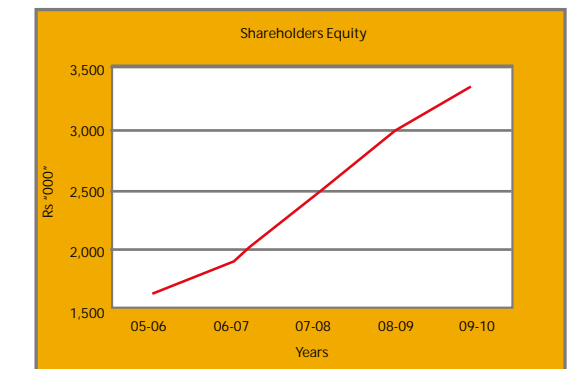
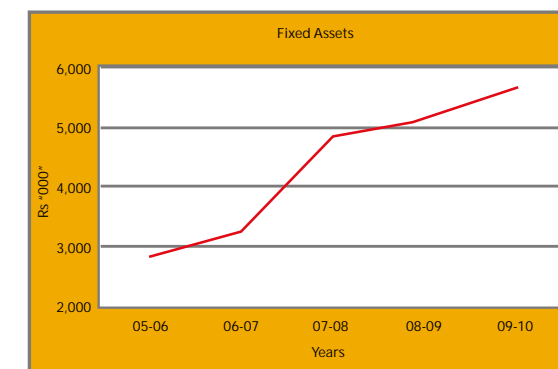
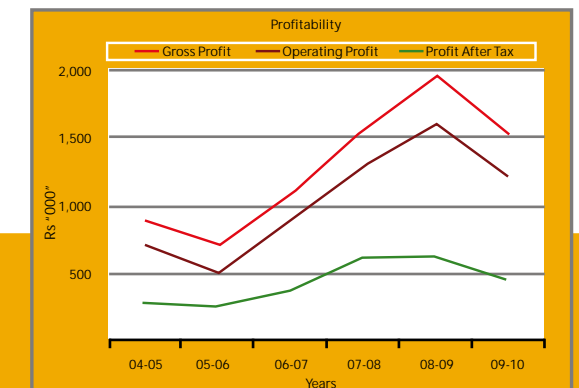
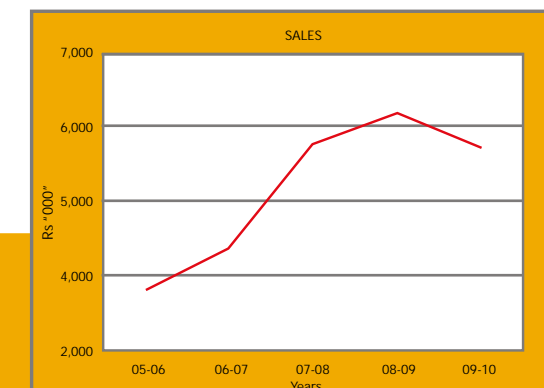
Assets employed (Rupees '000')	2010	2009	2008	2007	2006	2005
Property, Plant and equipment	5,675,577	5,137,619	4,824,079	3,270,894	2,818,335	1,830,827
Investment property	2,724,588	2,705,805	1,255,842	688,531	636,407	611,861
Long Term Investment advances and deposits	130,815	126,659	669,954	375,663	32,328	36,995
Current assets	1,779,477	2,143,328	1,838,853	2,049,482	1,883,405	1,142,525
Current liabilities	(2,128,504)	(2,343,211)	(2,319,046)	(2,092,801)	(1,872,650)	(1,203,098)
	8,181,953	7,770,200	6,269,682	4,291,769	3,497,825	2,419,110
Financed by						
Ordinary capital	204,091	204,090	204,090	185,536	185,536	185,536
Reserves	3,156,262	2,757,899	2,221,939	1,736,681	1,472,356	1,287,644
Shareholders' equity	3,360,353	2,961,989	2,426,029	1,922,217	1,657,892	1,473,180
Surplus on revaluation	944,619	1,006,548	1,075,358	-	-	-
Long term and deferred liabilities	3,876,981	3,801,663	2,768,295	2,369,552	1,839,933	945,930
	8,181,953	7,770,200	6,269,682	4,291,769	3,497,825	2,419,110



Operating results (Rs. '000")	2010	2009	2008	2007	2006	2005
Sales	5,735,795	6,178,399	5,479,570	4,374,052	3,811,890	3,942,391
Gross profit	1,538,725	1,961,755	1,555,284	1,084,380	705,118	900,387
Operating profit	1,220,073	1,601,620	1,289,140	864,763	509,613	707,561
Profit before tax	609,962	987,894	919,300	536,916	358,222	487,637
Financial ratios						
Gross Profit %	26.83	31.75	28.38	24.79	18.50	22.84
Operating Profit %	21.27	25.92	23.53	19.77	13.37	17.95
Profit before tax %	10.63	15.99	16.78	12.28	9.40	12.37
Earnings per share - Basic (Rs.)	22.67	30.89	30.49	18.28	14.36	15.93
Book value per share - (Rs.)	164.65	145.13	118.87	98.97	89.36	79.40
Market value per share - (Rs)	134.93	156.00	252.00	159.00	114.00	114.00
Cash Dividend Per Share - (Rs.)	2.50 *	7.50	7.50	5.5**	6.00	7.00
Inventory turn over (times)	13	14	18	12	16	24
Current ratio	0.84:1	0.91:1	0.79:1	0.98:1	1.18:1	1.14:1
Fixed assets turn over (times)	1.04	1.29	1.23	1.43	2.53	2.07
Price earning ratio	5.95	5.05	8.27	8.71	8.01	7.14
Return to capital employed %	7	13	15	15	10	20
Debt : equity	51:49	52:48	55:45	57:43	51:49	37:63

\* 05% bonus share alongwith cash dividend was proposed.

\*\* 10% bonus share along with cash dividend was proposed.



# Corporate Social Responsibility



A free eye camp organised near vicinity at factory site.



A combined (Employees and other satekholders) annual sports fair at factory site.



Winner of sports fair are honoured with prizes.

Sitara Chemical Industries Limited is proactive for health and welfare of local community. We manage and arrange medical camps and health awareness campaigns frequently. In this regard various activities have been held at factory site.

④ We manage and arrange medical camps and health awareness campaigns frequently. ④

# Notice of Annual General Meeting

Notice is hereby given that the Twenty Ninth 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 Road, Karachi, on Saturday, October 30, 2010 at 2:00 p.m. to transact the following business:

## Ordinary Business

1. To confirm the minutes of the Extra Ordinary General Meeting of the Company held on July 30, 2010.
2. To receive, consider and adopt the Annual Audited Accounts of the Company for the year ended June 30, 2010 together with the Reports of the Auditors and Directors thereon.
3. To approve payment of cash dividend at the rate of 25% (Rs. 2.50 per share) as recommended by the Board of Directors.
4. To appoint Auditors for the year ending June 30, 2011 and to fix their remuneration.

## Special Business :

5. (a) To approve issuance of bonus shares @ 5% i.e 1 (One) Ordinary share for every 20 (Twenty) Ordinary shares held, as recommended by the Board of Directors and to pass the following resolution as an Ordinary Resolution.

RESOLVED THAT a sum of Rs. 10,204,470 out of free reserves and unappropriated profits of the Company be and is hereby capitalized for issuing 1,020,447 fully paid Ordinary shares of Rs.10/- each as bonus shares to be allotted to those shareholders whose names will appear on the members register and the entitlement list to be provided by CDC at the close of business on October 20, 2010 @ 5% i.e. in proportion of one share for every twenty shares held. These shares shall be treated for all purposes as an increase in paid-up capital of the Company and shall rank pari passu in nature with the existing shares in all respect except that they shall not qualify for the entitlement of the final dividend declared and being paid simultaneously.

FURTHER RESOLVED THAT all fractions of bonus shares be consolidated and the same be sold in the stock market and the proceeds of sale, when realized, be distributed among the members entitled thereto.

5. (b) To approve revision of remuneration of Working Director of the Company.

6. To transact any other ordinary business of the Company with the permission of the Chair.

By order of the Board

Karachi:  
September 24, 2010

MAZHAR ALI KHAN  
Company Secretary

## Notes:

- i. The share transfer books of the company will remain closed from October 21, 2010 to October 30, 2010 (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 Company's share registrar's office M/s. Noble Computer Services (Pvt) Limited, Mezzanine Floor, House of Habib Building (Siddiqsons Tower), 3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi not less than 48 hours before the time of meeting.
- iii. The member whose name appears on the register at the close of business on October 20, 2010 will be entitled to cash dividend and bonus shares.



- 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.

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**Statement under section 160(1)(b) of the companies ordinance, 1984.**  
 -----

This statement sets out the material facts concerning the special business to be transacted at the Twenty Ninth Annual General Meeting of the Company to be held on October 30, 2010.

5 (a) The Directors of the Company are of the view that the Company's financial position justifies the capitalization of a sum of Rs. 10,204,470 out of the Company's unappropriated profits/reserves enabling the issuance of 1,020,447 fully paid bonus shares of Rs. 10 each. These shares shall be issued to those Members whose names appear in the Register of Members at the close of business on October 20, 2010. The bonus shares shall be issued in the proportion of 1 (One) share for every 20 (Twenty) shares held by a Member. Accordingly, it is proposed to pass the following resolution:

RESOLVED THAT a sum of Rs. 10,204,470 out of free reserves and unappropriated profits of the Company be and is hereby capitalized for issuing 1,020,447 fully paid Ordinary shares of Rs.10/- each as bonus shares to be allotted to those shareholders whose names will appear on the member's register and the entitlement list to be provided by CDC at the close of business on October 20, 2010 @ 5% i.e. in proportion of one share of every twenty shares held. These shares shall be treated for all purposes as an increase in paid-up capital of the Company and shall rank pari passu in nature with the existing shares in all respect except that they shall not qualify for the entitlement of the final dividend declared and being paid simultaneously.

FURTHER RESOLVED THAT all fractions of bonus shares be consolidated and the same be sold in the stock market and the proceeds of sale, when realized, be distributed among the members entitled thereto.

The Directors of the Company are not directly or indirectly, personally interested in this business except to the extent of their respective shareholdings in the Company.

5 (b) According to Government regulations, shareholder's approval will be sought for payment of remuneration and the provisions of certain facilities to the Working Director of the Company as recommended by the Board of Directors of the Company. For this purpose it is proposed to pass the following resolution as an ordinary resolution.

" RESOLVED THAT the company hereby authorizes the holding of office of profit and payment as tax free revised monthly remuneration to Mr. Haseeb Ahmed, Working Director not exceeding Rs. 200,000/- (Rupees Two Hundred Thousand Only) for the year ending June 30, 2011 and for subsequent years a sum with an annual increase of upto 25% of the remuneration being paid from time to time, as determined by the Board of Directors.

The Working Director will also be provided company maintained car, leave fare assistance, free medical cover for self and family and other perquisites as per company rules and regulations in force from time to time."

# Statement of Compliance with Code of Corporate Governance

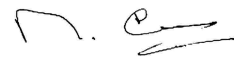
The statement is being presented to comply with the Code of Corporate Governance as contained in the listing regulations of Stock Exchanges. Company has applied the principles contained in the Code in the following manner:

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 five executive and three 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 30 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 meet 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.
21. The related party transactions have been placed before the audit committee and approved by the board of directors to comply with the requirements of listing regulation number 37 of the Karachi Stock Exchange (Guarantee) Limited.



HASEEB AHMED  
(Director)



MUHAMMAD ADREES  
(Chief Executive Officer)

## Auditor's Report & Financial Statements



## AUDITORS' REPORT TO THE MEMBERS

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

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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion-
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for change in accounting policy as stated in note 2.2.1. to these financial statements with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2010 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in Central Zakat Fund established under section 7 of that Ordinance.



M. YOUSUF ADIL SALEEM & CO  
(Chartered Accountants)

Hafiz Mohammad Yousaf  
(Engagement Partner)

September 24, 2010  
Lahore

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


We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of SITARA CHEMICAL INDUSTRIES LIMITED ("the Company") to comply with the relevant Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges in Pakistan where the Company is listed.

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

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

Further, Sub-Regulation (xiii) of Listing Regulations 37 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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



(Chartered Accountants)  
September 24, 2010  
Lahore



# BALANCE SHEET

AS AT JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	4	5,675,577,152	5,137,619,082
Investment property	5	2,724,587,856	2,705,804,900
Long-term investments	6	85,509,388	77,035,999
Long-term loans and advances	7	6,340,734	10,657,699
Long-term deposits	8	38,965,450	38,965,450
CURRENT ASSETS			
Stores, spare parts and loose tools	9	290,379,070	265,575,916
Stock-in-trade	10	502,292,282	773,761,522
Trade debts	11	433,457,125	663,921,122
Loans and advances	12	58,937,546	56,556,607
Trade deposits and short-term prepayments	13	15,415,914	22,492,557
Other receivables	14	12,154,061	12,147,808
Other financial assets	15	201,856,851	54,708,026
Tax refunds due from government	16	122,014,935	-
Cash and bank balances	17	142,969,573	294,164,537
		1,779,477,357	2,143,328,095
		<u>10,310,457,937</u>	<u>10,113,411,225</u>

The annexed notes from 1 to 45 form an integral part of these financial statements.

	Note	2010 Rupees	2009 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized:			
40,000,000 (2009: 40,000,000) "A" class ordinary shares of Rs. 10 each		400,000,000	400,000,000
20,000,000 (2009: 20,000,000) "B" class ordinary shares of Rs. 10 each		<u>200,000,000</u>	<u>200,000,000</u>
Issued, subscribed and paid up	18	204,089,590	204,089,590
Reserves	19	1,338,553,500	1,311,769,902
Un-appropriated profits		<u>1,817,708,481</u>	<u>1,446,129,495</u>
		3,360,351,571	2,961,988,987
<b>SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>	20	944,619,268	1,006,548,026
<b>NON-CURRENT LIABILITIES</b>			
Long-term financing	21	2,735,239,998	2,785,751,983
Long-term deposits	22	8,805,695	12,315,729
Deferred liabilities	23	1,132,937,848	1,003,595,790
<b>CURRENT LIABILITIES</b>			
Trade and other payables	24	591,685,038	1,645,840,997
Profit / financial charges payable	25	89,010,184	106,663,318
Short-term borrowings	26	662,000,000	125,000,000
Current portion of:			
long term financing	21	785,808,335	415,091,267
Taxation - income tax - net of advance tax		-	46,848,662
- sales tax		-	3,766,466
		2,128,503,557	2,343,210,710
<b>CONTINGENCIES AND COMMITMENTS</b>	27		
		<u>10,310,457,937</u>	<u>10,113,411,225</u>

  
 MUHAMMAD ADREES  
 CHIEF EXECUTIVE OFFICER

  
 HASEEB AHMED  
 DIRECTOR

# PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
Sales-net	28	5,735,795,493	6,178,399,033
Cost of sales	29	4,197,070,746	4,216,643,662
Gross profit		<u>1,538,724,747</u>	<u>1,961,755,371</u>
Other operating income	30	<u>27,392,429</u>	<u>27,419,688</u>
		1,566,117,176	1,989,175,059
Distribution cost	31	62,951,958	68,292,101
Administrative expenses	32	231,781,301	240,361,887
Other operating expenses	33	51,310,878	78,900,914
Finance cost	34	600,871,299	604,981,196
Share of loss of associates - net of tax	6	9,239,805	8,744,825
		<u>956,155,241</u>	<u>1,001,280,923</u>
Profit before taxation		609,961,935	987,894,136
Provision for taxation	35	147,244,514	357,439,095
Profit after taxation		<u><u>462,717,421</u></u>	<u><u>630,455,041</u></u>
Earnings per share - basic and diluted	36	<u><u>22.67</u></u>	<u><u>30.89</u></u>

The annexed notes from 1 to 45 form an integral part of these financial statements.

  
MUHAMMAD ADREES  
CHIEF EXECUTIVE OFFICER

  
HASEEB AHMED  
DIRECTOR



# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2010

	2010 Rupees	2009 Rupees
Profit after taxation	462,717,421	630,455,041
Other comprehensive income / (loss) for the year		
Deficit on re-measurement of investments available for sale on fair value	(700,147)	(10,237,643)
Deficit realized on sale of investments available for sale on fair value	2,323,325	-
	1,623,178	(10,237,643)
Total comprehensive income for the year	<u>464,340,599</u>	<u>620,217,398</u>

The annexed notes from 1 to 45 form an integral part of these financial statements.

  
MUHAMMAD ADREES  
CHIEF EXECUTIVE OFFICER

  
HASEEB AHMED  
DIRECTOR

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2010

	Capital Reserves				Revenue Reserves			Total
	Share premium	Reserve on re-measurement of available for sale investments	Share of other comprehensive income of associate	Sub-total	General reserve	Un-appropriated profit	Sub-total	
Balance as at June 30, 2008	97,490,410	(482,865)	-	97,007,545	1,225,000,000	899,931,916	2,124,931,916	2,426,029,051
Total comprehensive income / (loss)	-	-	-	-	-	630,455,041	630,455,041	630,455,041
Profit for the year ended June 30, 2009	-	-	-	(10,237,643)	-	-	-	(10,237,643)
Other comprehensive (loss) for the year ended June 30, 2009	-	(10,237,643)	-	(10,237,643)	-	630,455,041	630,455,041	620,217,398
Transfer to un-appropriated profit on account of incremental depreciation	-	-	-	-	-	68,809,731	68,809,731	68,809,731
Distribution to owners	-	-	-	-	-	(153,067,193)	(153,067,193)	(153,067,193)
Final dividend for the year ended June 30, 2008 @ Rs. 7.50 per share	-	-	-	-	-	-	-	-
Balance as at June 30, 2009	97,490,410	(10,720,508)	-	86,769,902	1,225,000,000	1,446,129,495	2,671,129,495	2,961,988,987
Total comprehensive income	-	-	-	-	-	462,717,421	462,717,421	462,717,421
Profit for the year ended June 30, 2010	-	-	-	1,623,178	-	-	-	1,623,178
*Other comprehensive income for the year ended June 30, 2010	-	1,623,178	-	1,623,178	-	462,717,421	462,717,421	464,340,599
Share of other comprehensive income of associate	-	-	25,160,420	25,160,420	-	-	-	25,160,420
Transfer to un-appropriated profit on account of incremental depreciation	-	-	-	-	-	61,928,758	61,928,758	61,928,758
Distribution to owners	-	-	-	-	-	(153,067,193)	(153,067,193)	(153,067,193)
Final dividend for the year ended June 30, 2009 @ Rs. 7.50 per share	-	-	-	-	-	-	-	-
Balance as at June 30, 2010	97,490,410	(9,097,330)	25,160,420	113,553,500	1,225,000,000	1,817,708,481	3,042,708,481	3,360,351,571

The annexed notes from 1 to 45 form an integral part of these financial statements.

  
 MUHAMMAD ADREES  
 CHIEF EXECUTIVE OFFICER

  
 HASEEB AHMED  
 DIRECTOR

# CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		609,961,935	987,894,136
Adjustments for:			
Depreciation on property, plant and equipment		435,157,650	412,745,366
Depreciation on investment property		604,456	671,618
Impairment loss on investment in associated company		5,579,904	8,659,254
Finance cost		600,871,299	604,981,196
Share of loss of associates - net of tax		9,239,805	8,744,825
loss / (Gain) on disposal of property, plant and equipment		524,343	(1,650,245)
Gain on sale of available for sale investments		(2,918,023)	-
Exchange gain		(104,254)	(918,011)
Provision for employee benefits		4,222,727	2,543,303
Provision for doubtful debts		1,055,733	431,539
Profit on bank deposits		(13,502,544)	(9,962,946)
Dividend income		(1,050,750)	(54,001)
Operating cash flows before changes in working capital		1,649,642,281	2,014,086,034
Working capital changes	42	(578,371,640)	(730,257,220)
Cash generated from operations		1,071,270,641	1,283,828,814
Finance cost paid		(618,524,433)	(535,743,814)
Employee benefits paid		(2,715,953)	(2,179,414)
Taxes paid		(192,039,293)	(396,127,960)
Profit received		10,007,112	9,661,786
Net cash from operating activities		(803,272,567)	(924,389,402)
		267,998,074	359,439,412
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of property, plant and equipment		14,417,916	5,041,298
Proceeds from disposal of available for sale investments		34,422,576	-
Purchases of property, plant and equipment		(988,057,979)	(729,676,076)
Purchases of long term investments		-	(8,692,339)
Purchase of available for sale investments		(177,030,200)	(56,520,159)
Purchase of investment property		(15,641,162)	(1,450,634,857)
Long-term loans and advances		570,715	532,248,621
Dividend received		2,918,072	2,388,154
Net cash used in investing activities		(1,128,400,062)	(1,705,845,358)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long-term financing		1,153,340,000	1,420,000,000
Payment of long-term financing		(833,134,917)	(265,671,809)
Proceeds from short-term borrowing		3,502,000,000	2,605,000,000
Payment of short-term borrowing		(2,965,000,000)	(2,195,000,000)
Payment of long-term murabaha		-	(19,438,047)
Long term deposits		(3,510,034)	(627,145)
Dividend paid		(144,488,025)	(144,635,253)
Net cash from financing activities		709,207,024	1,399,627,746
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(151,194,964)	53,221,800
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		294,164,537	240,942,737
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	17	142,969,573	294,164,537

The annexed notes from 1 to 45 form an integral part of these financial statements.

  
 MUHAMMAD ADREES  
 CHIEF EXECUTIVE OFFICER

  
 HASEEB AHMED  
 DIRECTOR



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## 1 GENERAL INFORMATION

1.1 Sitara Chemical Industries Limited ("the Company") was incorporated in Pakistan on September 08, 1981 as a public limited company under Companies Act, 1913 (now Companies Ordinance, 1984). The Company is currently listed on all Karachi, Lahore and Islamabad stock exchanges. The principal activities of the Company are operation of Chlor Alkali plant and yarn spinning unit. The registered office of the Company is situated at 601-602, Business Centre, Mumtaz Hasan Road, Karachi, in the province of Sindh and the manufacturing facilities are located at 28/32 K.M., Faisalabad - Sheikhpura Road, Faisalabad, in the province of Punjab.

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

Principal business activities are as follows:

Chemical Division Manufacturing of caustic soda and allied products

Textile Division Manufacturing of yarn

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

## 2 STATEMENT OF COMPLIANCE AND SIGNIFICANT ESTIMATES

### 2.1 STATEMENT OF COMPLIANCE

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

### 2.2 ADOPTION OF REVISED AND NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

#### 2.2.1 International Accounting Standard - 1 "Presentation of financial Statements"

The Company has applied revised IAS-1; "Presentation of financial Statements", which became effective for annual period beginning on or after January 01, 2009. Accordingly all changes in owners equity are presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

The revaluation on fixed assets does not form a part of equity in Pakistan and hence, not been considered as part of other comprehensive income. The Company has elected to present one statement only. This presentation has been applied as of and for the year ended on June 30, 2010.

This presentation has been applied in these financial statements as of and for the year ended June 30, 2010. Comparative information has been re-presented in conformity with the revised standard. The change in accounting policy impacts presentation only without any impact on earnings per share.

#### 2.2.2 Amendments to IFRS-7 Improving disclosures about financial instruments

The amendment to IFRS 7 expanded the disclosures requirements more closely in line with US standards. The amendments introduced a three level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurement. The Company has complied with said expanded disclosure in the current year and comparatives has also been re-presented in conformity with these requirements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## 2.2.3 International Financial Reporting Standard - 8 " Operating Segment"

The Company has applied IFRS - 8 "Operating Segments", which replaces IAS -14 " Segment Reporting" and became effective from January 01, 2009. IFRS - 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the key decision maker in order to allocate resources to the segments and to assess their performance. The adoption of this standard have no significant impact. This presentation has been applied as of and for the year ended on June 30, 2010 and comparative is presented accordingly.

## 2.2.4 International Accounting Standard - 23 " Borrowing Cost"

The Company has applied the IAS-23 "Borrowing Cost", which became effective for annual period beginning on or after January 01, 2009. The revised IAS removes the option to expense borrowing costs and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of qualifying asset as part of the cost of that asset. Adoption of this revised IAS has no impact on these financial statements.

## 2.3 NEW ACCOUNTING STANDARDS AND IFRS INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

The following International Financial Reporting Standards and Interpretations as notified by the Securities and Exchange Commission of Pakistan are only effective for accounting periods, beginning on or after the date mentioned against each of them:

	Effective date
Amendments to IAS 7 Statement of Cash Flows	January 01, 2010
Amendments to IAS 17 Leases	January 01, 2010
Amendments to IAS 24 Related Party Disclosures	January 01, 2010
Amendments to IFRS - 5 Non-current Assets Held for Sale and Discontinued Operations	January 01, 2010
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	July 01, 2010
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	January 01, 2011

The management believes that these accounting standards and interpretations do not have any impact on the present transactions of the Company. The Company would comply with these standards, interpretations and amendments when applicable.

## 2.4 ACCOUNTING STANDARDS, IFRS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE EFFECTIVE AND NOT APPLICABLE TO THE COMPANY

The following accounting standards and interpretation to existing standards have been published and are mandatory for the Company's accounting year beginning on January 01, 2009 but is not relevant for the Company's operations:

### 2.4.1 Amendments to IAS-39 and IFRIC-9: Embedded derivatives - January 01, 2009

The amendments clarify the accounting for embedded derivatives in the case of a reclassification of financial assets out of the "fair value through profit and loss" category as permitted by the October 2008 amendments to IAS - 39 Financial Instruments: Recognition and Measurement. The Company has not reclassified any financial assets out of the "fair value through profit and loss" and therefore, the adoption of this interpretation is unlikely to affect its financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## 2.4.2 IFRS - 2 Share based payment - January 01, 2009

The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving when another group entity or shareholder has the obligation to settle the award. The Company has not entered in to any such transaction; therefore the adoption of this interpretation is unlikely to affect its financial statements.

## 2.4.3 IFRIC - 15 Agreements for the construction of real estate - January 01, 2009

IFRIC 15 is applicable for accounting for revenue and associated expenses by entities undertaking the construction of real estate directly or through sub-contractors. The Interpretation clarifies situations in which the relevant contract is to be treated either as a contract for providing goods, providing services or construction contract under IAS 11. Since the Company is not engaged in providing real estate services, the initial adoption of this Interpretation is unlikely to affect its financial statements.

## 2.4.4 IFRIC - 16 Hedge of net investment in a foreign operation - October 01, 2008

This Interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. The adoption of this standard is not expected to affect the financial statements of the Company as it has no foreign investments.

## 2.4.5 IFRIC - 17 Distribution of non-cash assets to owners - July 01, 2009

This Interpretation deals with the situations when transfer of non-cash assets qualify for as dividends and the accounting treatment of distribution of such assets. This Interpretation is likely to affect the financial statements in case the entity decides to declare specie dividend to its shareholders.

## 2.4.6 IFRIC - 18 Transfer of assets from customers - July 01, 2009

IFRIC 18 is applied in situations where the customer transfers an item of property, plant and equipment or provides cash to acquire or construct such item and the entity must then use the item either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. The Company does not have any such assets and therefore, the adoption of this interpretation is unlikely to affect its financial statements.

## 2.5 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with IFRS's 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 recognized 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.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

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

- revaluation of certain property, plant and equipment
- long-term investments valued on equity method
- financial instruments at fair value
- recognition of certain employee retirement benefits at present value

The principal accounting policies adopted are set out below :

### 3.2 Property, plant and equipment

Property, plant and equipment except free hold land, building on freehold land, plant & machinery and capital work-in-progress are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Building on freehold land and plant and machinery are stated at revalued amount less accumulated depreciation and accumulated impairment losses, if any. Freehold land is stated at revalued amount. Capital work-in-progress is stated at cost less impairment in value, if any. Cost includes borrowing cost as referred in accounting policy of borrowing cost.

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

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

Repair and maintenance costs are charged to income during the year in which they are incurred.

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

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

Gains or losses on disposal of assets, if any, are recognized as and when incurred.

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

#### Capital work-in-progress

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

### 3.3 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is valued using the cost method i.e. at cost less any accumulated depreciation and any identified impairment loss.

Depreciation on buildings is charged to income on reducing balance method at the rate of 10% per annum. Depreciation on additions to investment property is charged from the month in which a property is acquired or capitalized while no depreciation is charged for the month in which the property is disposed off.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## 3.4 Investments

### Regular way purchase or sale of investments

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

### Investment in associates

Associates are all entities over which the Company has significant influence, but not control, generally accompanying a shareholding of 20% or more of the voting rights.

These investments are initially recognized at cost and are subsequently valued using equity method less impairment losses, 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 recognized at fair value plus transaction cost and subsequently re-measured 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 re-measurement at fair value is recognized directly in the equity under fair value reserve until sold, collected, or otherwise disposed off at which time, the cumulative gain or loss previously recognized in equity is included in profit and loss account.

### De-recognition

All investments are derecognized 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.

## 3.5 Stores, spare parts and loose tools

These are valued at lower of cost and net realizable value less allowance for the obsolete and slow moving items. Cost is determined using moving average method. Items in transit are valued at cost comprising invoice value and other charges incurred thereon, up to balance sheet date.

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

## 3.6 Stock-in-trade

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

Raw and packing materials

Weighted average cost except for those in transit which are stated at invoice price plus other charges paid thereon up to the balance sheet date .

Work-in-process:

Chemical Product  
Textile Product  
Finished goods  
Waste

- Prime cost  
- Average manufacturing cost  
- Average manufacturing cost  
- Net realizable value

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

Prime cost represent average manufacturing cost less factory overhead.

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

## 3.7 Trade debts and other receivables

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

## 3.8 Cash and cash equivalents

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

## 3.9 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 recognized 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 the amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized. Reversal of impairment loss is recognized 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 recognized as an income or expense.

## 3.10 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of liability for at least 12 months after the balance sheet date.

## 3.11 Employee Benefit Costs

Defined contribution plan - Chemical division

The Company operates an approved funded contributory provident fund scheme for all its employees eligible for benefit. Equal monthly contributions are made by the Company and employees at the rate from 6.5% to 8.33% of basic salary depending upon the length of service of an employee. The Company's contribution to the fund is charged to profit and loss account for the year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## Defined benefit plan - Textile division

The Company operates an unfunded gratuity scheme for all those permanent employees who have completed minimum qualifying period of service as defined under the respective scheme. Provision is made to cover the obligation under scheme on the basis of actuarial valuation and is charged to income. The most recent Actuarial Valuation was carried out at June 30, 2009 using "Projected Unit Credit Method".

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

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

## 3.12 Trade and other payables

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.

## 3.13 Provisions

Provisions are recognized 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.

## 3.14 Taxation

### Current

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credit, rebates and exemption 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 rates 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.

## 3.15 Dividend and other appropriations

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



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## 3.16 Financial instruments

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

## 3.17 Revenue recognition

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

- Sales of goods are recognized when goods are delivered and title has passed.
- Export rebate is recognized 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 recognized when the shareholders' rights to receive payment have been established.

## 3.18 Foreign Currencies

Transactions in currencies other than Pakistani Rupee are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are 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.

## 3.19 Related party transactions

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

## 3.20 Off setting of financial assets and financial liabilities

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

	Note	2010 Rupees	2009 Rupees	
4	PROPERTY, PLANT AND EQUIPMENT			
	Operating assets	4.1	5,489,388,596	4,851,601,851
	Capital work-in-progress	4.7	186,188,556	286,017,231
			<u>5,675,577,152</u>	<u>5,137,619,082</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

### 4.1 Operating assets - as at June 30, 2010

Description	COST / REVALUATION		ACCUMULATED DEPRECIATION			Annual rate of depreciation %
	As at July 01, 2009	Additions / (disposals)	As at June 30, 2010	As at July 01, 2009	Charge for the year/ (Accumulated depreciation on disposals)	
.....Rupees.....						
Company owned						
Freehold land	584,921,924	-	584,921,924	-	-	584,921,924
Building on freehold land:						
Mill	829,207,685	88,092,447	917,300,132	322,543,623	50,690,539	544,065,970
Head office	12,238,041	-	12,238,041	8,463,560	377,448	3,397,033
Plant and machinery	5,202,377,919	920,408,812 (35,901,665)	6,086,885,066	1,704,539,425	349,752,860 (23,804,211)	4,056,396,992
Grid station and electric installation	168,532,489	52,567,846	221,100,335	89,491,412	7,917,738	123,691,185
Containers and cylinders	70,257,448	- (408,987)	69,848,461	23,625,498	4,648,764 (260,176)	41,834,375
Factory equipment	37,672,651	9,185,009 (123,065)	46,734,595	16,019,267	2,350,157 (92,075)	28,457,246
Electric equipment	24,470,492	2,840,983 (68,185)	27,243,290	11,003,471	1,395,247 (33,964)	14,878,536
Office equipment	36,458,905	2,549,149 (155,000)	38,853,054	16,268,482	2,169,259 (64,929)	20,480,242
Furniture and fittings	14,721,542	1,418,028	16,139,570	6,104,978	907,702	9,126,890
Vehicles	135,863,126	10,824,380 (10,918,882)	135,768,624	67,060,655	14,947,936 (8,378,170)	62,138,203
2010	7,116,722,222	1,087,886,654 (47,575,784)	8,115,033,092	2,265,120,371	435,157,650 (32,633,525)	5,489,388,596

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

### Operating assets - as at June 30, 2009

Description	COST / REVALUATION		ACCUMULATED DEPRECIATION		Book value as at June 30, 2009	Annual rate of depreciation %
	As at July 01, 2008	Additions / (disposals)	As at July 01, 2008	Charge for the year/ (Accumulated depreciation on disposals)		
.....Rupees.....						
Company owned						
Freehold land	560,573,137	24,690,877 (342,090)	-	-	584,921,924	
Building on freehold land:						
Mill	724,712,175	104,495,510	277,826,419	44,717,204	322,543,623	10
Head office	12,238,041	-	8,044,173	419,387	3,774,481	10
Plant and machinery	4,705,848,943	496,528,976	1,369,427,333	335,112,092	1,704,539,425	10
Grid station and electric installation	168,524,722	7,767	80,709,933	8,781,479	79,041,077	10
Containers and cylinders	34,732,089	35,525,359	22,380,617	1,244,881	46,631,950	10
Factory equipment	32,768,322	4,960,477 (56,148)	14,076,269	1,978,580 (35,582)	21,653,384	10
Electric equipment	19,678,862	5,137,582 (345,952)	10,210,469	1,038,828 (245,826)	13,467,021	10
Office equipment	35,813,054	2,353,046 (1,707,195)	15,269,365	2,139,844 (1,140,727)	20,190,423	10
Furniture and fittings	12,277,470	2,560,348 (116,276)	5,347,738	822,398 (65,158)	8,616,564	10
Vehicles	130,030,047	14,366,287 (8,533,208)	56,792,505	16,490,673 (6,222,522)	68,802,471	20
2009	6,437,196,862	690,626,229 (11,100,869)	1,860,084,821	412,745,366 (7,709,815)	4,851,601,851	



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

4.2 Depreciation for the year has been allocated as under:

	Note	2010 Rupees	2009 Rupees
Cost of sales	29	420,344,771	396,814,080
Administrative expenses	32	14,812,879	15,931,286
		<u>435,157,650</u>	<u>412,745,366</u>

4.3 The Company had its freehold land, building and plant & machinery revalued in June 30, 2008 by Hamid Mukhtar & Company (Private) Ltd, independent valuers not connected with the Company. The basis used for the revaluation of these property plant and equipment were as follows:

#### Land Valuation

Fair market rate of the land was assessed through inquiries in the vicinity of land and information obtained through property dealers of the area.

#### Building Valuation

New construction value (new replacement value of each item of the buildings) was arrived at by looking at the condition of the buildings, valuer applied 3% per annum depreciation on "Written Down Value" basis to arrive at fair depreciated market value on "Going Concern" basis.

#### Machinery Valuation (Textile)

Inquiries were made in market to obtain prevalent replacement values of similar local and imported machinery items.

#### Machinery Valuation (Chemical)

Capitalized cost of the plant and machinery each year since its commissioning was taken as basis for revaluation. This cost has been escalated because of exchange rate increases. An average inflation rate in international prices with due consideration on the increase in international prices of the metals like mild steel, copper etc. has then been applied to arrive at an "Escalation Rate Factor", which has been instrumental for arriving at "New Replacement Values".

Depreciation due to usage has been applied on all assets of machinery at 7.50% per annum on Written down Value basis to arrive at a fair Present/Depreciated Market Value of the assets.

4.4 The revaluation surplus, net of deferred tax, is credited to surplus on revaluation of property, plant and equipment.

4.5 Had there been no revaluation the cost, accumulated depreciation and book value of revalued assets as at June 30, 2010 would have been as follows:

	Cost	Accumulated Depreciation	Book Value
	.....Rupees.....		
Land	198,828,371	-	198,828,371
Building on free hold land	836,580,745	356,883,712	479,697,033
Plant and Machinery	5,010,011,871	1,738,655,441	3,271,356,430
2010	<u>6,045,420,987</u>	<u>2,095,539,153</u>	<u>3,949,881,834</u>
2009	<u>5,072,821,392</u>	<u>1,813,278,791</u>	<u>3,259,542,601</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

4.6 The following assets were disposed off during the year:

Description	Cost	Accumulated depreciation	Carrying value	Sale Proceed	Mode of disposal	Particulars of Buyer
.....Rupees.....						
Vehicles						
Toyota Land Cruiser - FWD-7400	4,075,547	3,645,132	430,415	500,000	Negotiation	Mr.Sama Ullah S/O Mr.Sharif Mahalla Mandi Sadiq Gang, Tehsil Maschan Abad Dist., Bahawal Nagar
Honda City - FSN-2358	864,320	421,241	443,079	690,000	Insurance claim	Adamjee Insurance Company Limited
Honda City - FSG-7596	955,710	365,626	590,084	700,000	Insurance claim	Adamjee Insurance Company Limited
Honda Civic - IDM-266	1,310,987	1,071,305	239,682	745,000	Negotiation	Mr.Saqib Rasheed S/O Mr.Rasheed Ahmad House#316, Mohallah Block# E-1, Wapda Town, Lahore
Suzuki Bolan - FSK-5769	375,905	213,004	162,901	340,000	Negotiation	Mr. Umar Farooq S/O Mian Bashir Ahmad, Khyaban Colony #02, Bilal Street, Faisalabad
Office equipment						
Photocopier Cannon 7161	155,000	64,929	90,071	37,000	Exchange	Qadri Electronics Works, 15-A Faisal Plaza, Gulshan-e-Zahor, Shahrah-e-Faisal, Karachi
Containers and cylinders						
Chlorine Cylinder	98,488	40,349	58,139	99,500	Insurance claim	Adamjee Insurance Company Limited
Chlorine Cylinder	98,488	40,349	58,139	82,950	Insurance claim	Adamjee Insurance Company Limited
Plant and machinery						
Ht. Panel At Power Plant	807,401	192,868	614,533	710,000	Insurance claim	Adamjee Insurance Company Limited
Vacuum Drum Bleaching	4,974,572	2,041,161	2,933,411	3,502,676	Insurance claim	Adamjee Insurance Company Limited
Mach Conner Machine Murata 7-II (Model 1988)	7,880,665	5,645,029	2,235,636	1,300,000	Negotiation	Mehtabi Spinning Mills, Samana Pull, Sargodha Road, Faisalabad
Mach Conner Machine Murata 7-II (Model 1988)	7,880,670	5,648,282	2,232,388	1,300,000	Negotiation	Diamond International Corporation Limited, Hub Choki, Karachi "
Mach Conner Machine Murata 7-II (Model 1988)"	7,880,670	5,665,858	2,214,812	1,300,000	Negotiation	Diamond International Corporation Limited, Hub Choki, Karachi "
Mach Conner Machine Murata 7-II (Model 1990)	6,477,687	4,611,012	1,866,675	2,600,000	Negotiation	Diamond International Corporation Limited, Hub Choki, Karachi "
Others						
Aggregate of other items of property, plant and equipment with individual book value not exceeding Rs. 50,000	3,739,674	2,967,380	772,294	510,790	Sales as scrap	
2010	47,575,784	32,633,525	14,942,259	14,417,916		
2009	11,100,869	7,709,815	3,391,054	5,041,298		

4.7 Capital work-in-progress

	2010 Rupees	2009 Rupees
Civil work	49,939,181	66,422,462
Plant and machinery including in transit	90,397,675	92,118,022
Advance for property, plant and equipment	45,851,700	127,476,747
	<u>186,188,556</u>	<u>286,017,231</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
6.1.1 Sitara Energy Limited			
Cost of 933,661 (2009: 933,661) fully paid ordinary shares of Rs.10/- each		23,274,442	23,274,442
Share of post acquisition profits		21,180,138	15,124,066
		<u>44,454,580</u>	<u>38,398,508</u>
Dividend		(4,201,475)	(2,334,153)
Accumulated impairment losses		(22,000,032)	(16,420,128)
		<u>18,253,073</u>	<u>19,644,227</u>

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

	As at March 31, 2010 Rupees	As at March 31, 2009 Rupees
Total assets	3,561,571,000	3,594,533,000
Total liabilities	(2,443,205,000)	(2,561,398,000)
Net assets	<u>1,118,366,000</u>	<u>1,033,135,000</u>
Company's share of net assets	54,688,097	50,520,302
Market value per share	19.55	21.04
	Twelve months ended March 31, 2010 Rupees	Twelve months ended March 31, 2009 Rupees
Revenue	3,626,792,914	2,956,326,403
Profit for the period	123,846,051	71,880,046
Company's share of associate's profit for the year	<u>6,056,072</u>	<u>3,514,934</u>

Due to non availability of annual audited financial statements of associate at the date of authorization for issue of these financial statements, equity method has been applied on latest available un-audited financial statements for nine months ended March 31, 2010 and for the quarter ended June 30, 2009.

	2010 Rupees	2009 Rupees
6.1.2 Sitara Peroxide Limited		
Cost of 3,500,000 (2009: 3,500,000) fully paid ordinary shares of Rs.10/- each	38,692,338	38,692,338
Share of other comprehensive income of associate	25,160,420	-
Share of post acquisition loss	(19,484,291)	(7,172,379)
	<u>44,368,467</u>	<u>31,519,959</u>

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

	As at March 31, 2010 Rupees	As at March 31, 2010 Rupees
Total assets	2,850,516,088	2,223,427,000
Total liabilities	(2,077,764,686)	(1,819,751,000)
Net assets	<u>772,751,402</u>	<u>403,676,000</u>
Company's share of net assets	49,069,714	25,673,794
Market value per share	18.44	20.27



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

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

	Twelve months ended March 31, 2010 Rupees	Twelve months ended March 31, 2009 Rupees
Total assets	2,850,516,088	2,223,427,000
Total liabilities	(2,077,764,686)	(1,819,751,000)
Net assets	<u>772,751,402</u>	<u>403,676,000</u>
Company's share of net assets	49,069,714	25,673,794
Market value per share	18.44	20.27
Revenue	662,336,023	605,407,240
Loss for the period	(193,888,373)	(106,963,061)
Company's share of associate's loss for the year	<u>(12,311,912)</u>	<u>(6,151,363)</u>

Due to non availability of annual audited financial statements of associate at the date of authorization for issue of these financial statements, equity method has been applied on latest available un-audited financial statements for nine months ended March 31, 2010 and for the quarter ended June 30, 2009.

6.1.3 Takaful Pakistan Limited	2010 Rupees	2009 Rupees
Cost of 3,000,000 (2009: 3,000,000) fully paid ordinary shares of Rs.10/- each	30,000,000	30,000,000
Share of post acquisition loss	(12,112,152)	(9,128,187)
	<u>17,887,848</u>	<u>20,871,813</u>

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

Total assets	477,964,495	544,882,758
Total liabilities	(328,095,586)	(340,785,492)
Net assets	<u>149,868,909</u>	<u>204,097,266</u>
Company's share of net assets	14,986,891	20,409,727
Loss for the period	(29,839,653)	(61,083,960)
Company's share of associate's Loss for the year	<u>(2,983,965)</u>	<u>(6,108,396)</u>

Due to non availability of annual audited financial statements of associate at the date of authorization for issue of these financial statements, equity method has been applied on latest available un-audited financial statements for six months ended June 30, 2010 and for the six months ended December 31, 2009.

## 6.2 Other Investment

Available for sale - at cost Unlisted Company	Note	2010 Rupees	2009 Rupees
Dawood Family Takaful Limited 500,000 (2009: 500,000) fully paid ordinary shares of Rs.10/- each		<u>5,000,000</u>	<u>5,000,000</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
7	LONG-TERM LOANS AND ADVANCES		
	Loans and advances	279,188	849,903
	Other advances	6,061,546	9,807,796
		<u>6,340,734</u>	<u>10,657,699</u>
7.1	Loans and advances		
	Considered good		
	Secured		
	Executives - related parties	-	86,647
	Staff	628,860	1,786,890
	Unsecured		
	Staff	53,200	121,550
		<u>682,060</u>	<u>1,995,087</u>
	Less: Current portion Shown in current assets	402,872	1,145,184
		<u>279,188</u>	<u>849,903</u>
7.1.1	Loans and advances to executives represent car loans given as per the Company's policy and are secured by way of registration of vehicles in the name of the Company. Reconciliation of carrying amount for current year is as under:		
	At beginning of year	86,647	206,651
	Add: disbursed during the year	-	220,000
	Less: repayments during the year	86,647	340,004
	At end of year	<u>-</u>	<u>86,647</u>
7.1.2	These are secured by way of registration of vehicles in the name of the Company.		
7.1.3	The maximum aggregate amount due at the end of any month during the year was Rs. 2.234 million (2009 : Rs. 2.989 million).		
7.2	Other advances		
	Considered good		
	Advance for investment property	<u>6,061,546</u>	<u>9,807,796</u>
8	LONG-TERM DEPOSITS		
	Security deposits:		
	Electricity	38,910,050	38,910,050
	Others	55,400	55,400
		<u>38,965,450</u>	<u>38,965,450</u>
9	STORES, SPARE PARTS AND LOOSE TOOLS		
	Stores	121,062,596	111,777,273
	Spare parts:		
	In hand	168,621,253	151,413,410
	In transit	-	1,607,164
		<u>168,621,253</u>	<u>153,020,574</u>
	Loose tools	695,221	778,069
		<u>290,379,070</u>	<u>265,575,916</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
10. STOCK-IN-TRADE			
Raw and packing material	10.1	268,574,185	301,765,933
Work-in-process		22,218,508	26,291,098
Finished goods		207,963,771	440,133,922
Waste		3,535,818	5,570,569
		<u>502,292,282</u>	<u>773,761,522</u>

10.1 Raw and packing material includes stock in transit amounting to Rs. 32.389 million (2009 : Rs. Nil).

10.2 Stock-in-trade includes pledged stock with banks amounting to Rs. Nil (2009 : Rs. 174.566 million).

## 11. TRADE DEBTS

Related parties – considered good			
Sitara Fabrics Limited		12,115,646	1,472
Sitara Textile Industries Limited		23,822,394	15,549,360
Sitara Spinning Mills Limited		9,485	68,936
Sitara Peroxide Limited		1,758,844	453,480
Sitara Energy Limited		180,706	218,623
	11.1	37,887,075	16,291,871
Others			
Considered good			
Secured			
Foreign		4,013,772	465,469
Unsecured			
Local		391,556,278	647,163,782
Considered doubtful			
Unsecured		4,294,064	2,785,415
		399,864,114	650,414,666
Provision for doubtful debts	11.5	(4,294,064)	(2,785,415)
		<u>395,570,050</u>	<u>647,629,251</u>
		<u>433,457,125</u>	<u>663,921,122</u>

11.1 These are recoverable in ordinary course of business.

11.2 Trade receivables are non-interest bearing and relates to different products being sold on credit to customers. The credit period allowed on these products are generally on fifteen (15) days terms for dealers and twenty five (25) days terms for institutions.

11.3 The Company has provided fully for all receivables over three years because historical experience is such that receivables that are past due beyond three years are generally not recoverable. Trade debts between one year and three years are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

11.4 Before accepting any new customer, the Company makes its own survey to assess the potential customer's credit quality and defines credit limits for customers. Limits attributed to customers are reviewed once a year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

At the year end June 30, 2010 the company's largest customers and sales to those customers are as follows:

	Note	2010 Rupees	2009 Rupees
Azhar Corporation (Private) Limited		102,878,899	112,837,923
Nishat Mills Limited		82,997,101	88,426,676
Century Paper & Board Mills Limited		78,049,318	81,036,613
Sapphire Finishing Mills Limited		61,623,377	59,092,082
Rafhan Maize Products Limited		54,260,100	46,216,254
Pakistan PTA Limited		44,780,715	142,185,122
		<u>424,589,510</u>	<u>529,794,670</u>

Trade debts balances outstanding from largest customers are as follows:

Azhar Corporation (Private) Limited	4,021,573	6,182,403
Nishat Mills Limited	11,002,079	14,061,323
Century Paper & Board Mills Limited	10,974,526	17,881,414
Sapphire Finishing Mills Limited	13,532,500	2,725,612
Rafhan Maize Products Limited	4,324,800	4,833,224
Pakistan PTA Limited	<u>3,443,060</u>	<u>16,764,772</u>
	<u>47,298,538</u>	<u>62,448,748</u>

## 11.5 Movement in provision for doubtful debt

At beginning of year	2,785,415	3,804,573
Impairment losses recognized	2,065,865	1,167,015
Amount recovered during the year	(557,216)	(2,186,173)
	<u>4,294,064</u>	<u>2,785,415</u>

11.5.1 In determining the recoverability of a trade debt, the Company considers any change in the credit quality of the trade debt from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further provision required in excess of the allowance for doubtful debts.

## 12 LOANS AND ADVANCES

Considered good

Loans:

Executive - related party	-	140,000
Employees other than executives - related parties	311,535	131,252
Current portion of long-term loans and advances 7.1	<u>402,872</u>	<u>1,145,184</u>
	714,407	1,416,436

Advances:

For expenses	6,412,237	5,896,309
Letters of credit fee, margin and expenses	35,570,457	25,658,902
Suppliers and contractors	16,240,445	23,584,960

Considered doubtful - advances

For expenses	49,203	49,203
For suppliers and contractors	579,024	1,401,494
Provision for doubtful advances	<u>(628,227)</u>	<u>(1,450,697)</u>
	-	-
	<u>58,937,546</u>	<u>56,556,607</u>

38.1.3



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees	
13	TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS			
	Trade deposits	4,716,831	6,461,243	
	Short-term prepayments	10,699,083	16,031,314	
		<u>15,415,914</u>	<u>22,492,557</u>	
14	OTHER RECEIVABLES			
	Unsecured - Considered good:			
	Related parties	14.1	3,103,819	5,211,873
	Insurance claim		4,281,933	5,193,945
	Accrued profit	14.2	3,014,192	-
	Others		1,754,117	1,741,990
			<u>12,154,061</u>	<u>12,147,808</u>
14.1	It represents the following balances due from related parties:			
	Aziz Fatima Trust Hospital		-	404,573
	Sitara Spinning Mills Limited		1,568,127	1,110,793
	Sitara Fabrics Limited		94,387	90,795
	Sitara Peroxide Limited		1,419,622	1,262,815
	Sitara Textile Industries Limited		18,782	1,608,909
	Sitara Trade and Services		2,901	3,908
	Sitara Developers (Private) Limited		-	730,080
			<u>3,103,819</u>	<u>5,211,873</u>
14.1.1	These represent common nature expenses, of joint facilities, borne on behalf of related parties.			
14.2	This represents the profit accrued on term deposit certificates.			
15	OTHER FINANCIAL ASSETS			
	Available for sale at fair value	15.1	52,356,851	54,708,026
	Term Deposit Certificates	15.2	149,500,000	-
			201,856,851	54,708,026
15.1	Available-for-sale-at fair value			
	Investments at cost			
	At beginning of year		65,428,534	8,908,375
	Add: acquired during the year		27,530,200	56,520,159
	Less: sold during the year		(31,504,553)	-
	At end of year	15.1.1	61,454,181	65,428,534
	Gain/(loss)			
	At beginning of the year		(10,720,508)	(482,865)
	Loss realized during the year on sale of investments		2,323,325	-
	Loss charged to other comprehensive income		(700,147)	(10,237,643)
	At end of year		<u>(9,097,330)</u>	<u>(10,720,508)</u>
			<u>52,356,851</u>	<u>54,708,026</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

	2010 Rupees	2009 Rupees
15.1.1 Available for sale investments include followings:		
Listed Companies- Cost		
-Ittehad Chemicals Limited 36,000 (2009 : 36,000) fully paid ordinary shares of Rs.10/- each	1,245,848	1,245,848
-Al-Meezan Investment Bank Limited 361,759 (2009 : 344,533) fully paid ordinary shares of Rs.10/- each	8,555,756	8,555,756
-Nimir Industrial Chemical Limited 1,585,000 (2009 : 2,000,000) fully paid ordinary shares of Rs.10/- each	3,951,712	4,986,387
-Engro Polymer & Chemical Limited 350,000 (2009 : 350,000) fully paid ordinary shares of Rs.10/- each	7,886,322	7,886,322
-Descon Oxychem Limited 352,505 (2009 : 1,000,076) fully paid ordinary shares of Rs.10/- each	3,499,673	9,142,146
-D.G Khan Cement Company Limited 197,000 (2009 : 60,000) fully paid ordinary shares of Rs.10/- each	5,054,439	1,700,139
-Fauji Cement Company Limited 300,000 (2009 : 200,000) fully paid ordinary shares of Rs.10/- each	1,817,909	1,356,269
-Fauji Fertilizer Bin Qasim Limited 35,000 (2009 : 50,000) fully paid ordinary shares of Rs.10/- each	3,648,904	885,677
-Lafarge Pakistan Cement Limited Nil (2009 : 200,000) fully paid ordinary shares of Rs.10/- each	-	590,116
-Maple Leaf Cement Factory Limited 50,000 (2009 : 200,000) fully paid ordinary shares of Rs.10/- each	159,820	898,178
-Nimir Resins Limited Nil (2009 : 50,000) fully paid ordinary shares of Rs.10/- each	-	162,532
-Oil & Gas Development Company Limited Nil (2009 : 20,000) fully paid ordinary shares of Rs.10/- each	-	1,560,912

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

Note	2010 Rupees	2009 Rupees
-Pace (Pakistan) Limited 150,000 (2009 : 300,000) fully paid ordinary shares of Rs.10/- each	907,680	1,815,360
-Picic Growth Fund Nil (2009 : 100,000) fully paid ordinary shares of Rs.10/- each	-	870,173
-Pakistan Oilfield Limited 68,000 (2009 : 105,000) fully paid ordinary shares of Rs.10/- each	11,144,562	15,884,124
-Pakistan Petroleum Limited 10,000 (2009 : 2,500) fully paid ordinary shares of Rs.10/- each	1,887,544	474,970
-Pakistan Telecommunication Limited 50,000 (2009 : 400,000) fully paid ordinary shares of Rs.10/- each	904,820	6,633,322
-Telecard Limited Nil (2009 : 128,500) fully paid ordinary shares of Rs.10/- each	-	244,198
-Worldcall Telecom Limited Nil (2009 : 200,000) fully paid ordinary shares of Rs.10/- each	-	536,105
-National Refinery Limited 9,500 (2009 : Nil) fully paid ordinary shares of Rs.10/- each	1,748,802	-
-Pakistan State Oil Company Limited 15,000 (2009 : Nil) fully paid ordinary shares of Rs.10/- each	4,020,066	-
-Pakistan Tobacco Company Limited 10,000 (2009 : Nil) fully paid ordinary shares of Rs.10/- each	1,136,044	-
-Hub Power Company Limited 100,000 (2009 : Nil) fully paid ordinary shares of Rs.10/- each	3,219,640	-
-Kohat Cement Company Limited 100,000 (2009 : Nil) fully paid ordinary shares of Rs.10/- each	659,640	-
-Al-Meezan Investment Management Company Limited (2009 : Nil) fully paid ordinary share of Rs.10/- each	5,000	-
	<u>61,454,181</u>	<u>65,428,534</u>

15.2 These represent deposits made in different commercial banks. These are subject to profit margin ranging from 7.99% to 12.60% per annum receivable quarterly. These are maturing at various dates falling within one year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

		2010 Rupees	2009 Rupees
16	TAX REFUNDS DUE FROM GOVERNMENT		
	Advance tax - net of provision	97,740,636	-
	Sales tax	24,274,299	-
		<u>122,014,935</u>	<u>-</u>
17	CASH AND BANK BALANCES		
	Cash in hand	9,006,872	7,445,030
	Cash at banks		
	On current accounts	13,830,443	44,715,074
	On PLS-saving accounts	120,132,258	242,004,433
		<u>133,962,701</u>	<u>286,719,507</u>
		<u>142,969,573</u>	<u>294,164,537</u>
17.1	Effective mark-up rate in respect of deposit accounts range from 5.04% to 12.60% (2009 : 5.65% to 7.93%) per annum.		
18	ISSUED, SUBSCRIBED AND PAID UP		
		2010 Rupees	2009 Rupees
	Number of Shares		
	2010      2009		
	8,640,000      8,640,000	86,400,000	86,400,000
	9,783,950      9,783,950	97,839,500	97,839,500
	1,985,009      1,985,009	19,850,090	19,850,090
	<u>20,408,959</u> <u>20,408,959</u>	<u>204,089,590</u>	<u>204,089,590</u>
18.1	No shares are held by any associated Company or related party.		
18.2	The Company has no reserved shares under options and sales contracts.		
19	RESERVES		
	Capital		
	Share Premium	97,490,410	97,490,410
	Reserve on re-measurement of available for sale investments	(9,097,330)	(10,720,508)
	Share of other comprehensive income of associate	25,160,420	-
	Revenue		
	General Reserve	1,225,000,000	1,225,000,000
		<u>1,338,553,500</u>	<u>1,311,769,902</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
19.1	Reserve on re-measurement of available for sale investments		
	Valuation losses charged to other comprehensive income	(11,420,655)	(10,720,508)
	Losses realized during the year on sale of investments	2,323,325	-
		<u>(9,097,330)</u>	<u>(10,720,508)</u>
19.1.1	Fair value reserve represents the unrealized loss on re-measurement of available for sale investments at fair value and is not available for distribution. This amount will be transferred to profit and loss account on the de-recognition or impairment of investments.		
19.2	The general reserve is used from time to time to transfer profits from retained profits. There is no policy of regular transfer.		
20	SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT		
	At beginning of year	1,006,548,026	1,075,357,757
	Transfer to un-appropriated profit in respect of incremental depreciation charged during the year – (net of deferred tax)	20.1 61,928,758	68,809,731
	At end of year	<u>944,619,268</u>	<u>1,006,548,026</u>
20.1	Incremental depreciation charged during the year transferred to un-appropriated profit	94,825,724	105,284,757
	Less: Deferred tax liability relating to incremental depreciation	32,896,966	36,475,026
		<u>61,928,758</u>	<u>68,809,731</u>
21	LONG-TERM FINANCING		
	Secured		
	From banking companies and other financial institution		
	Diminishing Musharka	21.2 1,615,323,332	1,128,043,650
	Redeemable capital (issued to various institutions and individuals)	21.3 719,791,666	1,242,708,333
	Term finances	21.4 400,125,000	415,000,000
		<u>2,735,239,998</u>	<u>2,785,751,983</u>
21.1	The aggregate un-availed long term financing facilities available amounted to 186.660 million (2009: Nil).		

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## 21.2 Diminishing Musharka

From financial institutions - secured

Description	Note	Profit	Security	Repayment	2010 Rupees	2009 Rupees
The Bank of Punjab	21.2.1	Average three months KIBOR plus 150 (2009: Average three months KIBOR plus 150) basis points payable on quarterly basis. KIBOR will be set three working days prior to each quarterly period.	First pari-passu charge of Rs. 494 (2009: Rs. 494) million over specific fixed assets of Chemical Division.	Repayable in 20 equal quarterly installments commenced from January 01, 2006 and ending on October 01, 2010. This facility was early matured by the company at September 14, 2009.	90,218,250	162,392,850
Meezan Bank Limited	21.2.1	Six months KIBOR plus 2% (2009: Six months KIBOR plus 2%) per annum payable on quarterly basis.	Exclusive charge (2009: Exclusive charge) over imported plant of Chemical Division purchased through this facility.	Repayable in 21 quarterly installments commenced from April 18, 2005 and ending on April 18, 2010. This facility was early matured by the company at May 08, 2009.	-	37,247,209
Meezan Bank Limited	21.2.1	Three months KIBOR plus 1.25 % with a floor of 10.0 % and ceiling of 22.0 % (2009: Three months KIBOR plus 1.25 % with a floor of 10.0 % and ceiling of 20.0 %) payable on quarterly basis.	First specific and exclusive charge (2009: First specific and exclusive charge) over Calcium Chloride Plant & Chlorinated Paraffin Wax Plant.	Repayable in 16 quarterly installments commenced from September 28, 2009 and ending on June 28, 2013.	200,000,000	200,000,000
National bank of Pakistan	21.2.1	Three months KIBOR plus 2.5 % (2009: Three months KIBOR plus 2.5 %) per annum payable on quarterly basis.	Exclusive charge by way of hypothecation over specific fixed assets of all the project assets of 7.56 MW Gas fired power project with 25% margin (2009: 25% margin).	Repayable in 12 quarterly installments commencing from July 06, 2010 and ending on July 05, 2013.	215,000,000	215,000,000
Faysal Bank Limited	21.2.1	Three months KIBOR plus 2.5 % (2009: Three months KIBOR plus 2.5 %) per annum payable on quarterly basis.	First pari-passu charge (2009: First specific and exclusive charge) amounting to Rs. 700 million (2009: Rs. 850 million) over Membrane -III.	Repayable in 20 quarterly installments commencing from September 29, 2010 and ending on June 29, 2015.	220,000,000	220,000,000
Faysal Bank Limited	21.2.1	Three months KIBOR plus 2.5 % (2009: Three months KIBOR plus 2.5 %) per annum payable on quarterly basis.	First pari-passu charge (2009: First specific and exclusive charge) amounting to Rs. 700 million (2009: Rs. 850 million) over Membrane -III.	Repayable in 20 equal quarterly installments commencing from July 31, 2011 and ending on April 12, 2016.	250,000,000	250,000,000
Standard Chartered Bank (Pakistan) Limited	21.2.1	Three months KIBOR plus 2.5 % (2009: Three months KIBOR plus 2.5 %) per annum payable on quarterly basis.	Specific and exclusive charge (2009: Specific and exclusive charge) on existing Setup of M-II Plant consisting of 06 Electrolysis and its allied accessories.	Repayment in 16 quarterly installments commencing from September 24, 2010 and ending on June 24, 2014.	275,000,000	275,000,000

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

Description	Note	Profit	Security	Repayment	2010 Rupees	2009 Rupees
Syndicated Facility	21.2.1	Three months KIBOR plus 1.93 % per annum payable on quarterly basis.	1st Exclusive charge on plant & accessories of M-1 (135 M/T), CSP-IV 100(M.T), Bleaching plant 1 & 2 and Ammonium Chloride plant 1 & 2 amounting to Rs.1,200(Million).	This finance facility is part of syndicated Diminishing Musharka facility amounting to Rs. 900 million arranged by Standard Chartered Bank (Pakistan) Limited. Other participants are MCB Bank Limited, Habib Bank Limited, Habib Metropolitan Bank Limited and Soneri Bank Limited. Facility is repayable in 16 quarterly installments commencing from September 14, 2010 and ending on June 14, 2014.	713,340,000	-
					1,963,558,250	1,359,640,059
Less: Paid during the year					140,218,250	109,421,809
Current portion					208,016,668	122,174,600
					348,234,918	231,596,409
					1,615,323,332	1,128,043,650

21.2.1 Effective rate of profit for the year is ranging from 13.72% to 14.98% (2009 : 10.25% to 15.90%) per annum.

21.3 Redeemable capital

Participatory - Secured

Description	Note	Profit	Security	Repayment	2010 Rupees	2009 Rupees
2nd Tranche	21.3.1	Rental payments shall be calculated to provide return equivalent to benchmark rate plus incremental rental and service agency charges incurred by the trustee during the previous quarter. Bench mark rate is defined as 3 months KIBOR (2009: 3 months KIBOR) and incremental rental is defined as margin of 1.70% (2009: 1.70%) plus servicing agency expenses. Bench mark plus margin will be subject to floor of 2% and a cap of 28% (2009: floor of 2% and a cap of 28%) per annum.	Exclusive and specific hypothecation charge (2009: Exclusive and specific hypothecation charge) in respect of Musharka assets which includes gas fired Power Generation Plant located at Caustic Soda Plant at 32 Km Faisalabad - Sheikhpura Road, Faisalabad	Repayable in 16 equal quarterly installments commenced from March 04, 2008 and ending on December 04, 2011.	390,625,000	546,875,000

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

Description	Note	Profit	Security	Repayment	2010 Rupees	2009 Rupees
3rd Tranche	21.3.1	Rental payments shall be calculated to provide return equivalent to benchmark rate plus incremental rental and service agency charges incurred by the trustee during the previous quarter. Benchmark rate is defined as 3 months KIBOR (2009: 3 months KIBOR) and incremental rental is defined as margin of 1.00% (2009: 1.00%) plus servicing agency expenses.	Exclusive and specific hypothecation charge (2009: Exclusive and specific hypothecation charge) in respect of Musharka assets which include all fixed assets of BMR and expansion of 210 MTD Caustic Soda Plant at 32 Km Faisalabad - Sheikhupura Road, Faisalabad and to the extent of beneficial rights of certificate holders.	Repayable in 12 equal quarterly installments commenced from April 02, 2010 and ending on January 2, 2013.	1,100,000,000	1,100,000,000
					1,490,625,000	1,646,875,000
					247,916,667	156,250,000
					522,916,667	247,916,667
					770,833,334	404,166,667
					719,791,666	1,242,708,333
21.3.1	Effective rate of profit for the year is from 13.57% to 14.32% (2009 : from 14.55% to 15.21%) per annum.					
21.4	Term Finances					
Saudi Pak Industrial and Agricultural Investment Company Limited	21.4.1	Three months KIBOR plus 4 % (2009: Three months KIBOR plus 4 %) per annum payable on quarterly basis.	A pari-passu ranking charge by way of hypothecation on present and future current assets with 25% margin (2009: 25% margin) which will be upgraded in first pari-passu charge of current assets of the Company with 25% margin with in 90 days from the date of disbursement.	Repayable in 2 installments of Rs. 200 million each, First such installment will be due on September 16, 2010 and the second installment will be made on December 16, 2010. This facility was early matured by the company at December 16, 2009.	400,000,000	400,000,000
Saudi Pak Industrial and Agricultural Investment Company Limited	21.4.1	Three months KIBOR plus 4 % (2009: Three months KIBOR plus 4 %) per annum payable on quarterly basis.	Equitable mortgage of the land measuring 122 Kanals and 12 Marlas situated at Muza Biadanwala, chak 61/R.B. Tehsil Jaranwala, District Faisalabad.	Repayable in 04 quarterly installments commenced from November 14, 2009 and ending on August 14, 2010.	60,000,000	60,000,000
Saudi Pak Industrial and Agricultural Investment Company Limited	21.4.1	Three months KIBOR plus 2.75% per annum payable on quarterly basis.	First pari-passu charge amounting to Rs. 260 million over Membrane - III.	Repayable in 16 equal quarterly installments commencing from April 28, 2011 and ending on January 28, 2015.	150,000,000	-
Pak Oman Investment Company Limited.	21.4.1	Three months KIBOR plus 2.6 % per annum payable on quarterly basis.	First pari-passu charge amounting to Rs. 266.67 million over Membrane - III.	Repayable in 16 equal quarterly installments commencing from June 19, 2011 and ending on March 19, 2015.	200,000,000	-

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

Description	Note	Profit	Security	Repayment	2010 Rupees	2009 Rupees
The Bank of Punjab	21.2.1	Three months KIBOR plus 1.93 % per annum payable on quarterly basis.	Specific and exclusive charge amounting to Rs. 120 million over CSP -III.	Repayable in 20 equal quarterly installments commencing from June 30, 2010 and ending on March 31, 2015.	90,000,000	-
					900,000,000	460,000,000
Less: Paid during the year					445,000,000	-
Current portion					54,875,000	45,000,000
					499,875,000	45,000,000
					400,125,000	415,000,000

21.4.1 Effective rate of profit for the year is from 13.84% to 16.44% (2009 : from 16.90% to 17.65%) per annum

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

Maturity	2010 Rupees	2009 Rupees
6 months or less	389,466,667	154,212,300
6 - 12 months	396,341,667	260,878,967
1 - 5 years	2,735,239,999	2,654,151,983
Over 5 years	-	131,600,000
	3,521,048,333	3,200,843,250

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

## 22 LONG-TERM DEPOSITS

From customers		7,135,695	10,645,729
Others	22.1	1,670,000	1,670,000
		8,805,695	12,315,729

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

## 23 DEFERRED LIABILITIES

Deferred taxation	23.1	1,126,225,072	998,389,788
Employee benefit-gratuity	23.2	6,712,776	5,206,002
		1,132,937,848	1,003,595,790

23.1 Deferred taxation

This comprises the following:

Deferred tax liability on taxable temporary differences arising in respect of:

Tax depreciation allowance	834,914,813	673,645,713
Surplus on revaluation of property, plant and equipment	294,262,477	327,108,332
	1,129,177,290	1,000,754,045

Deferred tax asset on deductible temporary difference arising in respect of:

Provision for employee benefits	1,463,745	1,803,576
Provision for doubtful debts	1,488,473	560,681
	2,952,218	2,364,257
	1,126,225,072	998,389,788



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees			
23.2 Employee benefit- Gratuity						
The amounts recognized in the profit and loss account against staff gratuity are as follows:						
23.2.1 Movement in liability recognized in balance sheet						
At beginning of year		5,206,002	4,842,113			
Charge for the year		4,222,727	2,543,303			
Benefits paid during the year		(2,715,953)	(2,179,414)			
		<u>6,712,776</u>	<u>5,206,002</u>			
23.2.2 Movement in present value of defined benefits obligation as at June 30,						
Present value of unfunded obligation		10,536,595	9,972,027			
Unrecognized actuarial losses		(3,823,819)	(4,766,025)			
Net liability recognized in the balance sheet		<u>6,712,776</u>	<u>5,206,002</u>			
23.2.2.1 Expense recognized in profit & loss account						
Charge for the year						
Current service cost		1,984,157	1,926,492			
Interest cost		1,296,364	566,155			
Net actuarial loss recognized during the year		<u>942,206</u>	<u>50,656</u>			
		<u>4,222,727</u>	<u>2,543,303</u>			
23.2.3 Principal actuarial assumptions						
Discount rate (Per annum)		13%	13%			
Expected rate of increase in salaries (Per annum)		13%	13%			
Expected average remaining working lives of employees (years)		4	4			
23.2.4 Historical information for gratuity plan						
		2010	2009	2008	2007	2006
Present value of defined benefit obligation		10,536,595	9,972,027	5,661,547	5,479,288	5,747,205
Un recognized actuarial losses		(3,823,819)	(4,766,025)	(819,434)	(887,310)	(659,665)
24 TRADE AND OTHER PAYABLES						
Creditors	24.1	170,072,037				205,342,907
Accrued liabilities	24.2	191,826,288				369,238,655
Advances from customers		30,582,113				27,592,665
Murabaha payable	24.3	124,920,583				925,950,193
Payable to provident fund - related party	24.4	1,179,680				1,001,599
Unclaimed dividend		21,108,740				12,529,572
Retentions / security deposits		22,704,775				28,505,838
Withholding tax		2,619,812				2,206,495
Workers' profit participation fund	24.5	14,172,807				53,318,493
Workers' welfare fund		12,448,203				20,104,580
Others		50,000				50,000
		<u>591,685,038</u>				<u>1,645,840,997</u>

24.1 It includes Rs. 101.662 million (2009: Rs. 78.503 million) due to associated undertakings.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

- 24.2 It includes Rs. 11.424 million (2009: Rs. 67.575 million) due to associated undertakings.
- 24.3 The aggregate unavailed facilities available to the Company from banking companies amounted to Rs. 2,528 million (2009: Rs. 1,617 million). These are subject to profit margin ranging from 13.03% to 14.67% (2009: 13.73% to 15.79%) per annum and are secured against joint 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.
- 24.4 This represents contribution of the Company and employees in respect of contribution from last month's salary. Subsequent to year end same was deposited in the provident fund's separate bank account.

	Note	2010 Rupees	2009 Rupees
24.5 Workers' profit participation fund			
Workers' profit participation fund	24.5.1	13,870,428	52,906,790
Unclaimed Workers' profit participation fund		302,379	411,703
		14,172,807	53,318,493
24.5.1 Worker profit participation fund			
At beginning of year		52,906,790	49,552,886
Less:			
Amount paid to workers on behalf of the fund		36,889,535	27,116,105
Amount deposited in workers' welfare fund		16,017,255	22,436,781
		52,906,790	49,552,886
		-	-
Allocation for the year	33	32,758,428	52,906,790
Paid to WPPF Trust out of current liability		18,888,000	-
At end of year		13,870,428	52,906,790
25 PROFIT / FINANCIAL CHARGES PAYABLE			
Long-term financing		82,152,405	63,680,379
Murabaha financing		6,857,779	42,982,939
		89,010,184	106,663,318
26 SHORT-TERM BORROWINGS			
Secured			
From banking companies	24.3	662,000,000	125,000,000
27 CONTINGENCIES AND COMMITMENTS			
27.1 Contingencies			
Sales tax demand not acknowledged			
in view of pending appeals		3,398,316	3,398,316
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		188,289,879	180,549,503
27.2 Commitments			
Capital expenditure		-	87,053,843
Outstanding letters of credit for raw material and spares		17,390,366	70,690,732

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

28 SALES-NET

### Geographical information

The Company do not have any geographical segment.

### Segment Information

Segmental results and other information are provided below on the basis of business segment. These segments are:

Chemical division - represents Chlor Alkali plant

Textile division - represents Spinning unit

	Chemical		Textile		Total
	2010	2009	2010	2009	
Revenue	3,876,542,350	5,024,880,211	-	-	3,876,542,350
Sales:					
Own products	412,639,102	509,576,354	-	-	412,639,102
Local	106,016,880	87,530,672	-	-	106,016,880
Caustic soda	121,484,668	117,676,873	-	-	121,484,668
Sodium hypochlorite	314,806,557	230,570,829	-	-	314,806,557
Bleaching powder	55,801,116	72,961,127	-	-	55,801,116
Liquid chlorine	104,518,686	59,274,717	-	-	104,518,686
Hydrochloric acid	59,810,104	59,313,524	-	-	59,810,104
Ammonium chloride	-	-	1,310,679,929	806,583,465	1,310,679,929
Magnesium chloride and others	-	-	6,294,830	5,972,441	6,294,830
Agri chemicals	-	-	-	-	-
Yarn	-	-	-	-	-
Waste	-	-	-	-	-
Export	5,962,632	7,714,860	-	-	5,962,632
Caustic soda flakes	10,518,929	7,767,800	-	-	10,518,929
Liquid chlorine	1,956,908	11,008,764	-	-	1,956,908
Bleaching powder	21,697,760	36,346,399	-	-	21,697,760
Ammonium chloride	15,007,312	12,533,959	-	-	15,007,312
Others	5,106,763,004	6,237,156,089	1,316,974,759	812,555,906	6,423,737,763
					7,049,711,995

.....Rupees.....

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

	Chemical		Textile		Total	
	2010	2009	2010	2009	2010	2009
Less:						
Commission and discount	150,815,418	111,591,088	-	1,540,704	150,815,418	113,131,792
Excise duty	505,497,285	44,775,341	-	-	505,497,285	44,775,341
Sales tax	31,629,567	713,405,829	-	-	31,629,567	713,405,829
Sales - net	<u>4,418,820,734</u>	<u>5,367,383,831</u>	<u>1,316,974,759</u>	<u>811,015,202</u>	<u>5,735,795,493</u>	<u>6,178,399,033</u>
Result						
Segment result	1,085,527,408	1,615,786,471	160,534,080	39,121,412	1,246,061,488	1,654,907,883
Unallocated income / (expenses)						
Other operating income					27,392,429	27,419,688
Administrative expenses					(2,070,000)	(1,806,500)
Other operating expenses					(51,310,878)	(78,900,914)
Finance cost					(600,871,299)	(604,981,196)
Share of loss of associated company					(9,239,805)	(8,744,825)
Profit before taxation					609,961,935	987,894,136
Provision for taxation					147,244,514	357,439,095
Profit after taxation					<u>462,717,421</u>	<u>630,455,041</u>
Other information						
Segment assets	6,639,891,168	7,888,725,413	940,911,083	366,000,440	7,580,802,251	8,254,725,853
Unallocated corporate assets					2,729,655,686	1,858,685,372
					<u>10,310,457,937</u>	<u>10,113,411,225</u>
Segment liabilities	341,676,551	562,999,459	84,175,091	849,907,663	425,851,642	1,412,907,122
Unallocated corporate liabilities					9,884,606,295	8,700,504,103
					<u>10,310,457,937</u>	<u>10,113,411,225</u>
Capital expenditure	1,087,305,734	690,389,562	580,920	236,667	1,087,886,654	690,626,229
Depreciation	400,921,933	374,301,088	34,235,717	38,444,278	435,157,650	412,745,366

28.1 Inter-segment pricing / sales

There is no purchase and sale between the segments.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
29 COST OF SALES			
Raw material consumed	29.1	1,138,193,667	1,291,998,770
Fuel and power		1,919,270,076	2,302,203,271
Salaries, wages and benefits	29.2	217,447,828	226,820,677
Stores and spares		135,934,344	193,496,665
Repair and maintenance		61,585,886	30,373,616
Vehicle running and maintenance		24,967,697	25,468,765
Traveling and conveyance		16,402,889	13,241,823
Insurance		14,548,319	12,894,782
Depreciation	4.2	420,344,771	396,814,080
Others		9,889,642	7,115,653
		<u>3,958,585,119</u>	<u>4,500,428,102</u>
Work-in-process			
Opening stock		26,239,677	28,470,059
Closing stock		(22,218,508)	(26,239,677)
		<u>4,021,169</u>	<u>2,230,382</u>
Cost of goods manufactured		3,962,606,288	4,502,658,484
Finished stocks			
Opening stock		445,964,047	158,005,726
Closing stock		(211,499,589)	(445,964,047)
		<u>234,464,458</u>	<u>(287,958,321)</u>
Cost of goods sold - own manufactured products		4,197,070,746	4,214,700,163
- Purchased Goods		-	1,943,499
		<u>4,197,070,746</u>	<u>4,216,643,662</u>
29.1 Raw material consumed			
Opening stock		301,765,933	340,440,010
Purchases		1,105,001,919	1,273,740,596
		1,406,767,852	1,614,180,606
Cost of raw cotton sold		-	(20,415,903)
Closing stock		(268,574,185)	(301,765,933)
		<u>1,138,193,667</u>	<u>1,291,998,770</u>

29.2 Salaries, wages and benefits include Rs. 5,424,736 (2009 Rs. 4,002,699) in respect of employee retirement benefits.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

30	OTHER OPERATING INCOME	Note	2010 Rupees	2009 Rupees
	Sale of scrap and waste		4,251,893	10,019,595
	Profit on deposits		7,886,060	9,962,946
	Profit on term deposits		5,616,484	-
	Rent income		4,242,641	4,341,268
	Gain on disposal of property plant and equipment		-	1,650,245
	Gain on sale of available for sale investments		2,918,023	-
	Exchange gain		104,254	918,011
	Dividend income		1,050,750	54,001
	Others		1,322,324	473,622
			<u>27,392,429</u>	<u>27,419,688</u>
31	DISTRIBUTION COST			
	Staff salaries and benefits	31.1	14,383,716	14,923,775
	Freight, octroi and insurance		34,973,927	38,695,791
	Advertisement		620,272	283,996
	Vehicles running and maintenance		5,906,371	5,947,972
	Traveling and conveyance		1,681,235	1,592,173
	Postage and telephone		953,684	841,008
	Printing and stationery		243,548	247,132
	Others		4,189,205	5,760,254
			<u>62,951,958</u>	<u>68,292,101</u>
31.1	Staff salaries and benefits include Rs. 437,978 (2009 Rs. 403,371) in respect of employee retirement benefits.			
32	ADMINISTRATIVE EXPENSES			
	Directors' remuneration		30,445,102	27,103,443
	Staff salaries and benefits	32.1	84,851,758	81,114,041
	Postage, telephone and telex		4,512,801	3,995,632
	Vehicles running and maintenance		8,979,572	8,719,951
	Printing and stationery		3,479,444	3,397,867
	Electricity		3,700,571	2,551,561
	Rent, rates and taxes		1,175,600	1,014,328
	Traveling and conveyance		12,406,312	15,079,570
	Advertisement		7,297,069	13,500,023
	Books and periodicals		147,243	305,468
	Fees and subscription		13,190,251	14,446,638
	Legal and professional		4,296,929	1,083,856
	Repairs and maintenance		3,827,149	7,698,386
	Auditors' remuneration	32.2	2,070,000	1,806,500
	Entertainment		4,409,638	5,718,435
	Donations	32.3	27,887,108	33,171,684
	Insurance		1,290,800	1,679,295
	Depreciation	4.2	14,812,879	15,931,286
	Depreciation on investment property	5.2	604,456	671,618
	Provision for bad debts and doubtful advances		1,055,733	431,539
	Other		1,340,886	940,766
			<u>231,781,301</u>	<u>240,361,887</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

32.1 Staff salaries and benefits include Rs. 2.977 million (2009 Rs. 2.104 million) in respect of employee retirement benefits.

32.2	Note	2010 Rupees	2009 Rupees
Auditors' remuneration			
Annual statutory audit		1,200,000	1,000,000
Half yearly and CoCG compliance reviews		300,000	250,000
Out of pocket		70,000	56,500
Tax advisory services		500,000	500,000
		<u>2,070,000</u>	<u>1,806,500</u>

32.3 It includes Rs. 21.909 million (2009: Rs. 22.755 million) donated to Aziz Fatima Trust (AFT), Faisalabad which is primarily running a charitable hospital for needy and poor people. Mr. Haji Bashir Ahmed, Mr. Javed Iqbal, Mr. Muhammad Adrees & Imran Ghafoor, the directors of the Company are also the Trustees of the AFT.

## 33 OTHER OPERATING EXPENSES

Loss on disposal of property, plant and equipment		524,343	-
Worker's profit participation fund	24.5.1	32,758,428	52,906,790
Worker's welfare fund		12,448,203	17,334,870
Impairment loss on investment in associated company		5,579,904	8,659,254
		<u>51,310,878</u>	<u>78,900,914</u>

## 34 FINANCE COST

Long-term financing		437,823,607	313,025,151
Long-term murabaha		-	403,939
Murabaha payable		153,658,559	283,044,484
Bank charges and commission		9,389,133	8,507,622
		<u>600,871,299</u>	<u>604,981,196</u>

## 35 PROVISION FOR TAXATION

Current			
for the year		86,362,472	303,228,374
for prior years		(66,953,242)	8,658,154
Deferred		127,835,284	45,552,567
		<u>147,244,514</u>	<u>357,439,095</u>

35.1 Numerical reconciliation between the applicable and effective tax rate

	2010 %	2009 %
Applicable tax rate	35	35
Prior year adjustments	(11)	0
Inadmissible expenses	-	1
Tax credit of donations	(1)	(1)
Income taxed at different rates	1	1
Effective tax rate	<u>24</u>	<u>36</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## 36 EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on basic earnings per share of the Company, which is computed as follows:

		2010	2009
Profit for the year	Rs.	462,717,421	630,455,041
Weighted average number of ordinary			
Number of shares outstanding during the year		20,408,959	20,408,959
Earnings per shares	Rs.	22.67	30.89

## 37 DIVIDEND AND APPROPRIATION

In respect of current year, the directors have proposed to pay 5% bonus share (2009: Nil) along with final cash dividend of Rs.51.02 million (2009: Rs.153.07 million) at Rs. 2.5 (2009: Rs. 7.50) per ordinary share of Rs. 10 each for approval of the shareholders at the forthcoming Annual General Meeting. Financial effect of the proposed dividend has not been taken in these financial statements and will be accounted for subsequently in the year when such dividend is approved.

## 38 FINANCIAL RISK MANAGEMENT

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

Credit risk  
Liquidity risk  
Market risk

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

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks.

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## 38.1 Credit risk and concentration of credit risk

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

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

The Company does not hold collateral as security.

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

### 38.1.1 Counterparties

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

#### Trade debts

Trade debts are essentially due from local customers against sale of yarn, caustic soda, hydrochloric acid, agri chemicals and other allied products and from foreign customers against supply of ammonium chloride and allied products and the Company does not expect these counterparties to fail to meet their obligations. The majority of sales to the Company's customers are made on specific terms. Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria. Credit quality of the customer is assessed based on an extensive credit rating. Outstanding customer receivables are regularly monitored and any shipments to foreign customers are generally covered by letters of credit or other form of credit insurance.

#### Bank and investments

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

### 38.1.2 Exposure to credit risk

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

	2010 Rupees	2009 Rupees
Trade debts	433,457,125	663,921,122
Loans and advances	22,964,217	29,752,521
Other receivables	12,154,061	12,147,808
Other financial assets	201,856,851	54,708,026
Bank balances	133,962,701	294,164,537
	<u>804,394,955</u>	<u>1,054,694,014</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

	2010 Rupees	2009 Rupees
Geographically there is no concentration of credit risk.		
The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:		
Chemical - local	402,217,857	628,830,382
Textile - local	30,351,083	31,242,977
Agri chemical - local	888,185	3,382,294
	<u>433,457,125</u>	<u>663,455,653</u>

There is no single significant customer in the trade debts of the Company.

The maximum exposure to credit risk for trade debts at the reporting date by type of product was:

	2010 Rupees	2009 Rupees
Textile	30,351,083	31,242,977
Chemicals	403,106,042	632,212,676
	<u>433,457,125</u>	<u>663,455,653</u>

### 38.1.3 Impairment losses

The aging of trade receivables at the reporting date was:

	Gross 2010	Impairment 2010	Impairment 2009	Gross 2009
----- Rupees -----				
Not past due	139,901,847	-	429,919,319	-
Past due 0-30 days	106,194,326	-	78,079,151	-
Past due 30-60 days	36,854,524	-	52,932,322	-
Past due 60-90 days	26,688,179	-	34,805,794	-
Over 90 days	116,002,150	4,294,064	70,969,951	2,785,414
	<u>425,461,026</u>	<u>4,294,064</u>	<u>666,706,537</u>	<u>2,785,414</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2010 Rupees	2009 Rupees
Balance at 1 July	2,785,415	3,804,573
Impairment loss (reversed) / recognized	1,508,649	(1,019,158)
Balance at 30 June	<u>4,294,064</u>	<u>2,785,415</u>

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



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

The movement in the allowance for impairment in respect of loans and advances during the year was as follows:

	Note	2010 Rupees	2009 Rupees
At beginning of year		1,450,697	7,461,769
Impairment loss (recovered) / recognized		(463,112)	1,450,697
Amount written off		(359,358)	(7,461,769)
At end of year	12	<u>628,227</u>	<u>1,450,697</u>

The allowance accounts in respect of trade receivables and loans and advances are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

## 38.2 Liquidity risk management

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

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 22.3 to these financial statements is a listing of additional undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

### 38.2.1 Liquidity and interest risk table

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

Carrying amount and contractual cash flows of trade and other financial liabilities are approximately same.

	Carrying amount	
	2010 Rupees	2009 Rupees
Trade and other Payables Maturity up to one year	466,764,455	719,890,804
Short term borrowings Maturity up to one year	786,920,583	1,050,950,193
Long term financing Maturity up to one year	785,808,335	415,091,267
Maturity after one year and up to five years	2,735,239,999	2,654,151,983
Maturity after five years	-	131,600,000
	<u>4,774,733,372</u>	<u>4,971,684,247</u>

### 38.3 Market risk

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

#### 38.3.1 Foreign currency risk management

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

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

The potential currency exposures are discussed below;

Transactional exposure in respect of non functional currency monetary items

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

Transactional exposure in respect of non functional currency expenditure and revenues

Certain operating and capital expenditure is incurred by the Company in currencies other than the functional currency. Certain sales revenue is earned in currencies other than the functional currency of the Company. These currency risks are managed as a part of overall risk management strategy.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

Exposure to foreign currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

	2010 US\$	2009 US\$
Trade debts	47,602	5,739
	<u>47,602</u>	<u>5,739</u>

Commitments outstanding at year end amounted to Rs. 17.390 million (2009: Rs. 144.503 million) relating to letter of credits for import of plant and machinery, stores spare parts and raw material.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
	----- Rupees -----		----- Rupees -----	
US\$ 1	<u>83.15</u>	<u>78.82</u>	<u>84.32</u>	<u>81.1</u>

Sensitivity analysis

A 10 percent strengthening of the Pak Rupee against the USD at June 30, 2010 would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for June 30, 2009.

Decrease in profit and loss account	<u>401,380</u>	<u>59,664</u>
-------------------------------------	----------------	---------------

A 10 percent weakening of the Pak Rupee against the US \$ at June 30, 2010 would have had the equal but opposite effect on US \$ to the amounts shown above, on the basis that all other variables remain constant.

## 38.4 Interest rate risk

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

Profile

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

	2010	2009	2010	2009
	-----%-----		----- Rupees -----	
Fixed rate instruments				
Financial assets	-	-	-	-
Financial liabilities				
Long term financing	-	-	<u>-</u>	<u>-</u>
			<u>-</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss; therefore, a change in interest rate would not affect profit or loss.

Floating rate instruments	2010 ------% -----	2009 -----	2010 ----- Rupees -----	2009 -----
Financial assets				
Bank balances	5.04% to 12.60%	5.65% to 7.93%	120,132,258	242,004,433
Term Deposits	7.99% to 12.60%	-	149,500,000	
Financial liabilities				
Long term financing	13.57% to 16.44%	14.55% to 17.65%	<u>2,735,239,998</u> (2,465,607,740)	<u>2,785,751,983</u> (2,543,747,550)

## Fair value sensitivity analysis for floating rate instruments

The following table demonstrates the sensitivity to a reasonably possible change in floating interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings). There is only an immaterial impact on the Company's equity.

	Increase / (Decrease) in basis points %	Effect on profit before tax Rupees
2010		
Short term borrowings	1.25%	11,486,692
Long term financing		<u>42,011,822</u>
		<u>53,498,514</u>
2009		
Short term borrowings	1.25%	15,247,821
Long term financing		<u>32,917,477</u>
		<u>48,165,298</u>

## 38.5 Equity Price Risk Management

The Company's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. The Company's Board of Directors reviews and approves all equity investment decisions.

At the balance sheet date, the exposure to various listed equity securities at fair value was Rs. 52,356,851.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## 38.6 Determination of fair values

### Fair value of financial instruments

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

Available for sale investments as disclosed in other financial assets, are presented at fair value by using quoted prices at Karachi Stock Exchange as at June 30, 2010. The carrying values of all other financial assets and liabilities reflected in the financial statements approximate their fair values.

## 38.7 Capital risk management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses. The Company manages its capital structure which comprises capital and reserves by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders, appropriation of amounts to capital reserves or/and issue new shares.

## 39 REMUNERATION TO CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the accounts of the year for remuneration including all benefits to Chief Executive, Directors and Executives of the Company were as follows:

	2010			2009		
	Chief Executive	Directors	Executive	Chief Executive	Directors	Executive
	-----Rupees-----					
Remuneration	10,000,008	4,800,012	33,677,936	9,200,004	4,000,008	25,548,704
Retirement benefits	-	-	1,581,716	-	-	1,175,354
Perquisite						
House rent	3,999,996	1,979,988	10,179,625	3,680,004	1,659,996	7,705,740
Utilities	999,996	420,000	3,291,411	919,992	339,996	2,513,649
Medical allowance	-	-	3,367,910	-	-	195,752
Special allowance	-	-	316,160	-	-	264,019
Income tax	3,432,777	1,541,414	22,800	1,467,772	1,320,430	-
	<u>18,432,777</u>	<u>8,741,414</u>	<u>52,437,558</u>	<u>15,267,772</u>	<u>7,320,430</u>	<u>37,403,218</u>
Number of persons	<u>1</u>	<u>3</u>	<u>38</u>	<u>1</u>	<u>2</u>	<u>31</u>

39.1 The Chief Executive, certain Directors and Executives are provided with free use of Company's cars and telephone etc having value amounting to Rs. 3.271 million (2009: Rs. 4.515 million).

39.2 Directors have waived their meeting fee.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## 40 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise holding company, subsidiary and associated undertakings, other related group companies, directors of the company, key management personnel and post employment benefit plans. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables and remuneration of directors and key management personnel is disclosed in note 39. Other significant transactions with related parties are as follows:

Relationship with the Company	Nature of transactions	2010	2009
		----- Rupees -----	
Associated Undertakings	Sales	51,373,397	37,498,624
	Purchases	377,212	2,747,888
	Organizational expenses recovered	5,054,601	2,325,395
	Organizational expenses paid	3,449,860	142,327
	Power charges paid	837,620,397	920,176,580
	Dividend received	1,867,322	2,334,153
	Donation	21,908,758	22,755,060
Key management personnel	Remuneration to Executives	79,611,749	59,991,420
	Post-employment benefits	8,839,473	6,146,974

All transactions with related parties have been carried out on commercial terms and conditions.

## 41 PLANT CAPACITY AND PRODUCTION

### Chemical Division

	Designed Capacity		Actual Production		Reason of variation
	2010	2009	2010	2009	
	.....Tons.....				
Caustic soda	201,300	178,200	105,479	146,601	Due to electricity shut down and lack in Demand. Further caustic soda production capacity has been increased in 4th quarter.
Sodium hypochlorite	66,000	66,000	26,800	37,793	Due to electricity shut down and lack in demand
Liquid chlorine	9,900	9,900	8,329	8,687	
Ammonium chloride	6,600	3,400	3,230	4,048	
Bleaching powder	7,500	7,500	4,629	4,401	Due to increase in demand
Hydrochloric acid	212,200	180,000	133,887	131,903	

### Textile Division

	2010	2009
Ring Spinning		
Number of spindles installed	22,080	22,080
Number of spindles worked	3	3
Number of shifts per day	Installed capacity after	
conversion into 20/s count (K.gs.)	10,110,166	10,110,166
Actual production of yarn after conversion into 20/s count (K.gs.)	9,124,358	10,234,394

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

42 WORKING CAPITAL CHANGES	2010 Rupees	2009 Rupees
(Increase) / decrease in current assets		
Stores, spare parts and loose tools	(24,803,154)	67,959,605
Stock-in-trade	271,469,240	(246,845,727)
Trade debts	229,512,518	(99,646,452)
Loans and advances	(2,380,939)	91,552,767
Trade deposits and short-term prepayments	7,076,643	(13,673,867)
Other receivables	3,489,179	(3,529,036)
	484,363,487	(204,182,710)
Decrease in current liabilities		
Trade and other payables	(1,062,735,127)	(526,074,510)
	<u>(578,371,640)</u>	<u>(730,257,220)</u>

## 43 RECLASSIFICATION

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:

From	To	Reason	Amount re-classified Rupees
Balance sheet			
Trade and other payables	Short-term borrowings	For better presentation	125,000,000
Cash flow statement			
Increase in trade and other payables	Proceeds from short-term borrowing	For better presentation	2,605,000,000
Decrease in trade and other payables	Payment of short-term borrowing	For better presentation	(2,195,000,000)

The above re-arrangements / reclassifications do not affect retained earnings for the year ended June 30, 2008. Therefore, the balance sheet for the year ended June 30, 2008 has not been prepared.

## 44 GENERAL

Figures have been rounded off to the nearest Rupee.

## 45 DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on September 24, 2010 by the Board of Directors of the Company.

  
 MUHAMMAD ADREES  
 CHIEF EXECUTIVE OFFICER

  
 HASEEB AHMED  
 DIRECTOR

## Form of Proxy

### IMPORTANT

This form of Proxy, in order to be effective, must be deposited duly completed, at the Company's Share Registrar's Office at M/s Noble Computer Services (Pvt) Limited, Mezzanine Floor, House of Habib Building (Siddiqsons Tower), 3-Jinnah Coperative Housing Society, Main Shahrah-e-Faisal, Karachi not less than 48 hours before the time of holding the meeting.

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

Please quote Registered Folio Number / CDC Account Number

I/We \_\_\_\_\_  
of \_\_\_\_\_  
being a member of Sitara Chemical Industries Limited entitled to vote and holder \_\_\_\_\_  
of ordinary shares hereby appoint \_\_\_\_\_  
of \_\_\_\_\_  
who is also a member of the Company, as my/our proxy in my/our absence to attend and vote for  
me/us on my/our behalf at the 29th Annual General Meeting of the Company to be held at  
Dr. Abdul Qadeer Khan Auditorium, Haji Abdullah Haroon Muslim Gymkhana, Near Shaheen  
Complex, Aiwan-e-Sadr Road, Karachi on Saturday, October 30, 2010 at 2:00 p.m. and at any  
adjournment thereof.

As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_ 2010

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

Place \_\_\_\_\_

\_\_\_\_\_  
Member's Signature

Date \_\_\_\_\_

\_\_\_\_\_  
Witness's Signature

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



Sitara Chemical  
Industries Limited

AFFIX  
CORRECT  
POSTAGE

C/O  
M/s Noble Computer Services (Pvt)  
Limited, Mezzanine Floor, House of Habib  
Building (Siddiqsons Tower), 3-Jinnah  
Coperative Housing Society, Main  
Shahrah-e-Faisal, Karachi



