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## CORPORATE INFORMATION

<b>BOARD OF DIRECTORS</b>	Mr. Muhammad Siddique Khatri Mr. Abdul Ghafoor Khatri Mr. Abdul Sattar Khatri Mr. Mansoor Ahmed Khatri Ms. Farhana Abdul Sattar Mr. Fawad Yousuf Ms. Rushda Mustafa	Chairman & Chief Executive Director Director Director Director Director Director
<b>AUDIT COMMITTEE</b>	Mr. Mansoor Ahmed Khatri Mr. Abdul Sattar Khatri Mr. Abdul Ghafoor Khatri	Chairman Member Member
<b>CHIEF FINANCIAL OFFICER</b>	Mr. Javed Iqbal	
<b>COMPANY SECRETARY</b>	Mr. Waheed Ashraf	
<b>REGISTERED OFFICE / HEAD OFFICE</b>	39-Empress Road, P.O. Box 1414, Lahore-54000. Tel : 042- 36306586 - 88 Fax : 042- 36365697 www.ittehadchemicals.com E-mail: info@ittehadchemicals.com	
<b>PLANT</b>	G.T. Road, Kala Shah Kaku, District Sheikhpura. Ph : 042-37950222-25 Fax : 042-37950206	
<b>SHARE REGISTRARS</b>	M/s. Corplink (Pvt.) Limited Corporate and Financial Consultants Wings Arcade, 1-K Commercial, Model Town, Lahore. Ph: 042-35839182, 35916714 Fax: 042-35869037	
<b>BANKERS TO THE COMPANY</b>	Askari Bank Limited Habib Metropolitan Bank Limited MCB Bank Ltd Pak Libya Holding Co. (Pvt.) Limited Pakistan Kuwait Investment Co. (Pvt.) Limited The Bank of Punjab Allied Bank Limited Faysal Bank Limited United Bank Limited KASB Bank Limited Standard Chartered Bank Limited Citi Bank Atlas Bank Limited Dawood Islamic Bank Limited National Bank of Pakistan	
<b>AUDITORS</b>	M/s. BDO Ebrahim & Co., Chartered Accountants, 2 <sup>nd</sup> Floor, Block-C, Lakson Square Building No.1, Sarwar Shaheed Road, Karachi. Ph: 021-35683030 Fax: 021-35684239	
<b>LEGAL ADVISORS</b>	M/s. Tahir Ali Tayebi & Co. 310, Marine Point, Schon Circle, Block 9, Clifton, Karachi. Ph : 021-35370458 Fax: 021-35370459	

### *Our Vision*

*To be sustainable and growth oriented Company who plays a competitive role in industry and adds value to economy through excellence in technological advancement and quality products*

### *Our Mission*

*The mission of Ittehad is to be*

*A Company built on sound financial footings and achieves excellent operating results through superior efficiency and cost control*

*A Company that consistently benefits its stakeholders through enhanced profitability*

*A Company that achieves a high level of customer care service by providing quality products and positive feedback*

*A Company that provides excellent working environment to its employees that assists in enhancing their strengths and abilities, create a culture that fosters motivation and promotes individual growth and care*

*A Company that contributes towards a good corporate citizenship and sets highest standards in serving the society*

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 19<sup>th</sup> Annual General Meeting of Ittehad Chemicals Limited will be held at the Registered Office of the Company, 39-Empress Road, Lahore on Thursday, 30<sup>th</sup> September 2010 at 11:30 a.m. to transact the following business:

### ORDINARY BUSINESS:

- To confirm the minutes of the 18<sup>th</sup> Annual General Meeting held on October 26, 2009.
- To receive, consider and adopt the Audited Financial Statements of the Company together with the Directors' and Auditors' Reports thereon for the year ended June 30, 2010.
- To approve the final cash dividend @ 5% i.e. Rupee 0.50 per share for the year ended June 30, 2010 as recommended by the Board of Directors.
- To appoint Auditors for the year 2010-11 and to fix their remuneration.  
(Messrs. BDO Ebrahim & Co., Chartered Accountants retire and being eligible, have offered themselves for re-appointment).
- To transact any other business of the Company with the permission of the Chair.

By Order of the Board

Lahore  
September 8, 2010

**WAHEED ASHRAF**  
COMPANY SECRETARY

### NOTES:

- The Share Transfer Books of the Company will remain closed from September 24, 2010 to September 30, 2010 (both days inclusive). Transfers received in order by our Shares Registrar, M/s. Corplink (Pvt.) Limited, Wings Arcade, 1-K commercial, Model Town, Lahore by the close of business on Thursday, September 23, 2010 will be considered in time for entitlement of dividend on the ordinary shares.
- A member of the Company entitled to attend and vote at the Annual General Meeting may appoint another member as his/ her proxy to attend and vote in place of the him/ her at the meeting. Proxies in order to be effective must be received at the Registered Office of the Company duly stamped and signed not less than 48 hours before the time of meeting.
- Shareholders, who have deposited their shares into Central Depository Company of Pakistan, must bring their participant's ID numbers and account/ sub account numbers along with original Computerized National Identity Cards or original Passports at the time of attending the meeting in order to facilitate identification of respective shareholders.
- In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of meeting.
- Members are advised to immediately notify the change in their addresses, if any to our registrar M/s. Corplink (Pvt.) Limited, Wings Arcade, 1-K commercial, Model Town, Lahore (Ph: 042-35916714, 35839182, Fax: 042-35869037).
- Members who have not yet submitted copies of their Computerized National Identity cards (CNIC) are requested to send the same to our Shares Registrar at the earliest.

## DIRECTORS' REPORT TO SHAREHOLDERS

The Directors of Ittehad Chemicals Limited are pleased to present their Annual Report along with the audited financial statements for the year ended June 30, 2010 .

### Economic Overview

The year 2009-10 had been politically tumultuous for Pakistan, adversely affecting its economic growth. Pakistan's economy is still facing pressures from uncertain security environment, severe energy crisis, political instability and intensive inflationary pressure. All these factors together with increased raw material prices and the currency depreciation resulted in higher input costs and has impacted the business adversely.

Pakistan's recent worst ever floods have affected all its provinces at large. According to the estimates of the United Nations Organization, the number of people suffering from the massive floods in Pakistan could exceed 20 million – more than the combined total of three recent mega disasters - the 2004 Indian Ocean tsunami, the 2005 Kashmir earthquake and the 2010 Haiti earthquake. The worst floods in last 80 years that has hit Pakistan will cause major damage to the economy in the years to come and its impact on the company would be very severe in the financial year 2010 – 2011.

### Financial Performance

In addition to the generally difficult operating environment that impacted all the businesses in the year under review, massive increase in electricity tariff by LESCO and stiff market competition further affected the profitability of our business.

In spite of adverse economic factors, Company has registered sales of Rs. 3,081.288 million against the sales of Rs. 3,568.352 million for the previous year, representing 14% decrease as compared to last year. This decrease is mainly due to stiff market competition due to the entry of a new caustic soda manufacturer in the market. Gross profit margin went down by 25% as compared to last year. The operating profit of the Company stood at Rs. 332.712 million compared to Rs. 508.493 million for the last financial year. Profit before tax is recorded at Rs. 132.083 million, lower by 52% compared to last year The Company delivered Profit after tax of Rs. 140.806 million against Rs. 169.176 million in the preceding year.

Given below are the key financial highlights for the year ended June 30, 2010 compared to last year:

### Financial Highlights

	Year ended June 30		% Change (Decrease)
	2010	2009	
	-----Rupees in Million-----		
Net Sales	3,081.288	3,568.352	(14%)
Gross Profit	611.325	820.395	(25%)
Operating Profit	332.712	508.493	(35%)
Profit before Tax	132.083	276.657	(52%)
Profit after Tax	140.806	169.176	(17%)
Earning Per Share (Rupees)	3.91	4.70	(17%)

**Profit and Appropriations**

	Rupees in thousand
Profit after tax for the year	140,806
Add: Un-appropriated profit brought forward	530,127
Profit available for appropriation	<u>670,933</u>
Appropriations:	
- Interim cash dividend paid @ 10% for the financial year ended 2008-09	(36,000)
- Final cash dividend paid @ 5% for the financial year ended 2008-09	<u>(18,000)</u>
Un-appropriated profit carried forward	<u><u>616,933</u></u>

Based on the performance of the Company, the Board is pleased to recommend a final cash dividend of Re. 0.50 per share in respect of the financial year ended June 30, 2010. This final dividend will be subject to the approval of shareholders in their meeting scheduled to be held on September 30, 2010.

**Chemi Chloride Industries Limited**

The financial statements of Chemi Chloride Industries Limited (CCIL), the subsidiary Company, have been consolidated with the financial statements of ICL in line with the requirements of International Accounting Standard (IAS)-27 "Consolidated and Separate Financial Statements" and as per the requirements of section 237 of the Companies Ordinance, 1984, these consolidated financial statements are also being presented to the shareholders.

**Changes in the Board**

During the year under review Ms. Noor-ul-Huda resigned from the Board and the casual vacancy so caused was filled-up by appointing Ms. Rushda Mustafa as new Director. The Board places on record its appreciation for the valuable contributions made by the outgoing Director towards the progress of the Company. The Board welcomes Ms. Rushda Mustafa as new Director and looks forward to the new Directors' valuable guidance and contribution to the Company in time to come.

**Board Meetings and Attendance**

During the year 2009-10, five Board meetings were held and the number of meetings attended by each Director is given hereunder:-

Name of Director	No. of Meetings attended
Mr. Muhammad Siddique Khatri	5
Mr. Abdul Ghafoor Khatri	5
Mr. Abdul Sattar Khatri	5
Mr. Mansoor Ahmed Khatri	5
Ms. Farhana Abdul Sattar	5
Mr. Fawad Yousuf	5
Ms. Noor-ul-Huda ( Through her alternate Director Mr. Shahzad Yousuf Khatri )	4
Ms. Rushda Mustafa	1

**Audit Committee**

The Board of Directors has constituted an Audit Committee in compliance with the Code of Corporate Governance with the following members:

1. Mr. Mansoor Ahmed Khatri	Chairman	Non-Executive Director
2. Mr. Abdul Sattar Khatri	Member	Executive Director
3. Mr. Abdul Ghafoor Khatri	Member	Non-Executive Director

The Audit Committee reviewed the quarterly, half yearly and annual financial statements before their submission to the Board and their publication. The CFO, Head of Internal Audit and a representative of external auditors attended the meetings where issues relating to accounts and audit were discussed. The Audit Committee also reviewed internal audit findings and held separate meetings with internal and external auditors as required under the Code of Corporate Governance. Related Parties Transactions were also placed before the Audit Committee prior to their approval by the Board.

**Auditors**

The present auditors M/s. BDO Ebrahim & Co., Chartered Accountants retire and being eligible offer themselves for re-appointment. As suggested by the Audit Committee, the Board of Directors recommends their re-appointment as auditors of the Company for the year ending June 30, 2011. The external auditors have been given a satisfactory rating under the Quality Control Review by the Institute of Chartered Accountants of Pakistan.

**Compliance with the Code of Corporate Governance**

The requirements of the Code of Corporate Governance set out by the Karachi Stock Exchange in their listing Regulations have been adopted by the Company and have been duly complied with. A statement to this effect is annexed to the report.

**Statement of Ethics and Business Practices**

The Board prepared and circulated the Statement of Ethics and Business Practices which has been signed by every Director and employee of the Company as a token of their acknowledgement, understanding and acceptance of the same.

**Corporate and Financial Reporting Framework**

Following are the statements on Corporate and Financial Reporting Framework:

- The financial statements together with notes thereon have been drawn up by the management in conformity with the Companies Ordinance, 1984. These statements present fairly the Company's state of affairs, the results of its operations, cash flow and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.

## OPERATING AND FINANCIAL HIGHLIGHTS

- vi. There are no significant doubts upon the Company's ability to continue as a going concern.
- vii. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- viii. The key operating and financial data for the last six years is annexed.
- ix. Information about outstanding taxes and levies is given in Notes to the Accounts.
- x. The value of investments of the Provident Fund based on its audited accounts as on June 30, 2010 was Rs. 2.076 million.

**Environment, Health and Safety**

The Company has always ensured that applicable standards of Environment, Health and safety are fully adhered to. The Company is fully committed to provide a safe and healthy workplace for its employees and the other stakeholders such as customers, suppliers, contractors and visitors. We dynamically endeavor for eradicating all possible causes of accidents, preventing environmental pollution, safety awareness, training, emergency preparedness and managing environmental impact that can affect the surrounding communities and the environment at large.

**Corporate Social responsibility**

ICL has very distinct Corporate Social Responsibility (CSR) policy for fulfilling its responsibilities of securing the community as a good corporate citizen. Your Company continues to play its role in the area of Corporate Social Responsibility and toward this end contributions were made towards various charitable causes in the fields of health, education and special sports.

**Pattern of Shareholding**

The pattern of shareholding as at June 30, 2010 along with disclosure as required under Code of Corporate Governance is included in the report.

The Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any transaction in the shares of the Company during the year.

**Future Outlook**

The Company operates in a challenging environment with a degree of uncertainty due to ongoing economic recession at the local and international levels, repercussions of the ongoing flooding disaster, energy crisis, intense competitive business environment as well as all other challenges faced by the business. However we intent to face these challenges resolutely and are determined to do our best despite uncertain conditions that may prevail in the country.

**Acknowledgement**

Your Board would like to take this opportunity to express its appreciation and gratitude to all its customers, suppliers, bankers, shareholders and all stakeholders for their continued valuable support in managing the business. The Board also acknowledges and thanks the management team and employees of the Company for their hard work and dedication shown throughout the year in the face of the prevalent unfavorable economic conditions.

On behalf of the Board



**Muhammad Siddique Khatri**  
Chairman and Chief Executive

Lahore  
August 30, 2010

	Unit	2005	2006	2007	2008	2009	2010
<b>PROFIT AND LOSS</b>							
Sales	Rs. in mln	1,903	2,158	2,534	2,685	3,568	3,081
Gross Profit	Rs. in mln	333	465	622	548	820	611
Operating Profit	Rs. in mln	153	309	438	342	508	333
Profit before tax	Rs. in mln	90	167	235	129	277	132
Profit after tax	Rs. in mln	50	120	137	66	169	141
EBITDA	Rs. in mln	230	460	633	525	698	522
Number of outstanding shares at year end	No. in mln	30	30	36	36	36	36
Earning per share - Basic and Diluted	Rs.	1.68	3.98	3.81	1.82	4.70	3.91
<b>BALANCE SHEET</b>							
Operating Fixed assets (NBV)	Rs. in mln	687	2,510	2,360	2,316	2,423	2,299
Current Assets	Rs. in mln	848	1,008	962	918	1,169	1,208
Current Liabilities	Rs. in mln	828	1,041	1,076	627	934	928
Long Term Liabilities	Rs. in mln	1,064	1,254	1,049	1,445	1,232	1,100
Share capital	Rs. in mln	300	300	360	360	360	360
Shareholders Equity	Rs. in mln	507	627	764	776	891	977
<b>INVESTOR INFORMATION</b>							
Gross Profit Margin	%	17.50	21.55	24.55	20.40	22.99	19.84
Net Profit Margin	%	2.65	5.54	5.41	2.44	4.74	4.57
Return On Equity	%	10.49	21.08	19.69	8.52	20.31	15.08
Price Earning Ratio		19.01	8.41	8.28	19.21	8.09	8.39
Net Asset per share		16.89	20.89	21.24	21.55	24.74	27.14
Long -Term Debt to Equity Ratio		2.36	2.30	1.56	1.55	1.29	1.09
Current Ratio		1.02	0.97	0.89	1.47	1.25	1.30
Quick Ratio		0.58	0.54	0.53	0.73	0.77	0.66
Interest Coverage Ratio		2.45	2.18	2.11	1.61	2.12	1.63
Debtor Turnover	No. of Times	12.87	12.51	6.65	10.61	7.32	7.56
Inventory Turnover	No. of Times	4.27	3.82	4.87	4.65	6.14	4.12

## STATEMENT OF VALUE ADDED

	2010 (Rs. in million)	2009
<b>Wealth Generated</b>		
Total revenue net of discount and allowances	3,596	4,197
Bought-in-material and services	2,364	2,722
	<b>1,232</b>	<b>1,475</b>
<b>Wealth Distributed</b>		
<b>To Employees</b>		
Salaries benefits and other cost	229	223
<b>To Government</b>		
Income tax, sales tax and special excise duty	473	663
<b>To Providers of Capital</b>		
Dividend to shareholders	18	54
Markup / Interest expenses on borrowed funds	204	240
<b>Retained for Reinvestment and Growth</b>		
Depreciation and retained profits	307	296
	<b>1,232</b>	<b>1,475</b>



## STATEMENT OF ETHICS AND BUSINESS PRACTICES

**Ittehad Chemicals' Core Principles**

At the core of ICL are the values of integrity, honesty and respect for people, and our reputation is founded on these. The trust and confidence of those with whom we deal is a real asset, critical for achieving to the continued growth and success.

**Ittehad Chemicals' Code of Conduct Business Integrity**

ICL insists on integrity, honesty and fairness in all aspects of our business.

All business transactions must be reflected accurately and fairly in ICL's accounts in accordance with established procedures.

**Our Commitment to Our Stakeholders**

We at ICL recognize our corporate responsibility to five main groups of stakeholders. We are committed:

**(a) To Shareholders**

We believe in honoring the trust, our investors place in us. We therefore have a responsibility to:

- Apply professional and diligent management in order to secure a fair and competitive return on our shareholder's investment;
- Keep all the shareholders prudently informed regarding matters related to business;
- Conserve, protect, and increase the shareholders value of investment.
- Respect shareholders requests, suggestions, complaints, and formal resolutions.

**(b) To Customers**

We believe in treating all customers with dignity. We therefore have a responsibility to:

- Win and retain customers by developing and providing products that offer value in terms of price, quality, safety and environmental impact.
- Be responsive to customer comments and complaints.
- Treat our customers fairly in all aspects of our business transactions

**(c) To Employees**

We believe in the dignity of every employee and in taking employee interests seriously. We therefore have a responsibility to:

- To provide and maintain safe conditions of work, with competitive terms and conditions of employment.

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

- Insist on a policy of diversity, by selecting, developing and retaining employees on the basis of ability and qualifications for the work to be performed, without any form of discrimination or prejudice
- Encourage the involvement of employees in the planning and direction of their work.

### (d) To Suppliers

Our relationship with suppliers must be based on mutual trust and respect. We therefore have a responsibility to:

- Seek fairness and truthfulness in all our activities;
- Ensure that our business activities are free from coercion;
- Foster long-term stability in the supplier relationship in return for value, quality, competitiveness and reliability;
- Seek, encourage and prefer suppliers whose employment practices respect human dignity.

### (e) To the Community

We conduct business as responsible corporate citizens, observe the laws of our country, give proper regard to the health, safety and the environment, and be sensitive to and supportive of our local cultural, social, educational and economic needs.

### Health, Safety and the Environment

We have established safe and healthy working conditions for all employees.

To this end, we measure, appraise and report performance on the basis of continuous improvement and with the longer-term aim of enhancing the sustainability of our business and that of our customers and suppliers.

### Compliance, Monitoring and Reporting

Compliance with this Code is monitored and reviewed by the ICL Board, as part of its risk management process. Day-to-day responsibility in this regard is delegated to senior operating management.

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

1. The Company encourages representation of independent non-executive directors on its Board. At present the Board includes four non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancy on the Board of Directors occurred on February 24, 2010 which was duly filled.
5. The Company has prepared and circulated a 'Statement of Ethics and Business Practices', which has been signed by all the 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 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 and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board members are well aware of their duties and responsibilities.
10. There was no new appointment of CFO or Company Secretary and Head of Internal Audit during the year.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

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

14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members, of whom two are non-executive directors including the chairman of the committee.
16. The meetings of the audit committee were held at least once in 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. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.



**Muhammad Siddique Khatri**  
Chairman and Chief Executive

Lahore  
August 30, 2010

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 ITTEHAD CHEMICALS LIMITED to comply with the Listing Regulation No. 37 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited, where the Company is listed.

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

As part of our audit of the 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 Regulation 37 notified by The Karachi Stock Exchange (Guarantee) Limited vide Circular KSE/-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 as applicable to the Company for the year ended June 30, 2010.

Karachi

Dated: August 30, 2010



**BDO Ebrahim & Co**

Chartered Accountants

Engagement Partner: Zulfikar Ali Causer

## AUDITORS' REPORT TO THE MEMBERS

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We have audited the annexed balance sheet of **ITTEHAD CHEMICALS 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 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 accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied, except for the change as stated in Note 3.1 to the financial statements with which we concur;
  - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2010 and of the profit, its comprehensive income, 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 the Central Zakat fund established under Section 7 of that Ordinance.

*BDO Ebrahim & Co.*

Karachi

Dated: August 30, 2010

**BDO Ebrahim & Co**

Chartered Accountants

Engagement Partner: Zulfikar Ali Causer

## BALANCE SHEET AS AT JUNE 30, 2010

	Note	2010 (Rupees in thousand)	2009 (Rupees in thousand)
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment			
Operating fixed assets	5	2,299,211	2,422,693
Capital work in progress	6	54,380	32,919
		2,353,591	2,455,612
Intangible assets	7	1,462	3,310
Investment properties	8	82,250	78,700
Long term investments	9	87,400	87,786
Long term deposits	10	21,449	11,321
		2,546,152	2,636,729
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools	11	437,333	341,790
Stock in trade	12	161,585	105,732
Trade debts	13	473,583	573,001
Loans and advances	14	48,916	61,151
Trade deposits and short term prepayments	15	4,612	14,120
Other receivables	16	16,540	1,404
Tax refunds due from Government	17	43,570	45,723
Taxation- net	18	7,007	-
Cash and bank balances	19	15,132	26,037
		1,208,278	1,168,958
		3,754,430	3,805,687
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized share capital	20.1	750,000	750,000
Issued, subscribed and paid up capital	20.2	360,000	360,000
Reserves	21	616,933	530,505
		976,933	890,505
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>	22	749,059	749,059
<b>NON CURRENT LIABILITIES</b>			
Long term financing	23	172,222	18,750
Long term diminishing musharaka	24	416,666	583,333
Long term murabaha	25	194,444	272,222
Liabilities against assets subject to finance lease	26	-	-
Deferred liabilities	27	316,806	357,528
		1,100,138	1,231,833
<b>CURRENT LIABILITIES</b>			
Trade and other payables	28	321,693	445,311
Markup accrued	29	58,724	72,387
Short term borrowings	30	262,466	130,143
Current portion of long term liabilities	31	285,417	276,193
Provision for taxation - net	32	-	10,256
		928,300	934,290
<b>CONTINGENCIES AND COMMITMENTS</b>			
	33	3,754,430	3,805,687

The annexed notes from 1 to 52 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 (Rupees in thousand)	2009 (Rupees in thousand)
Sales	34	3,081,288	3,568,352
Cost of sales	35	(2,469,963)	(2,747,957)
Gross profit		611,325	820,395
Selling and distribution expenses	36	(179,504)	(204,213)
General and administrative expenses	37	(106,351)	(100,292)
Other operating expenses	38	(12,899)	(20,620)
Other operating income	39	20,141	13,223
		(278,613)	(311,902)
Operating profit		332,712	508,493
Financial charges	40	(204,179)	(239,586)
Fair value gain on investment properties	8	3,550	7,750
Profit before taxation		132,083	276,657
Taxation	41	8,723	(107,481)
Profit after taxation		140,806	169,176
Earnings per share - basic and diluted (Rupees)	43	3.91	4.70

Appropriations have been reflected in the statement of changes in equity.

The annexed notes from 1 to 52 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2010

	2010 (Rupees in thousand)	2009
<b>Profit after taxation for the year</b>	140,806	169,176
<b>Other comprehensive income / (loss):</b>		
Fair value loss during the year on remeasurement of investments classified as 'available for sale'	-	(321)
Fair value reserve transferred to profit and loss account on disposal of investment	(378)	-
<b>Total comprehensive income for the year</b>	<u>140,428</u>	<u>168,855</u>

The annexed notes from 1 to 52 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

Note	2010 (Rupees in thousand)	2009
<b>Cash flows from operating activities</b>		
Profit before tax	132,083	276,657
Adjustments for items not involving movement of funds:		
Depreciation	187,682	188,094
Amortization of intangible assets	1,998	1,823
Provision for gratuity	5,307	1,962
Loss / (gain) on sale of fixed assets	1,792	(394)
(Gain) on revaluation of investment property	(3,550)	(7,750)
Foreign exchange loss / (gain)	190	(253)
(Gain) on sale of shares	(469)	-
Provision for doubtful debts	3,155	2,955
Bad debts written off	-	646
Financial charges	204,179	239,586
Net cash flow before working capital changes	532,367	703,326
(Increase) / decrease in current assets		
Stores, spares and loose tools	(95,543)	(26,533)
Stock in trade	(55,853)	38,603
Trade debts	96,073	(278,912)
Loans and advances	12,235	(25,815)
Trade deposits and short term prepayments	9,508	8,318
Other receivables	(15,136)	(568)
(Decrease) / increase in current liabilities	(48,716)	(284,907)
Trade and other payables	(138,870)	226,927
Cash generated from operations	344,781	645,346
Taxes paid	(36,556)	(22,422)
Gratuity paid	(608)	(507)
Financial charges paid	(217,842)	(227,390)
Net cash inflow from operating activities	89,775	395,027
<b>Cash flows from investing activities</b>		
Additions to operating fixed assets	(48,828)	(60,167)
Additions to intangible assets	(150)	(992)
Additions to capital work in progress	(140,410)	(57,313)
Proceeds from sale of fixed assets	101,785	710
Long term investments	477	(23,000)
Long term deposits	(10,128)	154
Net cash outflow from investing activities	(97,254)	(140,608)
<b>Cash flows from financing activities</b>		
Proceeds from long term financing	194,444	-
Repayments of long term financing	(31,250)	(50,000)
Repayment of long term diminishing musharaka	(166,667)	-
Repayment of long term murabaha	(77,778)	-
Liabilities against assets subject to finance lease	(498)	(415)
Dividend paid	(54,000)	(54,000)
Short term borrowings	132,323	(164,826)
Net cash outflow from financing activities	(3,426)	(269,241)
Net (decrease) in cash and cash equivalents	(10,905)	(14,822)
Cash and cash equivalents at the beginning of the year	26,037	40,859
Cash and cash equivalents at the end of the year	15,132	26,037

The annexed notes from 1 to 52 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2010

	Issued, subscribed and paid-up capital	Fair value reserve	Unappropriated profits	Total
(Rupees in thousand)				
Balance as at July 01, 2008	360,000	699	414,951	775,650
Comprehensive income for the year		(321)	169,176	168,855
Dividend paid for the year ended June 30, 2008	-	-	(54,000)	(54,000)
Balance as at June 30, 2009	360,000	378	530,127	890,505
Comprehensive income for the year	-	(378)	140,806	140,428
Dividend paid for the year ended June 30, 2009	-	-	(54,000)	(54,000)
Balance as at June 30, 2010	360,000	-	616,933	976,933

The annexed notes from 1 to 52 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

## NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

### 1 LEGAL STATUS AND NATURE OF BUSINESS

Ittehad Chemicals Limited (the Company) was incorporated on September 28, 1991 to takeover the assets of Ittehad Chemicals and Ittehad Pesticides under a Scheme of Arrangement dated June 18, 1992 as a result of which the Company became a wholly owned subsidiary of Federal Chemical and Ceramics Corporation (Private) Limited. The Company was privatised on July 03, 1995.

The Company was listed on Karachi Stock Exchange on April 14, 2003 when Sponsors of the Company offered 25% of the issued, subscribed and paid up shares of the Company to the general public.

The registered office of the Company is situated at 39, Empress Road, Lahore. The Company is engaged in the business of manufacturing and selling caustic soda and other allied chemicals.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

These financial statements represent the separate stand alone financial statements of Ittehad Chemicals Limited. The consolidated financial statements of the Company and its subsidiary company are presented separately.

The SECP has issued directive (Vide SRO 431(I)/2007 dated May 22, 2007) that Islamic Financial Accounting Standard 2 (IFAS-2) shall be followed in preparation of the financial statement by companies while accounting for Ijarah (Lease) transactions as defined by said Standard. The Company has adopted the above said standard during this reporting period.

#### 2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except as modified for fair value adjustment in investment properties, freehold land, investments and exchange differences as referred to in notes 4.3, 4.4 and 4.18 respectively.

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates, assumptions and use judgments that effect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognized prospectively commencing from the period of revision.

Judgments and estimates made by the management that may have a significant risk of material adjustments to the financial statements in subsequent years are disclosed in note 42.

### 2.3 Functional and presentation currency

These financial statements are presented in Pak rupee, which is the functional and presentation currency for the Company.

## 3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS

**3.1** IAS 1 (Revised), 'Presentation of financial statements' becomes applicable for the current financial year for the first time. The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity.

All "non-owner changes in equity" are required to be shown separately in performance statement. Companies can choose whether to present one performance statement (the statement of comprehensive income) or two statements (profit and loss account and statement of comprehensive income).

The Company has preferred to present two statements; a profit and loss account and a statement of comprehensive income. These financial statements has been prepared under revised disclosure requirements.

### 3.2 Standards, interpretations and amendments that have been effective during the year

IAS 23 (amendment) "Borrowing cost (effective from January 1, 2009). The amendment made it mandatory to capitalize borrowing cost incurred to obtain the qualifying assets as part of the cost of that asset. The option of immediately expensing this borrowing cost is removed. The Company's current accounting policy is in compliance with this amendment and therefore there is no effect on the Company's financial statements.

### 3.3 Standard, interpretations and amendments that are effective in current year but not relevant to the Company

IAS 38 (amendment) 'Intangible assets'. The amendment is part of IASB's annual improvements project published in April 2009 and will applicable from the effective date of IFRS 3 (revised). The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in any impact on the Company's financial statements.

The other amendments which are part of IASB's annual improvements project published in April 2009 and mandatory for accounting periods beginning on or after July 1, 2009 are considered not to be relevant to the Company's financial reporting and operations.

### 3.4 Standards, interpretations and amendments that are not yet effective and have not been early adopted by the Company

The following amendments to approved accounting standards, effective for accounting periods beginning on or after January 1, 2010, are either not relevant to the Company's current operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures:

- IAS 1 - Presentation of Financial Statements
- IAS 7 - Cash flows statement
- IAS 17 - Leases
- IAS 32 - Financial Instruments
- IAS 36 - Impairment of assets
- IAS 39 - Financial Instruments: Recognition and Measurement
- IFRS 1 - First time Adoption of International Financial Reporting Standards
- IFRS 2 - Share based Payment
- IFRS 5 - Non Current Assets Held for Sales and Discontinued Operation
- IFRS 8 - Operating Segments

## 4 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**4.1 Property, plant and equipment****a) Owned assets**

These are stated at cost / revalued amount less accumulated depreciation and accumulated impairment losses, if any, except capital work-in-progress which is stated at cost. Cost comprises of actual cost including, interest expense and trial run operational results.

Depreciation is charged on all fixed assets by applying the reducing balance method at the rates specified in note 5. The rates are determined to allocate the cost of an asset less estimated residual value, if not insignificant, over its useful life.

Depreciation on assets is charged from the month of addition while no depreciation is charged for the month in which assets are disposed off.

Maintenance and normal repairs are charged to income as and when incurred while cost of major replacements and improvements, if any, are capitalized.

Gains and losses on disposal and retirement of an asset are included in the profit and loss account.

**b) Leased assets**

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance lease. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets acquired on lease. Outstanding obligations under the lease less finance charges allocated to future periods are shown as liability. Finance costs under lease agreements are allocated to the period during the lease term so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

Assets acquired under a finance lease are depreciated over the useful life of the asset on reducing balance method at the rates given in note 5. Depreciation on leased assets is charged to the profit and loss account.

Depreciation on additions to leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which asset is disposed off.

**c) Capital work in progress**

Capital work-in-progress represents expenditure on fixed assets in the course of construction and installation. Transfers are made to relevant fixed assets category as and when assets are available for use. Capital work-in-progress is stated at cost.

**4.2 Intangible assets**

Costs that are directly associated with identifiable software products controlled by the Company and have probable economic benefits beyond one year are recognized as intangible assets. These are stated at cost less accumulated amortization and impairment losses, if any. Amortization is provided on a straight line basis over the asset's estimated useful lives.

**4.3 Investment properties**

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are initially recognized at cost, being the fair value of the consideration given. Subsequent to initial recognition these are stated at fair value. The fair value is determined annually by an independent approved valuer. The fair values are based on market values being the estimated amount for which a property could be exchanged on the date of valuation between knowledgeable and willing buyer and seller in an arms length transaction.

Any gain or loss arising from a change in fair value is recognized in the income statement.

Rental income from investment property is accounted for as described in note 4.21.

When an item of property, plant and equipment is transferred to investment property following a change in its use and differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognized in surplus on revaluation of property, plant and equipment if it is a gain. Upon disposal of the item the related surplus on revaluation of property, plant and equipment is transferred to retained earnings. Any loss arising in this manner is recognized immediately in the income statement.

For a transfer from inventories to investment property that will be carried at fair value any difference between the fair value of the property at that date and its previous carrying amount shall be recognized in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

#### 4.4 Investments

##### Investment in associates

Investment in associates where the Company holds 20% or more of the voting power of the investee companies and where significant influence can be established are accounted for using the equity method. Investment in associates other than those described as above are classified as “available for sale”.

In case of investments accounted for under the equity method, the method is applied from the date when significant influence is established until the date when that significant influence ceases.

##### Investments in subsidiary

Investment in unquoted subsidiary is initially valued at cost. At subsequent reporting dates, the company reviews the carrying amount of the investment to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exist, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

##### Available for sale investments

These are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are re-measured at fair value. For listed securities, fair value is determined on the basis of period end bid prices obtained from stock exchange quotations, while for unquoted securities, fair value is determined considering break up value of securities.

All purchases and sales of investments are recognized on the trade date which is the date that the Company commits to purchase or sell the investment. Cost of purchase includes transaction cost.

Changes in carrying value are recognized in equity until the investment is sold or determined to be impaired at which time the cumulative gain or loss previously recognized in equity is included in profit and loss account for the year.

#### 4.5 Stores, spares and loose tools

These are valued at lower of moving average cost and net realisable value less impairment, if any, except for items in transit, which are valued at cost comprising of invoice value plus other charges paid thereon till the balance sheet date. The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence if there is any change in usage pattern and physical form of related stores, spares and loose tools. For items which are slow moving and / or identified as surplus to the company's requirements, adequate provision is made for any excess book value over estimated realisable value.

#### 4.6 Stock-in-trade

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

Raw and packing materials	- Weighted average cost
Raw and packing materials in transit	- Invoice value plus other expenses incurred thereon
Work in process	- Cost of material as above plus proportionate production overheads
Finished goods	- Average cost of manufacture which includes proportionate production overheads including duties and taxes paid thereon, if any.

Net realisable value represents the estimated selling prices in the ordinary course of business less expenses incidental to make the sale.

#### 4.7 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount being the fair value of amount to be received, less an estimate made for doubtful receivables based on review of outstanding amounts at the year end, if any. Provision is made against those having no activity during the last three years and is considered doubtful by the management. Balances considered bad and irrecoverable are written off when identified.

#### 4.8 Taxation

##### a) Current

The charge for current year is higher of the amount computed on taxable income at the current rates of taxation after taking into account tax credits and rebates, if any, and minimum tax computed at the prescribed rate on turnover. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

##### b) Deferred

Deferred tax is computed using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled based on tax rates that have been enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available and the credits can be utilized.

**4.9 Borrowings**

Loans and borrowings are recorded at the proceeds received. Financial charges are accounted for on accrual basis.

**4.10 Trade and other payables**

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

**4.11 Provisions**

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

**4.12 Leases****Finance lease**

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset is classified as finance lease. Assets on finance lease are capitalised at the commencement of the lease term at the lower of the fair value of leased assets and the present value of minimum lease payments. Finance costs under lease arrangements are allocated to the periods during the lease term so as to produce a constant periodic rate of finance cost on the remaining balance of principal liability for each period.

**Operating lease / Ijarah**

Operating lease / ijarah in which a significant portion of the risks and rewards of ownership are retained by the lessor / Muj'ir (lessor) are classified as operating leases/Ijarah. Payments made during the period are charged to profit and loss on a straight-line basis over the period of the lease / Ijarah.

**4.13 Cash and cash equivalents**

For the purposes of cash flow statement, cash and cash equivalents consist of cash in hand and balances with banks net of borrowings not considered as being in the nature of financing activities.

**4.14 Dividend and appropriation to reserve**

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved.

**4.15 Impairment**

The Company assesses at each balance sheet date whether there is any indication that an asset 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 value exceeds recoverable amount, assets are written down to the recoverable amount.

**4.16 Financial instruments**

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Any gains or losses on de-recognition of the financial assets and financial liabilities are taken to profit and loss account currently.

**4.17 Offsetting of financial assets and financial liabilities**

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

**4.18 Foreign currency transactions and translation**

Transactions in foreign currencies are translated into rupees at the rates of exchange approximating those prevailing on the date of transactions or at the contract rate. Monetary assets and liabilities in foreign currencies are translated into rupees at the rates of exchange approximating those prevailing at the balance sheet date or at the contract rate. Exchange gains and losses are included in profit and loss account currently.

**4.19 Staff retirement benefits**

The Company operates an un-funded gratuity scheme for its permanent employees. Provision is based on actuarial valuation of the scheme carried out as at June 30, 2010 in accordance with IAS-19 "Employee Benefits" and the resulting vested portion of past service cost has been charged to income in the current year.

Contribution is made to this scheme on the basis of actuarial recommendations. Actuarial gains and losses at each valuation date are charged to profit and loss account. Gratuity is payable to staff on completion of prescribed qualifying period of service under the scheme.

A recognized provident fund scheme is also in operation, which covers all permanent employees. The Company and the employees make equal contributions to the fund.

#### 4.20 Compensated absences

The Company accounts for these benefits in the period in which the absences are earned.

#### 4.21 Revenue recognition

Sales are recognized on dispatch of goods to customers.

Interest income is recognized on accrual basis.

Dividend on equity investments is recognized as income when the right to receive payment is established.

Rental income is recognized on accrual basis.

#### 4.22 Related party transactions

Transactions with related parties are based on the policy that all transactions between the Company and the related parties are carried out at arm's length. The prices are determined in accordance with the methods prescribed in the Companies Ordinance, 1984.

#### 4.23 Borrowing costs

Interest and commitment charges on long term loans are capitalized for the period up to the date of commencement of commercial production of the respective plant and machinery acquired out of the proceeds of such loans. All other interest and charges are treated as expenses during the year.

#### 4.24 Recoating expenses of DSA Plant

Provision has been made in these financial statements for the erosion of coating on the anodes during the year based on best estimates available. Anodes once recoated are used for a period of three years.

### 5 OPERATING FIXED ASSETS

The following is the statement of operating fixed assets:

Description	(Rupees in thousand)										Grand total	
	Freehold land	Buildings on freehold land	Railway sidings	Plant and machinery	Other equipments	Furniture and fixtures	Office and other equipments	Vehicles	Total	Assets subject to finance lease		
<b>Net carrying value basis year ended June 30, 2010</b>												
Opening net book value (NBV)	776,380	78,111	4,597	1,510,108	6,802	3,412	12,330	30,055	2,421,795	898	2,422,693	
Additions (at cost)	-	-	-	157,628	1,226	61	2,205	6,657	167,777	-	167,777	
Disposals / transfers (NBV)	-	-	-	(102,686)	-	-	-	(891)	(103,577)	-	(103,577)	
Depreciation charge	-	(7,787)	(460)	(167,536)	(1,177)	(345)	(3,051)	(7,161)	(187,517)	(165)	(187,682)	
Transfers	-	-	-	-	-	-	-	1,404	1,404	(1,404)	-	
Adjustments	-	-	-	-	-	-	-	(671)	(671)	671	-	
<b>Closing net book value</b>	<b>776,380</b>	<b>70,324</b>	<b>4,137</b>	<b>1,397,514</b>	<b>6,851</b>	<b>3,128</b>	<b>11,484</b>	<b>29,393</b>	<b>2,299,211</b>	<b>-</b>	<b>2,299,211</b>	
<b>Gross carrying value basis year ended June 30, 2010</b>												
Cost	776,380	134,619	7,274	2,469,651	38,312	6,220	27,107	72,062	3,531,625	-	3,531,625	
Accumulated depreciation	-	(64,295)	(3,137)	(1,072,137)	(31,461)	(3,092)	(15,623)	(42,669)	(1,232,414)	-	(1,232,414)	
<b>Net book value</b>	<b>776,380</b>	<b>70,324</b>	<b>4,137</b>	<b>1,397,514</b>	<b>6,851</b>	<b>3,128</b>	<b>11,484</b>	<b>29,393</b>	<b>2,299,211</b>	<b>-</b>	<b>2,299,211</b>	
<b>Net carrying value basis year ended June 30, 2009</b>												
Opening net book value (NBV)	670,093	78,786	5,109	1,514,440	6,871	3,524	10,624	25,908	2,315,355	1,123	2,316,478	
Additions (at cost) / revaluation	106,287	7,636	-	163,265	1,021	249	4,891	11,276	294,625	-	294,625	
Disposals / transfers (NBV)	-	-	-	-	-	-	-	(316)	(316)	-	(316)	
Depreciation charge	-	(8,311)	(512)	(167,597)	(1,090)	(361)	(3,185)	(6,813)	(187,869)	(225)	(188,094)	
<b>Closing net book value</b>	<b>776,380</b>	<b>78,111</b>	<b>4,597</b>	<b>1,510,108</b>	<b>6,802</b>	<b>3,412</b>	<b>12,330</b>	<b>30,055</b>	<b>2,421,795</b>	<b>898</b>	<b>2,422,693</b>	
<b>Gross carrying value basis year ended June 30, 2009</b>												
Cost	776,380	134,619	7,274	2,416,700	37,086	6,159	24,902	67,866	3,470,986	1,404	3,472,390	
Accumulated depreciation	-	(56,508)	(2,677)	(906,592)	(30,284)	(2,747)	(12,572)	(37,811)	(1,049,191)	(506)	(1,049,697)	
<b>Net book value</b>	<b>776,380</b>	<b>78,111</b>	<b>4,597</b>	<b>1,510,108</b>	<b>6,802</b>	<b>3,412</b>	<b>12,330</b>	<b>30,055</b>	<b>2,421,795</b>	<b>898</b>	<b>2,422,693</b>	
<b>Depreciation rate % per annum</b>	-	5 to 10	10	10	15	10	15 to 30	20 to 25	20	20		

5.1 Free hold land was revalued by an independent valuer M/s. Dimen Associates (Private) Limited as at June 30, 2009 on the basis of market value. Had there been no revaluation on that date, the value of operating fixed assets would have been lower by Rs. 720.278 million (2009: Rs. 720.278 million).

5.2 Borrowing cost capitalised during the year amounted to Rs. 0.760 million (2009: Nil) at an average rate of 15.96% (2009: Nil) per annum.

5.3 The depreciation charge for the year has been allocated as follows:

	Note	2010 (Rupees in thousand)	2009 (Rupees in thousand)
Cost of sales	35	182,063	183,209
Selling and distribution expenses	36	733	832
General and administrative expenses	37	4,886	4,053
		<u>187,682</u>	<u>188,094</u>

5.4 The following operating fixed assets were disposed off during the year:

Description	Cost	Accumulated depreciation (Rupees in thousand)	Net book value	Sale proceeds	Mode of disposal	Particulars of buyers
AFK - 452 Hyundai Santro 2003	566	407	159	107	Negotiated	Shah Mohammad Saleem
LRU - 1090 Hyundai Santro Club 2003	510	365	145	150	Negotiated	Muhammad Amin
LXO - 7876 Santro Plus 2000	449	402	47	120	Negotiated	Qasim Rasheed Butt
LXY - 4469 Diahatsu 2002	439	382	57	150	Negotiated	Muhammad Amin
ACE - 659 Suzuki Mehran 1999	293	270	23	148	Negotiated	Fazal Rahim
LZX - 9910 Suzuki Van 2005	379	236	143	200	Negotiated	Talha Tanveer Siddiqui
LRF - 7081 Suzuki Van 2002	421	343	78	200	Negotiated	Talha Tanveer Siddiqui
AGZ-955 Honda City Dec 2004	808	569	239	710	Insurance Claim	EFU General Insurance Ltd.
Plant and Machinery	104,677	1,991	102,686	100,000	Negotiated	Dawood Islamic Bank Limited
<b>Total - 2010</b>	<b>108,542</b>	<b>4,965</b>	<b>103,577</b>	<b>101,785</b>		
<b>Total - 2009</b>	<b>1,316</b>	<b>1,000</b>	<b>316</b>	<b>710</b>		

6 CAPITAL WORK IN PROGRESS

This comprises of:  
Plant and machinery  
Building

Note	2010 (Rupees in thousand)	2009 (Rupees in thousand)
	53,798	32,487
	582	432
	<u>54,380</u>	<u>32,919</u>

- 6.1 An amount of Rs. 118.949 million (2009: Rs.128.771 million) has been transferred to operating fixed assets during the year.
- 6.2 Borrowing cost capitalised during the year amounted to Rs. 0.348 million (2009: Nil) at an average rate of 15.96% (2009: Nil) per annum.

7 INTANGIBLE ASSETS

Software and licenses

Net carrying value as at 1 July

Opening balance as on July 01  
Additions during the year  
Amortization charge  
Net book value as at 30 June

	3,310	4,141
	150	992
7.1	(1,998)	(1,823)
	<u>1,462</u>	<u>3,310</u>

Gross carrying value as at 30 June

Cost  
Accumulated amortization  
Net book value

	6,105	5,955
	(4,643)	(2,645)
	<u>1,462</u>	<u>3,310</u>

Amortization % per annum

	<u>33.33%</u>	<u>33.33%</u>
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- 7.1 The amortization charge for the year has been allocated as follows:

Administrative expenses	37	1,998	1,823
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8 INVESTMENT PROPERTIES

Free hold land (commercial property)  
Free hold land (industrial property)

8.1	64,500	61,200
8.2	17,750	17,500
	<u>82,250</u>	<u>78,700</u>

	2010 (Rupees in thousand)	2009
8.1 The movement in this account is as follows:		
Opening balance	61,200	52,950
Fair value gain / (loss) on revaluation shown in "Profit and loss account"	3,300	8,250
	<u>64,500</u>	<u>61,200</u>

This comprises commercial property that is free hold land held for capital appreciation. The carrying value of investment property is the fair value of the property as at June 30, 2010 as determined by approved independent valuer M/s Dimen Associates (Pvt) Limited. Fair value was determined having regard to recent market transactions for similar properties in the same location and condition.

	2010	2009
8.2 The movement in this account is as follows:		
Opening balance	17,500	18,000
Fair value gain / (loss) on revaluation shown in "Profit and loss account"	250	(500)
	<u>17,750</u>	<u>17,500</u>

This relates to land that has been rented out to Chemi Chloride Industries Limited, subsidiary company and shown under the head "Investment properties". The carrying value of investment property is the fair value of the property as at June 30, 2010 as determined by approved independent valuer M/s Dimen Associates (Pvt) Limited. Fair value was determined having regard to recent market transactions for similar properties in the same location and condition.

## 9 LONG TERM INVESTMENTS

### Available for sale

Investment in subsidiary company - unquoted  
Chemi Chloride Industries Limited  
8,740,000 (2009: 8,740,000) fully paid  
ordinary shares of Rs.10/- each

87,400	87,400
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### Relevant information:

Percentage of investment in equity held 95%  
(2009: 95%)  
(Chief Executive: Mr. Abdul Sattar Khatri)

	Note	2010 (Rupees in thousand)	2009
Investment in related parties - unquoted Chemi Visco Fiber Limited 5,625,000 (2009: 5,625,000) fully paid ordinary shares of Rs.10/- each		56,250	56,250
Less: Provision for diminution in value of investment	9.1	(56,250)	(56,250)
		-	-
Relevant information: Percentage of investment in equity held 7.91% (2009: 7.91%) (Chief Executive : Mr. Usman Ghani Khatri)			
Investment in others - quoted National Bank of Pakistan Limited Nil (2009: 5,750) ordinary shares including Nil (2009: 4,967) bonus shares of Rs. 10/- each Add: Fair value gain		-	8 378
		-	386
		<u>87,400</u>	<u>87,786</u>

9.1 This provision was made in earlier years as a matter of prudence since the project of the investee company is not operating and there is some uncertainty regarding future earnings and related cash flows.

## 10 LONG TERM DEPOSITS

Long term deposits	21,449	11,321
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## 11 STORES, SPARES AND LOOSE TOOLS

Stores	11.1	159,446	137,213
Spares:			
in hand	11.1	250,913	194,032
in transit		43,910	27,484
		294,823	221,516
Loose tools		308	305
		454,577	359,034
Less: Provision for obsolete stores and spares	11.2	17,244	17,244
		<u>437,333</u>	<u>341,790</u>

11.1 Stores and spares also include items which may result in capital expenditure but are not distinguishable at the time of purchase.

	Note	2010 (Rupees in thousand)	2009
11.2 Movement of provision for store and spares is as follows:			
Opening balance		17,244	22,432
Adjustment on account of write off during the year		-	5,188
		<u>17,244</u>	<u>17,244</u>

## 12 STOCK IN TRADE

Raw materials:			
in hand	35	57,673	42,501
in transit		17,530	2,330
		<u>75,203</u>	<u>44,831</u>
Packing materials		2,759	2,930
Work in process	35	8,165	4,384
Finished goods	12.1 & 35	75,458	53,587
		<u>161,585</u>	<u>105,732</u>

12.1 These include provision for write down of finished goods inventory to net realisable value amounting to Rs. 2.304 million (2009: Nil).

## 13 TRADE DEBTS

Secured			
Considered good		138,440	269,095
Unsecured			
Considered good	13.1	335,143	303,906
Considered doubtful		20,381	22,093
		<u>355,524</u>	<u>325,999</u>
		493,964	595,094
Less: Provision for doubtful debts	13.2	20,381	22,093
		<u>473,583</u>	<u>573,001</u>

13.1 These include balances due from related parties and associated companies aggregating to Rs. 28.65 million (2009: Rs. 7.183 million) comprising of the following:

Chemi Chloride industries Limited	28,255	7,153
Chemi Dyestuff Industries (Private) Limited	395	30
	<u>28,650</u>	<u>7,183</u>

	Note	2010 (Rupees in thousand)	2009
13.2 Movement of provision for doubtful debts is as follows:			
Opening balance		22,093	24,366
Adjustment on account of:			
Doubtful debts written off		(400)	(4,475)
Recovery of doubtful debts		(4,467)	(753)
Provision for doubtful debts for the year		3,155	2,955
Net adjustment		<u>(1,712)</u>	<u>(2,273)</u>
Closing balance		<u>20,381</u>	<u>22,093</u>

## 14 LOANS AND ADVANCES

Advances - (unsecured - considered good)			
Against purchase of land		1,639	1,639
To employees		2,491	7,152
For supplies and services		24,011	38,078
Against import		1,151	1,012
To subsidiary company	14.1	19,624	13,270
		<u>48,916</u>	<u>61,151</u>
Considered doubtful			
For supplies and services		-	51
To employees		104	104
		<u>104</u>	<u>155</u>
		49,020	61,306
Less: Provision for doubtful advances		104	155
		<u>48,916</u>	<u>61,151</u>

14.1 This represents advance to Chemi Chloride Industries Limited, a subsidiary company. The entire balance of advance including mark up thereon shall be repaid in full within 60 days from the closing of the financial year of the Company. The advance carries mark up at the weighted average borrowing cost of the Company prevailing on the first day of the quarter of financial year to which the advance relates. Subsequent to the balance sheet date, this amount was repaid in full by the subsidiary company.

## 15 TRADE DEPOSITS AND SHORT TERM PREPAYMENTS

Trade deposits			
Considered good		3,576	11,279
Considered doubtful		193	193
		<u>3,769</u>	<u>11,472</u>
Less: Provision for doubtful deposits		193	193
		<u>3,576</u>	<u>11,279</u>
Prepayments		1,036	2,841
		<u>4,612</u>	<u>14,120</u>

	Note	2010 (Rupees in thousand)	2009 (Rupees in thousand)
<b>16 OTHER RECEIVABLES</b>			
(Considered good)			
Insurance claims receivable		710	12
Subsidiary company	16.1	15,830	1,392
		<u>16,540</u>	<u>1,404</u>
16.1 This comprises of amount receivable from Chemi Chloride Industries Limited, a subsidiary company.			
<b>17 TAX REFUNDS DUE FROM GOVERNMENT</b>			
(Considered good)			
Income tax		43,570	45,723
<b>18 TAXATION - NET</b>			
Advance income tax		66,169	-
Less: Provision for taxation		59,162	-
		<u>7,007</u>	<u>-</u>
<b>19 CASH AND BANK BALANCES</b>			
Cash in hand		907	2,080
Cash at banks - current & saving accounts		14,225	23,957
		<u>15,132</u>	<u>26,037</u>
<b>20 SHARE CAPITAL</b>			
<b>20.1 Authorized share capital</b>			
		<b>2010</b>	<b>2009</b>
		<b>Number of ordinary shares of Rs. 10/- each</b>	
50,000,000	50,000,000	Ordinary shares of Rs. 10/- each	500,000
25,000,000	25,000,000	Preference shares of Rs. 10/- each	250,000
<u>75,000,000</u>	<u>75,000,000</u>		<u>750,000</u>
<b>20.2 Issued, subscribed and paid up capital</b>			
100,000	100,000	Fully paid in cash	1,000
24,900,000	24,900,000	Issued for consideration other than cash	249,000
11,000,000	11,000,000	Fully paid bonus shares	110,000
<u>36,000,000</u>	<u>36,000,000</u>		<u>360,000</u>
<u>3,664,800</u>	<u>3,664,800</u>	Shares held by associated companies	<u>10.18%</u>

	Note	2010 (Rupees in thousand)	2009 (Rupees in thousand)
<b>21 RESERVES</b>			
Fair value reserve		-	378
Unappropriated profit		616,933	530,127
		<u>616,933</u>	<u>530,505</u>
<b>22 SURPLUS ON REVALUATION OF FIXED ASSETS</b>			
Balance as at July 01,		749,059	643,372
Surplus recorded during the year	22.1	-	105,687
		<u>749,059</u>	<u>749,059</u>
22.1 This amount represents surplus arising on the revaluation of freehold land carried out on June 30, 2009 by an independent valuer M/s. Dimen Associates (Private) Limited on the basis of market value.			
<b>23 LONG TERM FINANCING</b>			
Secured			
Banking companies			
KASB Bank Limited-Syndicated- I		-	6,250
The Bank of Punjab-Syndicated- I		-	6,250
		<u>-</u>	<u>12,500</u>
Other Financial Institutions			
Pak Libya Holding Company (Private) Limited-Syndicated- I		-	6,250
Pakistan Kuwait Investment Company (Private) Limited- Syndicated- II	23.1	18,750	31,250
Pakistan Kuwait Investment Company (Private) Limited- BMR	23.2	94,444	-
The Bank of Punjab-BMR	23.3	100,000	-
		<u>213,194</u>	<u>37,500</u>
		<u>213,194</u>	<u>50,000</u>
Less: Current portion shown under current liabilities	31	40,972	31,250
		<u>172,222</u>	<u>18,750</u>
23.1 This finance is secured against first pari passu charge on fixed assets of the Company and carries mark up at six months average KIBOR Ask rate plus 2.25 % per annum. This loan was disbursed in September 2006 and is repayable in eight semi annual equal installments commencing from September 2007.			

23.2 This finance is secured against first pari passu charge on all present and future fixed assets of the Company with 25% margin and carries mark up at six months average KIBOR Ask rate plus 3 % per annum. This loan was disbursed in September 2009 and is repayable in eighteen quarterly equal installments commencing from September 2010.

23.3 This finance is secured against first pari passu charge on all present and future fixed assets of the Company with 25% margin and carries mark up at six months average KIBOR Ask rate plus 2.50 % spread with floor of 11% per annum. This loan was disbursed in June 2010 and is repayable in sixteen quarterly equal installments commencing from May 2011.

	Note	2010 (Rupees in thousand)	2009
<b>24 LONG TERM DIMINISHING MUSHARAKA</b>			
Secured			
Banking Companies			
Standard Chartered Bank (Pakistan) Limited	24.1	58,333	75,000
Askari Bank Limited	24.1	116,667	150,000
Dawood Islamic Bank Limited	24.1	38,889	50,000
United Bank Limited - Islamic Banking	24.1	194,444	250,000
Atlas Bank Limited	24.1	38,889	50,000
		447,222	575,000
Financial Institutions			
Pak Libya Holding Company (Private) Limited	24.1	116,667	150,000
UBL Fund Managers	24.1	19,444	25,000
		136,111	175,000
		583,333	750,000
Less: Current portion shown under current liabilities	31	166,667	166,667
		416,666	583,333

24.1 The above finances are secured against first pari passu charge on fixed assets of the Company and carry mark up at six months average KIBOR rate plus 200 bps. These finances were disbursed from August 22, 2007 to September 01, 2007 and are repayable in nine semi annual equal installments commencing from August 22, 2009 being the 24th month from the facility date.

## 25 LONG TERM MURABAHA

Secured

Banking Companies

Faysal Bank Limited

25.1 272,222 350,000

Less: Current portion shown under current liabilities

31 77,778 77,778

194,444 272,222

25.1 This finance is secured against first pari passu charge on fixed assets of the Company and carries mark up at six months average KIBOR Ask rate plus 200 bps. This loan was disbursed in August 31, 2007 and is repayable in nine semi annual equal installments commencing from August 22, 2009.

	Note	2010 (Rupees in thousand)	2009
<b>26 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>			
Secured			
Present value of minimum lease payments		-	498
Less: Current portion shown under current liabilities	31	-	498
		-	-
<b>27 DEFERRED LIABILITIES</b>			
Provision for recoating of DSA anodes	27.1	6,740	21,993
Deferred taxation	27.2	299,852	330,020
Provision for gratuity	27.3	10,214	5,515
		316,806	357,528
<b>27.1 Provision for Dimensionally Stable Anodes (DSAs)</b>			
Balance brought forward		37,554	31,646
Payments made against recoating of anodes		(9,853)	(8,663)
Provision (reversed) / made for recoating	27.1.1	(12,629)	14,571
		15,072	37,554
Less: Current portion included in accrued liabilities		(8,332)	(15,561)
		6,740	21,993
27.1.1 This represents reversal on account of use of alternate technology in respect of Northern Cell room which shall not require recoating.			
<b>27.2 Deferred taxation</b>			
Deferred tax liability comprises as follows:			
Taxable temporary differences			
Tax depreciation allowances		315,492	332,984
Deductible temporary differences			
Provision for gratuity		(3,575)	(1,930)
Provision for doubtful debts		(1,104)	(1,034)
Unused tax credits		(10,961)	-
		299,852	330,020

**27.3 DEFINED BENEFIT PLAN****a. General description**

The scheme provides for terminal benefits for all its permanent employees who qualify for the scheme. The defined benefit payable to each employee at the end of his service comprises of total number of years of his service multiplied by last drawn basic salary including cost of living allowance.

Annual charge is based on actuarial valuation carried out by an independent approved valuer M/S Nauman Associates as at June 30, 2010 using the Projected Unit Credit method.

**b. Significant actuarial assumptions**

Following are significant actuarial assumptions used in the valuation:

Discount rate	12% per annum
Expected rate of increase in salary	11% per annum

**c. Reconciliation of payable to defined benefit plan**

	2010	2009
	(Rupees in thousand)	
Present value of obligation	10,214	5,515
Liability recognized in balance sheet	10,214	5,515

**d. Movement of liability recognized in the balance sheet**

Present value of obligation at the start of the year	5,515	4,060
Current service cost	3,441	1,468
Interest cost	661	494
Actuarial losses	1,205	-
Contribution paid to outgoing employees	(608)	(507)
Closing net liability	10,214	5,515

**e. Charge for the year**

Current service cost	3,441	1,468
Interest cost	661	494
Actuarial losses	1,205	-
Charge for the year	5,307	1,962

**28 TRADE AND OTHER PAYABLES**

	Note	2010	2009
		(Rupees in thousand)	
Trade creditors	28.1	27,055	50,910
Accrued liabilities	28.2	240,234	323,208
Advances from customers		28,898	27,167
Retention money		613	647
Sales tax and Excise duty payable		12,845	21,423
Income tax deducted at source		827	527
Workers' Profit Participation Fund	28.3	7,729	15,154
Workers' Welfare Fund		3,313	5,488
Other liabilities		179	787
		<u>321,693</u>	<u>445,311</u>

28.1 This include a balance due to Chemi Chloride Industries limited, a subsidiary company, amounting to Rs. 0.10 million (2009: Nil).

28.2 These include a balance due to Chemi Multifabrics Limited, an associated company, amounting to Rs. 5.769 million (2009: Rs. 4.002 million).

28.3 Workers' profit participation fund balances comprises as follows:

Balance as at July 01,		15,154	7,625
Interest at prescribed rate		-	-
		<u>15,154</u>	<u>7,625</u>
Less: Amount paid to fund		14,377	6,913
		<u>777</u>	<u>712</u>
Current year's allocation at 5%	38	6,952	14,442
		<u>7,729</u>	<u>15,154</u>

The Company retains the allocation of this fund for its business operations till the amounts are paid.

**29 MARK UP ACCRUED**

Secured			
Long term financing		31,655	44,044
Long term murabaha		13,728	19,724
Short term borrowings		13,341	8,619
		<u>58,724</u>	<u>72,387</u>

	Note	2010 (Rupees in thousand)	2009
<b>30 SHORT TERM BORROWINGS</b>			
Secured			
Banking companies			
Running finances			
MCB Bank Limited	30.1	34,626	32,529
Askari Bank Limited	30.2	29,338	19,033
The Bank of Punjab Limited	30.3	39,130	28,000
KASB Bank Limited	30.4	19,372	10,581
Murabaha finance			
Faysal Bank Limited	30.5	40,000	40,000
Dawood Islamic Bank Limited	30.6	100,000	-
		<u>262,466</u>	<u>130,143</u>

30.1 This facility is secured against first pari passu charge over present and future current assets of the Company and hypothecation of stock of chemicals. The facility carries mark-up at three months average KIBOR Ask rate plus 2.5% spread with floor of 12.00 % per annum (2009: 2.5% with floor of 12%). The limit of finance is Rs. 90 million (2009: Rs. 90 million).

30.2 This facility is secured against first pari passu charge over all present and future current assets of the Company and carries mark-up at three months average KIBOR Ask rate plus 1.9 % per annum (2009: Three months average KIBOR Ask rate plus 1.9% per annum). The limit of finance is Rs. 200 million (2009: Rs. 200 million).

30.3 This facility is secured against first pari passu charge upto the limit of Rs. 150 million on all present and future current assets of the Company and carries mark-up at three months average KIBOR Ask rate plus 2.5 % per annum with floor of 11 % per annum (2009: Three months average KIBOR Ask rate plus 2.5% per annum with floor of 10 %). The limit of finance is Rs. 150 million (2009: Rs. 150 million).

30.4 This facility is secured against first pari passu charge over all present and future current assets of the Company and carries mark-up at three months average KIBOR Ask rate plus 2.75% per annum (2009: three months average KIBOR Ask rate plus 3 % per annum). The limit of finance is Rs. 50 million (2009: Rs. 50 million).

30.5 This facility is secured against first pari passu charge over present and future current assets of the Company and carries mark-up at six months average KIBOR Ask rate plus 2.25% per annum (2009: Six months average KIBOR Ask rate plus 3% per annum). The limit of finance is Rs. 40 million (2009: Rs. 40 million).

30.6 This facility is secured against first pari passu charge over present and future current assets of the Company and carries mark-up at three months average KIBOR Ask rate plus 2.5% per annum (2009: Nil). The limit of finance is Rs. 100 million (2009: Nil).

	Note	2010 (Rupees in thousand)	2009
<b>31 CURRENT PORTION OF LONG TERM LIABILITIES</b>			
Long term financing	23	40,972	31,250
Long term diminishing musharaka	24	166,667	166,667
Long term murabaha	25	77,778	77,778
Liabilities against assets subject to finance lease	26	-	498
		<u>285,417</u>	<u>276,193</u>
<b>32 PROVISION FOR TAXATION - NET</b>			
Provision for taxation		-	35,451
Less: Advance income tax		-	25,195
		<u>-</u>	<u>10,256</u>

### 33 CONTINGENCIES AND COMMITMENTS

#### 33.1 Contingent liabilities

- During the year the Company has received assessment order under section 122(5) of the Income Tax Ordinance, 2001 for tax year 2004 as a result of which brought forward losses of the Company have been decreased by Rs. 24.849 million. The company filed appeal before Commissioner of Income Tax (Appeals) Zone-1 against the impugned order who has given certain reliefs to the company. Both ICL and Income Tax Department has filed appeal before Income Tax Appellate Tribunal. However if the case is decided against the Company, the Company may be liable to pay a tax liability of Rs. 8.697 million.
- During the year the Company has received order under section 161/205 of the Income Tax Ordinance, 2001 for tax year 2004 creating demand of Rs. 12.069 million. The Company challenged it before Commissioner of Income Tax (Appeals) Zone-1 who decided the case in favour of the company. The Department has filed appeal before Income Tax Appellate Tribunal. However if the case is decided against the Company, it may result in tax payable of Rs. 12.069 million.
- During the year the Company has received an order under section 161/205 of the Income Tax Ordinance, 2001 creating demand of Rs. 8.661 million. The Company filed appeal before Commissioner of Income Tax (Appeals) Zone-1 who has granted certain relief to the Company. Both Income Tax Department and Company have filed appeals before Income Tax Appellate Tribunal. Company may be liable to pay tax of Rs. 8.661 million if the case is not decided in its favour.
- The Company is facing claims, launched in the labour courts, pertaining to staff retirement benefits. In the event of an adverse decision the Company would be required to pay an amount of Rs. 2.231 million (2009: Rs. 2.947 million) against these claims.
- Letters of guarantee outstanding as at June 30, 2010 were Rs. 217.348 million (2009: Rs. 198.240 million) and corporate guarantees on behalf of Chemi Chloride Industries Limited, subsidiary company amounted to Rs. 203 million (2009: Rs. 203 million).

	Note	2010 (Rupees in thousand)	2009 (Rupees in thousand)
<b>33.2 Commitments</b>			
Commitments as on June 30, 2010 were as follows:			
a) Against letters of credit amounting to Rs. 46.109 million (2009: Rs. 128.073 million).			
b) Against purchase of land amounting to Rs. 1.838 million (2009: Rs. 1.838 million).			
c) The Company has entered into ijarah arrangement with Dawood Islamic Bank Limited for Plant and Machinery. Commitment of Ijarah rentals under this agreement are as follows:			
Not later than one year		27,196	-
Later than one year and not later than five year		108,782	-
		<u>135,978</u>	<u>-</u>
<b>34 SALES</b>			
Sales			
Manufacturing	34.1	3,581,227	4,195,962
Trading		14,395	558
		<u>3,595,622</u>	<u>4,196,520</u>
Less: Sales tax		453,749	522,897
Commission to selling agents		32,349	72,587
Special excise duty		28,236	32,684
		<u>514,334</u>	<u>628,168</u>
		<u>3,081,288</u>	<u>3,568,352</u>
34.1 This amount includes export sales amounting to Rs. 77.084 million (2009: Rs. 110.629 million).			
<b>35 COST OF SALES</b>			
Raw materials consumed			
Opening stock		42,501	91,154
Purchases		372,167	360,611
		<u>414,668</u>	<u>451,765</u>
Closing stock	12	(57,673)	(42,501)
		<u>356,995</u>	<u>409,264</u>
Stores, spares and consumables		109,820	274,434
Packing materials consumed		8,079	10,760
Salaries, wages and other benefits	35.1	153,509	148,037
Fuel and power		1,612,880	1,678,677
Repair and maintenance		24,462	21,064
Rent, rates and taxes	35.2	11,439	-

	Note	2010 (Rupees in thousand)	2009 (Rupees in thousand)
Insurance		8,267	8,570
Depreciation	5.3	182,063	183,209
Vehicle running expenses		12,438	12,048
Postage, printing and stationery		1,057	1,239
Other expenses		2,406	2,650
		<u>2,126,420</u>	<u>2,340,688</u>
Work in process			
Opening		4,384	3,694
Closing	12	(8,165)	(4,384)
		<u>(3,781)</u>	<u>(690)</u>
Cost of goods manufactured		2,479,634	2,749,262
Cost of stores traded		12,200	5,745
Finished goods			
Opening		53,587	46,537
Closing	12	(75,458)	(53,587)
		<u>(21,871)</u>	<u>(7,050)</u>
		<u>2,469,963</u>	<u>2,747,957</u>
35.1 This amount includes Rs. 2.88 million (2009: Rs. 1.037 million) in respect of employees' retirement benefits.			
35.2 This amount includes Rs. 11.331 million (2009: Nil ) in respect of operating lease rentals.			
<b>36 SELLING AND DISTRIBUTION EXPENSES</b>			
Salaries and other benefits	36.1	20,170	17,975
Traveling and conveyance		2,372	2,179
Vehicle running expenses		1,538	1,854
Advertisement		1,369	558
Telephone, telex and postage		1,000	1,080
Marketing service charges		30,560	35,887
Freight		115,946	135,425
Rent, rates and taxes		3,812	5,295
Printing and stationery		195	581
Fuel and power		1,686	1,377
Repair and maintenance		123	1,170
Depreciation	5.3	733	832
		<u>179,504</u>	<u>204,213</u>
36.1 This amount includes Rs. 1.045 million (2009: Rs. 0.370 million) in respect of employees' retirement benefits.			

	Note	2010 (Rupees in thousand)	2009
<b>37 GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Salaries and other benefits	37.1	55,497	56,579
Traveling and conveyance		15,735	11,592
Vehicle running expenses		3,397	3,166
Telephone, telex and postage		1,728	1,654
Rent, rates and taxes		2,630	2,156
Printing and stationery		975	884
Fee and subscription		2,067	5,097
Legal and professional charges		3,566	1,869
Fuel and power		1,856	1,337
Provision for doubtful debts for the year		3,155	2,955
Repair and maintenance		4,714	2,593
Depreciation	5.3	4,886	4,053
Amortization of intangible assets	7.1	1,998	1,823
Bad debts written off		-	646
Donations	37.2	4,040	3,888
Other expenses		107	-
		<u>106,351</u>	<u>100,292</u>

37.1 This amount includes Rs. 1.577 million (2009: Rs. 0.584 million) in respect of employees' retirement benefits.

### 37.2 Donations

37.2.1 Interest of the Directors or their spouses in the donations made during the year is as follows:

Donation amounting to Rs. 1.100 million (2009: Rs. 1.306 million) paid to Kiran Ibtadai School. Ms. Sabina Khatri w/o Mr. Muhammad Siddique Khatri, Chairman and Chief Executive of the Company is the patron of the school.

37.2.2 Donations other than mentioned above were not made to any donee in which any director of the Company or his spouse had any interest at any time during the year.

	Note	2010 (Rupees in thousand)	2009
<b>38 OTHER OPERATING EXPENSES</b>			
Auditors' remuneration			
Audit fee		450	450
Half yearly review fee		125	100
Tax and certification charges		25	100
Out of pocket expenses		7	40
		<u>607</u>	<u>690</u>
Loss on sale of fixed assets		1,792	-
Loss on foreign exchange		190	-
Workers' profit participation fund	28.3	6,952	14,442
Workers welfare fund		3,358	5,488
		<u>12,899</u>	<u>20,620</u>
<b>39 OTHER OPERATING INCOME</b>			
Income from financial assets			
Dividend income		-	28
Return on saving accounts		140	473
Gain on foreign exchange		-	253
Gain on sale of investment		469	-
		<u>609</u>	<u>754</u>
Income from non- financial assets			
Gain on sale of fixed assets		-	394
Sale of scrap		4,925	3,036
Recovery of doubtful debts		4,467	753
		<u>9,392</u>	<u>4,183</u>
Income from related parties			
Interest on advances to subsidiary		3,423	1,614
Service charges		1,917	1,872
Rental income		4,800	4,800
		<u>20,141</u>	<u>13,223</u>
<b>40 FINANCIAL CHARGES</b>			
Markup/interest on:			
Long term financing		111,145	123,552
Long term murabaha		44,463	53,548
Liabilities against assets subject to finance lease		24	101
Short term borrowings		45,138	58,710
		<u>200,770</u>	<u>235,911</u>
Bank charges and commission		3,409	3,675
		<u>204,179</u>	<u>239,586</u>

	2010 (Rupees in thousand)	2009
<b>41 TAXATION</b>		
Current	58,727	35,839
Prior year	(37,281)	13,001
Deferred	(30,169)	58,641
	<u>(8,723)</u>	<u>107,481</u>
41.1 Relationship between tax expense and accounting profit:		
Profit before taxation	132,083	276,657
Tax at the applicable rate of 35%	46,230	96,830
Tax effect of inadmissible expenses / losses	8,340	614
Tax effect of admissible expenses	(7,002)	-
Income taxed at different rates	(3,346)	(4,164)
Prior year adjustment	(37,281)	13,001
Tax effect of losses and other allowances	(17,618)	-
Others	1,954	1,200
	<u>(8,723)</u>	<u>107,481</u>

**42 ACCOUNTING ESTIMATES AND JUDGMENTS**

The Company's main accounting policies affecting its result of operations and financial conditions are set out in note 4. Judgments and assumptions have been required by the management in applying the Company's accounting policies in many areas. Actual results may differ from estimates calculated using these judgments and assumptions. Key sources of estimation, uncertainty and critical accounting judgments are as follows:

**Income taxes**

The Company takes into account relevant provisions of the current income tax laws while providing for current and deferred taxes as explained in note 4.8 to these financial statements.

**Defined benefit plan**

Certain actuarial assumptions have been adopted by external professional valuer (as disclosed in note 27.3) for valuation of present value of defined benefit obligations. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

**Property, plant and equipment**

The estimates for revalued amounts, if any, of different classes of property, plant and equipment, are based on valuation performed by external professional valuers and recommendation of technical teams of the Company. Further, the Company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment. As explained in note 22 to these financial statements, the Company has revalued its free hold land as on June 30, 2009 resulting in a revaluation surplus of Rs. 105.687 million.

	2010 (Rupees in thousand)	2009
<b>43 EARNINGS PER SHARE - BASIC AND DILUTED</b>		
There is no dilutive effect on the basic earnings per share of the Company, which is based on:		
Profit after taxation	140,806	169,176
Weighted average number of ordinary shares (in thousand)	36,000	36,000
Earnings per share (Rupees)	<u>3.91</u>	<u>4.70</u>

**44 TRANSACTIONS WITH RELATED PARTIES INCLUDING ASSOCIATED UNDERTAKINGS**

The related parties comprise of related group companies, local associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and remuneration and benefits to key management personnel under the terms of their employment are as follows:

Relation with the Company	Nature of transaction	2010	2009
Associated company	Marketing service charges	30,560	35,888
Subsidiary/Associated companies	Sale of goods and services	96,750	36,390
Subsidiary/Associated companies	Purchase of goods	1,203	-
Subsidiary company	Rental income	4,800	4,800
Subsidiary company	Loans and advances made	121,164	21,198
Subsidiary company	Investment made	-	23,000
Subsidiary company	Mark up on loans and advances	3,423	1,614
Staff retirement fund	Contribution to staff retirement benefit plans	195	168
Directors and employees	Remuneration to directors and key management personnel	42,765	48,205

## 45 FINANCIAL ASSETS AND LIABILITIES

Note	2010				Not interest /mark up bearing	
	Total	Interest/mark up bearing		Sub-total		
		Maturity upto one year	Maturity after one year			
	(Rupees in thousand)					
<b>Financial assets</b>						
Long term investments						
Long-term deposits	87,400	-	-	-	87,400	
Trade debts	473,583	-	-	-	473,583	
Trade deposits	4,612	-	-	-	4,612	
Other receivables	16,540	-	-	-	16,540	
Cash and bank balances	15,132	-	-	-	15,132	
	597,267	-	-	-	597,267	
<b>Financial liabilities</b>						
Long term financing	213,194	40,972	172,222	213,194	-	
Long term diminishing musharaka	583,333	166,667	416,666	583,333	-	
Long term murabaha	272,222	77,778	194,444	272,222	-	
Trade and other payables	321,693	-	-	-	321,693	
Short-term borrowings	262,466	262,466	-	262,466	-	
	(1,652,908)	(547,883)	(783,332)	(1,331,215)	(321,693)	
	(1,055,641)	(547,883)	(783,332)	(1,331,215)	275,574	
<b>On balance sheet gap</b>						
<b>Off Balance sheet Items</b>						
Financial commitments:						
Letter of credits	33.2	46,109	-	-	46,109	
Others	33.2	1,838	-	-	1,838	
		(47,947)	-	-	(47,947)	
<b>Total Gap</b>		(1,103,588)	(547,883)	(783,332)	(1,331,215)	227,627
<b>2009</b>						
Note	2009				Not interest /mark up bearing	
	Total	Interest/mark up bearing		Sub-total		
		Maturity upto one year	Maturity after one year			
	(Rupees in thousand)					
<b>Financial assets</b>						
Long term investments						
Long-term deposits	87,786	-	-	-	87,786	
Trade debts	11,321	-	-	-	11,321	
Trade deposits	573,001	-	-	-	573,001	
Other receivables	1,404	-	-	-	1,404	
Cash and bank balances	26,037	-	-	-	26,037	
	699,549	-	-	-	699,549	
<b>Financial liabilities</b>						
Long term financing	50,000	31,250	18,750	50,000	-	
Long term diminishing musharaka	750,000	166,667	583,333	750,000	-	
Long term murabaha	350,000	77,778	272,222	350,000	-	
Liabilities against assets subject to finance lease	498	498	-	498	-	
Trade and other payables	445,311	-	-	-	445,311	
Short-term borrowings	130,143	130,143	-	130,143	-	
	(1,725,952)	(406,336)	(874,305)	(1,280,641)	(445,311)	
	(1,026,403)	(406,336)	(874,305)	(1,280,641)	254,238	
<b>On balance sheet gap</b>						
<b>Off Balance sheet Items</b>						
Financial commitments:						
Letter of credits	33.2	128,073	-	-	729,811	
Others	33.2	1,838	-	-	15,240	
		(129,911)	-	-	(745,051)	
<b>Total Gap</b>		(1,156,314)	(406,336)	(874,305)	(1,280,641)	(490,813)

## 46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

- Credit risk
- Liquidity risk
- Market risk

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

## 46.1 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if the counter party fail completely to perform as contracted and arise principally from trade debts, loans and advances, trade deposits and other receivables. The carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date is as follows:

	2010	2009
	(Rupees in thousand)	
Trade debts-net of provision	473,583	573,001
Loans and advances-net of provision	48,916	61,151
Trade deposits-net of provision	3,576	11,279
Other receivables	16,540	1,404
Bank balances	14,225	23,957

To manage exposure to credit risk in respect of trade receivables, management performs credit reviews taking into account the customer's financial position, past experience and other factors. Credit terms are approved by the approval committee. Where considered necessary, advance payments are obtained from certain parties. The management has set a maximum credit period of 30 days to reduce the credit risk.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

The maximum exposure to credit risk for trade debts at the balance sheet date by geographic region is as follows:

	2010 (Rupees in thousand)	2009
Export	34,648	30,552
Domestic	438,935	542,449
	<u>473,583</u>	<u>573,001</u>

The maximum exposure to credit risk for trade debts at the balance sheet date by type of customer is as follows:

	2010	2009
Distributor	120,092	259,379
End-user customers	353,491	313,622
	<u>473,583</u>	<u>573,001</u>

The aging of trade receivables at the reporting date is as follows:

	2010	2009
Not past due	247,148	347,144
Past due 1-30 days	122,327	136,970
Past due 30-150 days	56,615	68,785
Past due more than 150 days	47,493	20,102
	<u>473,583</u>	<u>573,001</u>

The Company's most significant customers, are a distributor with balance amounting to Rs. 103.701 million (2009: Rs. 155.631 million) of the total carrying amount as at June 30, 2010.

Based on the past experience, consideration of financial position, past track records and recoveries, the Company believes that no impairment allowance is necessary in respect of trade debtors past due as some receivables have been recovered subsequent to the year end and for other receivables there are reasonable grounds to believe that the amounts will be recovered in short course of time.

On prudence basis an amount of Rs. 3.155 million (2009: Rs. 2.955 million) has been charged, as provision for doubtful debts, to profit and loss account.

#### 46.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure as far as possible to always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

#### 2010 Financial liabilities

	Carrying amount	Contractual cash flow	Six months or less	Six to twelve months	One to two years	Two to five years
	(Rupees in thousand)					
Long term financing	213,194	306,714	33,450	31,887	77,255	164,122
Long term diminishing musharaka	583,333	751,098	125,276	119,283	220,591	285,948
Long term morabaha	272,222	350,513	58,462	55,666	102,942	133,443
Trade and other payables	321,693	321,693	321,693	-	-	-
Markup accrued	58,724	58,724	58,724	-	-	-
Short term borrowing	262,466	272,146	272,146	-	-	-
	<u>1,711,632</u>	<u>2,060,888</u>	<u>869,751</u>	<u>206,836</u>	<u>400,788</u>	<u>583,513</u>

#### 2009

#### Financial liabilities

	Carrying amount	Contractual cash flow	Six months or less	Six to twelve months	One to two years	Two to five years
	(Rupees in thousand)					
Long term financing	50,000	58,217	28,161	8,273	15,028	6,755
Long term diminishing musharaka	750,000	1,043,071	141,945	135,433	476,605	289,088
Long term morabaha	350,000	486,764	66,241	63,202	117,287	240,034
Liabilities against assets subject to finance lease	498	522	258	264	-	-
Trade and other payables	445,311	445,311	445,311	-	-	-
Markup accrued	72,387	72,387	72,387	-	-	-
Short term borrowing	130,143	142,884	142,884	-	-	-
	<u>1,798,339</u>	<u>2,249,156</u>	<u>897,187</u>	<u>207,172</u>	<u>608,920</u>	<u>535,877</u>

**46.3 Market risk**

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities, and liquidity in the market. The Company is exposed to currency risk and interest rate risk only.

**46.3.1 Currency risk**

The Company is exposed to currency risk on trade debts, import of raw materials and stores and spares and export sales that are denominated in a currency other than the respective functional currency of the Company, primarily in U.S. dollar. The Company's exposure to foreign currency risk is as follows:

	2010 (Rupees in thousand)	2009
Trade debts	34,648	30,552
Gross balance sheet exposure	34,648	30,552
Outstanding letters of credit	(46,109)	(128,073)
<b>Net exposure</b>	<b>(11,461)</b>	<b>(97,521)</b>

The following significant exchange rates were applied during the year:

	Average rate		Reporting date rate	
	2010	2009	2010	2009
USD to PKR	83.45	80.00	85.60	81.30

**Sensitivity analysis**

At reporting date, if the PKR had strengthened by 10% against the US dollar with all other variables held constant, post tax profit for the year would have been lower by the amount shown below.

	2010 (Rupees in thousand)	2009
<b>Effect on profit or loss</b>		
Loss	(3,465)	(3,055)

The weakening of the PKR against US dollar would have had an equal but opposite impact on the post tax profits / loss.

**46.3.2 Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from long term loans and short term borrowings. These are benchmarked to variable rate which expose the company to cash flow interest rate risk. At the balance sheet date the interest rate profile of the Company's interest -bearing financial instruments is as follows:

	2010	2009
	<b>Carrying amount (Rupees in thousand)</b>	
<b>Financial liabilities</b>		
Variable rate instruments		
Long term loans	213,194	50,000
Long term diminishing musharaka	583,333	750,000
Long term murabaha	272,222	350,000
Liabilities against assets subject to finance lease	-	498
Short term borrowings	262,466	130,143
	<u>1,331,215</u>	<u>1,280,641</u>

Effective interest rates are mentioned in the respective notes to the financial statements.

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have decreased / (increased) loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Profit and loss 100 bp increase	100 bp decrease
<b>As at June 30, 2010</b>		
Cash flow sensitivity - Variable rate financial liabilities	(13,312)	13,312
<b>As at June 30, 2009</b>		
Cash flow sensitivity - Variable rate financial liabilities	(12,806)	12,806

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

**46.4 Fair value of financial instruments**

The carrying value of all the financial assets and financial liabilities approximate their fair values. 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.

**47 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

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

	Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	(Rupees in thousand)					
Managerial remuneration	2,400	2,400	4,000	4,000	33,372	25,737
House rent allowance	1,080	1,080	1,800	1,800	15,017	11,581
Medical expenses	120	120	200	200	1,669	1,287
	3,600	3,600	6,000	6,000	50,058	38,605
Number of persons	1	1	2	2	54	44

47.1 The Company also provides the Chief Executive and some of the Directors and Executives with free use of cars and mobile phones.

**48 CAPACITY AND PRODUCTION**

	Installed capacity Tons		Actual production Tons		Reason for shortfall
	2010	2009	2010	2009	
Caustic soda	143,550	143,550	75,358	95,448	
Liquid Chlorine	13,200	13,200	8,213	7,758	
Hydrochloric acid	150,000	150,000	126,450	133,680	
Sodium hypochlorite	49,500	49,500	24,941	31,035	
Bleaching earth	3,300	3,300	1,129	2,253	
Zinc sulphate	600	600	10	29	Cautious production
Chlorinated parafin wax	3,000	3,000	-	261	strategy based on
Sulphuric acid	3,300	3,300	588	60	actual demands.

**49 CAPITAL MANAGEMENT**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitor the return on capital, which the Company defines as net profit after taxation divided by total shareholders' equity. The Board of Directors also monitor the level of dividend to ordinary shareholders. There were no changes to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

**50 DATE OF AUTHORIZATION OF ISSUE**

These financial statements were authorized for issue on August 30, 2010 by the Board of Directors of the Company.

**51 NON ADJUSTING EVENTS**

The Board of Directors of the Company has recommended a 5% final cash dividend (2009:10% interim dividend and 5% final dividend) in their meeting held on August 30, 2010.

**52 GENERAL**

- Figures have been rounded off to the nearest rupees in thousand unless stated otherwise.
- Previous year's figures have been re-arranged and re-classified wherever necessary for the purpose of comparison, the effect of which is not material.



CHIEF EXECUTIVE



DIRECTOR

## DIRECTORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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The Directors of Ittehad Chemicals Limited are pleased to present the audited consolidated financial statements of the Company and its subsidiary, Chemi Chloride Industries Limited (CCIL), for the year ended June 30, 2010 .

The Directors' Report on the performance of Ittehad Chemicals Limited (ICL), for the year ended June 30, 2010 has been presented separately.

The annual performance of the subsidiary Company, Chemi Chloride Industries Limited is as follows:

By the blessings of Almighty Allah, the year 2009-10 has proved to be a booming year for CCIL. During the year your company recorded all time best performance by achieving growth in sales of 173%. The Company registered the sales of Rs. 242.070 million during the year under review compared to sales of Rs. 88.541 million during the last year. The Company's sturdy performance is also reflected in improvement in gross profit from Rs. 14.386 million to Rs. 88.416 million, reflecting an increase of 515% over last year. The operating profit stood at Rs. 34.448 million as against operating loss of Rs. 1.786 million for the previous financial year. The profit before tax has gone up to Rs.18.875 million as against loss of Rs. 14.723 million suffered during previous year. The growth in profitability of the Company is mainly attributable to the increase in production and sales volume. The profit after tax of Rs. 16.906 million for the year is also an all time high, up 213% from the previous year's loss. The Company has therefore reported an earning per share of Rs. 1.84 for the year under review whereas group's earning per share came in at Rs. 4.22 per share.

We take the opportunity of thanking members of the management team, employees and other staff members for their continued commitment to the success of the Company. We also value the support and cooperation of our customers, suppliers, bankers and all stakeholders and wish to record our thanks and gratitude.

On behalf of the Board



**Muhammad Siddique Khatri**  
Chairman and Chief Executive

Lahore  
August 30, 2010

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements of **ITTEHAD CHEMICALS LIMITED** (the holding company) and its subsidiary company (together "the Group") comprising the consolidated balance sheet as at June 30, 2010 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended.

These financial statements are the responsibility of the holding company's management. Our responsibility is to express an opinion on these financial 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 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.

In our opinion, the consolidated financial statements present fairly the consolidated financial position of the Group as at June 30, 2010, and the consolidated results of its operations, its comprehensive income, its consolidated cash flows and consolidated changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

**BDO Ebrahim & Co**

Chartered Accountants

Engagement Partner: Zulfikar Ali Causer

Karachi

Dated: August 30, 2010

CONSOLIDATED BALANCE SHEET  
AS AT JUNE 30, 2010

	Note	2010 (Rupees in thousand)	2009
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment			
Operating fixed assets	5	2,470,758	2,598,293
Capital work in progress	6	54,380	32,919
		2,525,138	2,631,212
Intangible assets	7	1,462	3,310
Goodwill	8	6,445	6,445
Investment properties	9	64,500	61,200
Long term investments	10	-	386
Long term deposits	11	21,449	12,186
		2,618,994	2,714,739
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools	12	446,247	344,471
Stock in trade	13	197,815	128,307
Trade debts	14	501,812	601,687
Loans and advances	15	36,826	50,511
Trade deposits and short term prepayments	16	4,990	14,409
Other receivables	17	710	12
Tax refunds due from Government	18	49,651	45,723
Taxation - net	19	8,049	-
Cash and bank balances	20	15,399	26,494
		1,261,499	1,211,614
		3,880,493	3,926,353
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized share capital	21.1	750,000	750,000
Issued, subscribed and paid up capital	21.2	360,000	360,000
Reserves	22	576,008	478,408
		936,008	838,408
Non controlling interest		9,740	4,261
		945,748	842,669
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>	23	748,559	748,559
<b>NON CURRENT LIABILITIES</b>			
Long term financing	24	235,201	128,058
Long term diminishing musharaka	25	416,666	583,333
Long term murabaha	26	194,444	272,222
Liabilities against assets subject to finance lease	27	-	-
Deferred liabilities	28	316,806	357,528
		1,163,117	1,341,141
<b>CURRENT LIABILITIES</b>			
Trade and other payables	29	328,016	448,247
Mark up accrued	30	60,740	74,560
Short term borrowings	31	301,661	152,327
Current portion of long term liabilities	32	332,652	309,263
Provision for taxation - net	33	-	9,587
		1,023,069	993,984
<b>CONTINGENCIES AND COMMITMENTS</b>	34	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		3,880,493	3,926,353

The annexed notes from 1 to 54 form an integral part of these financial statements.

**CHIEF EXECUTIVE**

**DIRECTOR**

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 (Rupees in thousand)	2009 (Rupees in thousand)
Sales	35	3,257,935	3,633,404
Cost of sales	36	(2,552,172)	(2,792,628)
Gross profit		705,763	840,776
Selling and distribution expenses	37	(229,838)	(218,750)
General and administrative expenses	38	(109,501)	(101,284)
Other operating expenses	39	(14,233)	(20,713)
Other operating income	40	11,545	5,069
		(342,027)	(335,678)
Operating profit		363,736	505,098
Financial charges	41	(216,332)	(250,907)
Fair value gain on investment property	9	3,300	8,250
Profit before taxation		150,704	262,441
Taxation	42	6,753	(107,698)
Profit after taxation		157,457	154,743
Attributable to:			
Profits attributable to equity holders of holding company		151,978	153,606
Non controlling interest - Share of profit		5,479	1,137
		157,457	154,743
Earnings per share attributable to equity holders of holding company- basic and diluted (Rupees)	44	4.22	4.27

Appropriations have been reflected in the statement of changes in equity.

The annexed notes from 1 to 54 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2010

	2010 (Rupees in thousand)	2009 (Rupees in thousand)
Profit after taxation for the year	157,457	154,743
Other comprehensive income/(loss)		
Fair value loss during the year on remeasurement of investments classified as 'available for sale'	-	(321)
Fair value reserve transferred to profit and loss account on disposal of investment	(378)	-
<b>Total comprehensive income for the year</b>	<b>157,079</b>	<b>154,422</b>
Attributable to:		
Equity holders of holding company	151,600	153,285
Non controlling interest	5,479	1,137
	157,079	154,422

The annexed notes from 1 to 54 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

Note	2010 (Rupees in thousand)	2009
<b>Cash flows from operating activities</b>		
Profit before tax	150,704	262,441
Adjustments for items not involving movement of funds:		
Depreciation	205,356	206,274
Amortization of intangible assets	1,998	1,823
Provision for gratuity	5,307	1,962
Loss / (gain) on sale of operating fixed assets	1,792	(394)
Gain on sale of investment	(469)	-
Gain on revaluation of investment property	(3,300)	(8,250)
Loss on foreign exchange	(1,117)	(385)
Provision for doubtful debts	3,155	2,955
Bad debts written off	3	646
Financial charges	216,332	250,907
Net cash flow before working capital changes	579,761	717,979
(Increase) / decrease in current assets		
Stores, spares and loose tools	(101,776)	(27,280)
Stock in trade	(69,508)	31,376
Trade debts	97,834	(305,269)
Loans and advances	13,685	(32,034)
Trade deposits and short term prepayments	9,419	13,226
Other receivables	(698)	9
Tax refund due from government	(5,417)	-
	(56,461)	(319,972)
(Decrease) / increase in current liabilities		
Trade and other payables	(135,483)	224,995
Cash generated from operations	387,817	623,002
Taxes paid	(39,563)	(21,857)
Gratuity paid	(608)	(507)
Financial charges paid	(230,152)	(240,010)
Net cash inflow from operating activities	117,494	360,628
<b>Cash flows from investing activities</b>		
Additions to operating fixed assets	(62,449)	(60,263)
Additions to intangible assets	(150)	(992)
Additions to capital work in progress	(140,410)	(57,313)
Proceeds from sale of fixed assets	101,785	710
Proceeds from sale of shares	477	-
Long term deposits	(9,263)	153
Net cash outflow from investing activities	(110,010)	(117,705)
<b>Cash flows from financing activities</b>		
Proceeds from long term financing	194,444	6,000
Repayments of long term financing	(63,414)	(67,442)
Repayments of long term musharaka	(166,667)	-
Repayments of long term murabaha	(77,778)	-
Liabilities against assets subject to finance lease	(498)	(415)
Dividend paid	(54,000)	(54,000)
Short term borrowings	149,334	(142,642)
Net cash outflow from financing activities	(18,579)	(258,499)
Net (decrease) in cash and cash equivalents	(11,095)	(15,576)
Cash and cash equivalents at the beginning of the year	26,494	42,070
Cash and cash equivalents at the end of the year	15,399	26,494

The annexed notes from 1 to 54 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2010

	Issued, subscribed and paid-up capital	Capital reserve - fair value reserve	Unappropriated profits	Total	Non controlling interest - share capital	Non controlling interest - share of profit / (loss)	Total	Grand total
Balance as at June 30, 2008	360,000	699	378,424	739,123	4,600	(1,476)	3,124	742,247
Total comprehensive income for the year	-	(321)	153,606	153,285	-	1,137	1,137	154,422
Dividend paid for the period ended June 30, 2008	-	-	(54,000)	(54,000)	-	-	-	(54,000)
Balance as at June 30, 2009	360,000	378	478,030	838,408	4,600	(339)	4,261	842,669
Total comprehensive income for the year	-	(378)	151,978	151,600	-	5,479	5,479	157,079
Dividend paid for the period ended June 30, 2009	-	-	(54,000)	(54,000)	-	-	-	(54,000)
Balance as at June 30, 2010	360,000	-	576,008	936,008	4,600	5,140	9,740	945,748

The annexed notes from 1 to 54 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

## NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 1 LEGAL STATUS AND NATURE OF BUSINESS

Ittehad Chemicals Limited (the Company) was incorporated on September 28, 1991 to takeover the assets of Ittehad Chemicals and Ittehad Pesticides under a Scheme of Arrangement dated June 18, 1992 as a result of which the Company became a wholly owned subsidiary of Federal Chemical and Ceramics Corporation (Private) Limited. The Company was privatised on July 03, 1995 when 90% of the shares were transferred to the buyer.

The Company was listed on Karachi Stock Exchange on April 14, 2003 when Sponsors of the Company offered 25% of the issued, subscribed and paid up shares of the Company to the general public.

The registered office of the Company is situated at 39, Empress Road, Lahore. The Company is engaged in the business of manufacturing and selling caustic soda and other allied chemicals.

Chemi Chloride Industries Limited ("the Subsidiary Company") was incorporated in Pakistan as a public limited company under the Companies Ordinance, 1984 on July 03, 1999. The registered office is situated at 39-Empress Road, P.O. Box 1414, Lahore. The principal activity of the subsidiary is manufacturing and sale of calcium chloride prills.

#### The group comprises of:

Ittehad Chemicals Limited ("the Parent Company") and;  
Chemi Chloride Industries Limited ("the Subsidiary Company")

### 2 BASIS OF PREPARATION

#### 2.1 Basis of presentation and consolidation

These consolidated financial statements have been prepared from the information available in the audited financial statements of the holding and subsidiary Company for the year ended June 30, 2010.

The consolidated financial statements include Ittehad Chemicals Limited and all companies in which it directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and appoint more than 50% of its directors. Subsidiaries are consolidated as from the date of acquisition using the purchase method. Under this method, the cost of an acquisition is measured at the fair value of assets given, equity instruments issued and liabilities assumed at the date of the exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non controlling interest. The excess of cost of acquisition over the fair value of the group's share of the identifiable net assets is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognized directly in profit and loss account.

Inter company transactions, balances and unrealized gains on transactions between group companies are eliminated. Details of the subsidiary are given in note 51.

Non controlling interests are that part of the net results of operations and of net assets of the subsidiary attributable to interests which are not owned by the holding Company.

#### 2.2 Statement of compliance

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

The SECP has issued directive (vide SRO 431(I)/2007 dated May 22, 2007) that Islamic Financial Accounting Standard 2 (IFAS-2) shall be followed in preparation of the financial statements by companies while accounting for Ijarah (Lease) transactions as defined by said Standard. The Company has adopted the above said standard during this reporting period.

#### 2.3 Accounting convention

These financial statements have been prepared under the historical cost convention except as modified for fair value adjustment in investment properties, investments and exchange differences as referred to in notes 4.4, 4.5 and 4.19 respectively.

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognized prospectively commencing from the period of revision.

Judgments and estimates made by the management that may have a significant risk of material adjustments to the financial statements in subsequent years are disclosed in note 43.

#### 2.4 Functional and presentation currency

These financial statements are presented in Pak rupee, which is the functional and presentation currency for the Company.

### 3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS

**3.1** IAS 1 (Revised), 'Presentation of financial statements' becomes applicable for the current financial year for the first time. The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity.

All "non-owner changes in equity" are required to be shown separately in performance statement. Companies can choose whether to present one performance statement (the statement of comprehensive income) or two statements (profit and loss account and statement of comprehensive income).

The Company has preferred to present two statements; a profit and loss account and a statement of comprehensive income. These financial statements has been prepared under revised disclosure requirements.

#### 3.2 Standards, interpretations and amendments that have been effective during the year

IAS 23 (amendment) "Borrowing cost" (effective from January 1, 2009). The amendment made it mandatory to capitalize borrowing cost incurred to obtain the qualifying assets as part of the cost of that asset. The option of immediately expensing this borrowing cost is removed. The Company's current accounting policy is in compliance with this amendment and therefore there is no effect on the Company's financial statements.

#### 3.3 Standard, interpretations and amendments that are effective in current year but not relevant to the Company

IAS 38 (amendment) 'Intangible assets'. The amendment is part of IASB's annual improvements project published in April 2009 and will applicable from the effective date of IFRS 3 (revised). The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in any impact on the Company's financial statements.

The other amendments which are part of IASB's annual improvements project published in April 2009 and mandatory for accounting periods beginning on or after July 1, 2009 are considered not to be relevant to the Company's financial reporting and operations.

### 3.4 Standards, interpretations and amendments that are not yet effective and have not been early adopted by the Company

The following amendments to approved accounting standards, effective for accounting periods beginning on or after January 1, 2010, are either not relevant to the Company's current operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures:

IAS 1	-	Presentation of Financial Statements
IAS 7	-	Cash flows statement
IAS 17	-	Leases
IAS 32	-	Financial Instruments
IAS 36	-	Impairment of assets
IAS 39	-	Financial Instruments: Recognition and Measurement
IFRS 1	-	First time Adoption of International Financial Reporting Standards
IFRS 2	-	Share based Payment
IFRS 5	-	Non Current Assets Held for Sales and Discontinued Operation
IFRS 8	-	Operating Segments

### 4 SIGNIFICANT ACCOUNTING POLICIES

#### 4.1 Property plant and equipment

##### a) Owned assets

These are stated at cost / revalued amount less accumulated depreciation and accumulated impairment losses, if any, except capital work-in-progress which is stated at cost. Cost comprises of actual cost including, interest and charges and trial run operational results.

Depreciation is charged on all fixed assets by applying the reducing balance method at the rates specified in note 5. The rates are determined to allocate the cost of an asset less estimated residual value, if not insignificant, over its useful life.

Depreciation on assets is charged from the month of addition while no depreciation is charged for the month in which assets are disposed off.

Maintenance and normal repairs are charged to income as and when incurred while cost of major replacements and improvements, if any, are capitalized.

Gains and losses on disposal and retirement of an asset are included in the profit and loss account.

**b) Leased assets**

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance lease. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets acquired on lease. Outstanding obligations under the lease less finance charges allocated to future periods are shown as liability. Finance costs under lease agreements are allocated to the periods during the lease term so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

Assets acquired under a finance lease are depreciated over the useful life of the asset on reducing balance method at the rates given in note 5. Depreciation on leased assets is charged to the profit and loss account.

Depreciation on additions to leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which asset is disposed off.

**c) Capital work in progress**

Capital work-in-progress represents expenditure on fixed assets in the course of construction and installation. Transfers are made to relevant fixed assets category as and when assets are available for use. Capital work-in-progress is stated at cost.

**4.2 Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

**4.3 Intangible assets**

Costs that are directly associated with identifiable software products controlled by the Company and have probable economic benefits beyond one year are recognized as intangible assets. These are stated at cost less accumulated amortization and impairment losses, if any. Amortization is provided on a straight line basis over the asset's estimated useful lives.

**4.4 Investment properties**

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are initially recognized at cost, being the fair value of the consideration given. Subsequent to initial recognition these are stated at fair value.

The fair value is determined annually by an independent approved valuer. The fair values are based on market values being the estimated amount for which a property could be exchanged on the date of valuation between knowledgeable and willing buyer and seller in an arms length transaction.

Any gain or loss arising from a change in fair value is recognized in the income statement.

Rental income from investment property is accounted for as described in note 4.22.

When an item of property, plant and equipment is transferred to investment property following a change in its use differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognized in surplus on revaluation of property, plant and equipment if it is a gain. Upon disposal of the item the related surplus on revaluation of property, plant and equipment is transferred to retained earnings. Any loss arising in this manner is recognized immediately in the income statement.

For a transfer from inventories to investment property that is carried at fair value any difference between the fair value of the property at that date and its previous carrying amount is recognized in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

**4.5 Investments****Investment in associates**

Investment in associates where the Company holds 20% or more of the voting power of the investee Company and where significant influence can be established are accounted for using the equity method. Investment in associates other than those described as above are classified as "available for sale".

In case of investments accounted for under the equity method, the method is applied from the date when significant influence is established until the date when that significant influence ceases.

**Available for sale investments**

These are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are re-measured at fair value. For listed securities, fair value is determined on the basis of period end bid prices obtained from stock exchange quotations, while for unquoted securities, fair value is determined considering break up value of securities.

All purchases and sales of investments are recognized on the trade date which is the date that the Company commits to purchase or sell the investment. Cost of purchase includes transaction

Changes in carrying value are recognized in equity until the investment is sold or determined to be impaired at which time the cumulative gain or loss previously recognized in equity is included in profit and loss account for the year.

#### 4.6 Stores, spares and loose tools

These are valued at lower of moving average cost and net realisable value less impairment, if any, except for items in transit, which are valued at cost comprising of invoice value plus other charges paid thereon till the balance sheet date. The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence if there is any change in usage pattern and physical form of related stores, spares and loose tools. For items which are slow moving and / or identified as surplus to the Company's requirements, adequate provision is made for any excess book value over estimated realisable value.

These are valued at moving average cost except for items in transit, which are valued at cost comprising invoice value plus other charges paid thereon. Provision is made for slow moving and obsolete items.

#### 4.7 Stock-in-trade

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

Raw and packing materials	-	Weighted average cost
Raw and packing materials in transit	-	Invoice value plus other expenses incurred thereon
Work in process	-	Cost of material as above plus proportionate production overheads
Finished goods	-	Average cost of manufacture which includes proportionate production overheads including duties and taxes paid thereon, if

Net realisable value represents the estimated selling prices in the ordinary course of business less expenses incidental to make the sale.

#### 4.8 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount being the fair value of amount to be received, less an estimate made for doubtful receivables based on review of outstanding amounts at the year end, if any. Provision is made against those having no activity

during the last three years and is considered doubtful by the management. Balances considered bad and irrecoverable are written off when identified.

#### 4.9 Taxation

##### a) Current

The charge for current year is higher of the amount computed on taxable income at the current rates of taxation after taking into account tax credits and rebates, if any, and minimum tax computed at the prescribed rate on turnover. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

##### b) Deferred

Deferred tax is computed using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled based on tax rates that have been enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available and the credits can be utilized.

#### 4.10 Borrowings

Loans and borrowings are recorded at the proceeds received. Financial charges are accounted for on accrual basis.

#### 4.11 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

#### 4.12 Provisions

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

**4.13 Leases****Finance lease**

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Assets on finance lease are capitalised at the commencement of the lease term at the lower of the fair value of leased assets and the present value of minimum lease payments. Finance costs under lease arrangements are allocated to the periods during the lease term so as to produce a constant periodic rate of finance cost on the remaining balance of principal liability for each period.

**Operating lease / Ijarah**

Operating lease / Ijarah in which a significant portion of the risks and rewards of ownership are retained by the lessor / Muj'ir (lessor) are classified as operating leases/Ijarah. Payments made during the period are charged to profit and loss on a straight-line basis over the period of the lease / Ijarah.

**4.14 Cash and cash equivalents**

For the purposes of cash flow statement, cash and cash equivalents consists of cash in hand and balances with banks net of borrowings not considered as being in the nature of financing activities.

**4.15 Dividend and appropriation to reserve**

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved.

**4.16 Impairment**

The Company assesses at each balance sheet date whether there is any indication that an asset 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 value exceeds recoverable amount, assets are written down to the recoverable amount.

**4.17 Financial instruments**

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Any gains or losses on de-recognition of the financial assets and financial liabilities are taken to profit and loss account currently.

**4.18 Offsetting of financial assets and financial liabilities**

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

**4.19 Foreign currency transactions and translation**

Transactions in foreign currencies are translated into rupees at the rates of exchange approximating those prevailing on the date of transactions or at the contract rate. Monetary assets and liabilities in foreign currencies are translated into rupees at the rates of exchange approximating those prevailing at the balance sheet date or at the contract rate. Exchange gains and losses are included in profit and loss account currently.

**4.20 Staff retirement benefits**

The Company operates an un-funded gratuity scheme for its permanent employees. Provision is based on actuarial valuation of the scheme carried out as at June 30, 2010 in accordance with IAS-19 "Employee Benefits" and the resulting vested portion of past service cost has been charged to income in the current year.

Contribution is made to this scheme on the basis of actuarial recommendations. Actuarial gains and losses at each valuation date are charged to profit and loss account. Gratuity is payable to staff on completion of prescribed qualifying period of service under the scheme.

A recognized provident fund scheme is also in operation, which covers all permanent employees. The Company and the employees make equal contributions to the fund.

**4.21 Compensated absences**

The Company accounts for these benefits in the period in which the absences are earned.

**4.22 Revenue recognition**

Sales are recognized on dispatch of goods to customers.

Interest income is recognized on accrual basis.

Dividend on equity investments is recognized as income when the right to receive payment is established.

Rental income is recognized on accrual basis.

#### 4.23 Related party transactions

Transactions with related parties are based on the policy that all transactions between the Company and the related parties are carried out at arm's length. The prices are determined in accordance with the methods prescribed in the Companies Ordinance, 1984.

#### 4.24 Borrowing costs

Interest and commitment charges on long term loans are capitalized for the period up to the date of commencement of commercial production of the respective plant and machinery acquired out of the proceeds of such loans. All other interest and charges are treated as expenses during the year.

#### 4.25 Recoating expenses of DSA Plant

Provision has been made in these financial statements for the erosion of coating on the anodes during the year based on best estimates available. Anodes once recoated are used for a period of three years.

#### 5 OPERATING FIXED ASSETS

The following is the statement of operating fixed assets:

Description	(Rupees in thousand)										Assets subject to finance lease	Grand total	
	Freehold land	Buildings on freehold land	Railway sidings	Plant and machinery	Other equipments	Furniture and fixtures	Office and other equipments	Vehicles	Total				
<b>Net carrying value basis year ended June 30, 2010</b>													
Opening net book value (NBV)	793,880	96,223	4,598	1,647,923	8,000	3,443	12,609	30,719	2,597,395	898	2,598,293		
Additions (at cost)	-	1,098	-	167,579	2,402	66	2,930	7,323	181,398	-	181,398		
Disposals / transfers (NBV)	-	-	-	(102,686)	-	-	-	(891)	(103,577)	-	(103,577)		
Depreciation charge	-	(9,644)	(460)	(182,630)	(1,519)	(348)	(3,196)	(7,394)	(205,191)	(165)	(205,356)		
Transfers	-	-	-	-	-	-	-	1,404	1,404	(1,404)	-		
Adjustments	-	-	-	-	-	-	-	(671)	(671)	671	-		
<b>Closing net book value</b>	<b>793,880</b>	<b>87,677</b>	<b>4,138</b>	<b>1,530,186</b>	<b>8,883</b>	<b>3,161</b>	<b>12,343</b>	<b>30,490</b>	<b>2,470,758</b>	<b>-</b>	<b>2,470,758</b>		
<b>Gross carrying value basis year ended June 30, 2010</b>													
Cost	793,880	156,899	7,274	2,644,452	41,013	6,261	28,172	73,662	3,751,613	-	3,751,613		
Accumulated depreciation	-	(69,222)	(3,136)	(1,114,266)	(32,130)	(3,100)	(15,829)	(43,172)	(1,280,855)	-	(1,280,855)		
<b>Net book value</b>	<b>793,880</b>	<b>87,677</b>	<b>4,138</b>	<b>1,530,186</b>	<b>8,883</b>	<b>3,161</b>	<b>12,343</b>	<b>30,490</b>	<b>2,470,758</b>	<b>-</b>	<b>2,470,758</b>		
<b>Net carrying value basis year ended June 30, 2009</b>													
Opening net book value (NBV)	688,093	98,909	5,109	1,681,237	8,281	3,558	10,852	26,737	2,522,776	1,123	2,523,899		
Additions (at cost) / revaluation	105,787	7,636	-	163,265	1,021	249	4,987	11,276	294,221	-	294,221		
Disposals / transfers (NBV)	-	-	-	(13,237)	-	-	-	(316)	(13,553)	-	(13,553)		
Depreciation charge	-	(10,322)	(511)	(183,342)	(1,302)	(364)	(3,230)	(6,978)	(206,049)	(225)	(206,274)		
<b>Closing net book value</b>	<b>793,880</b>	<b>96,223</b>	<b>4,598</b>	<b>1,647,923</b>	<b>8,000</b>	<b>3,443</b>	<b>12,609</b>	<b>30,719</b>	<b>2,597,395</b>	<b>898</b>	<b>2,598,293</b>		
<b>Gross carrying value basis year ended June 30, 2009</b>													
Cost	793,880	155,801	7,274	2,579,559	38,611	6,195	25,242	68,800	3,675,362	1,404	3,676,766		
Accumulated depreciation	-	(59,578)	(2,676)	(931,636)	(30,611)	(2,752)	(12,633)	(38,081)	(1,077,967)	(506)	(1,078,473)		
<b>Net book value</b>	<b>793,880</b>	<b>96,223</b>	<b>4,598</b>	<b>1,647,923</b>	<b>8,000</b>	<b>3,443</b>	<b>12,609</b>	<b>30,719</b>	<b>2,597,395</b>	<b>898</b>	<b>2,598,293</b>		
<b>Depreciation rate % per annum</b>	-	<b>5 to 10</b>	<b>10</b>	<b>10</b>	<b>15</b>	<b>10</b>	<b>15 to 30</b>	<b>20 to 25</b>	<b>20</b>	<b>20</b>	<b>20</b>		

5.1 Free hold land was revalued by an independent valuer M/s. Dimen Associates (Private) Limited as at June 30, 2009 on the basis of market value. Had there been no revaluation on that date, the value of operating fixed assets would have been lower by Rs. 720,278 million (2009: Rs. 720,278 million).

5.2 Borrowing cost capitalised during the year amounted to Rs. 0.760 million (2009: Nil) at an average rate of 15.96% (2009: Nil) per annum.

## 5.3 The depreciation charge for the year has been allocated as follows:

	2010 (Rupees in thousand)	2009 (Rupees in thousand)
Cost of sales	199,589	201,176
Selling and distribution expenses	733	831
General and administrative expenses	5,034	4,267
	<u>205,356</u>	<u>206,274</u>

## 5.4 The following operating fixed assets were disposed off during the year:

Description	Cost	Accumulated depreciation (Rupees in thousand)	Net book value	Sale proceeds	Mode of disposal	Particulars of buyers
AFK - 452 Hyundai Santro 2003	566	407	159	107	Negotiated	Shah Mohammad Saleem
LRU - 1090 Hyundai Santro Club 2003	510	365	145	150	Negotiated	Muhammad Amin
LXO - 7876 Santro Plus 2000	449	402	47	120	Negotiated	Qasim Rasheed Butt
LXY - 4469 Diahatsu 2002	439	382	57	150	Negotiated	Muhammad Amin
ACE - 659 Suzuki Mehran 1999	293	270	23	148	Negotiated	Fazal Rahim
LZX - 9910 Suzuki Van 2005	379	236	143	200	Negotiated	Talha Tanveer Siddiqui
LRF - 7081 Suzuki Van 2002	421	343	78	200	Negotiated	Talha Tanveer Siddiqui
AGZ-955 Honda City Dec 2004	808	569	239	710	Insurance Claim	EFU General Insurance Ltd.
Plant and Machinery	104,677	1,991	102,686	100,000	Negotiated	Dawood Islamic Bank Limited
<b>Total - 2010</b>	<b>108,542</b>	<b>4,965</b>	<b>103,577</b>	<b>101,785</b>		
<b>Total - 2009</b>	<b>1,316</b>	<b>1,000</b>	<b>316</b>	<b>710</b>		

## 6 CAPITAL WORK IN PROGRESS

This comprises of:  
Plant and machinery  
Building

Note	2010 (Rupees in thousand)	2009 (Rupees in thousand)
	53,798	32,487
	582	432
	<u>54,380</u>	<u>32,919</u>

An amount of Rs. 118.949 million (2009: Rs. 128.771 million) has been transferred to operating fixed assets during the year.

Borrowing cost capitalised during the year amounted to Rs. 0.348 million (2009: Nil) at an average rate of 15.96% (2009: Nil) per annum.

## 7 INTANGIBLE ASSETS

## Software and licenses

## Net carrying value as at 1 July

Opening balance as on July 01,  
Additions during the year  
Amortization charge  
Net book value as at June 30,

	3,310	4,141
	150	992
7.1	(1,998)	(1,823)
	<u>1,462</u>	<u>3,310</u>

## Gross carrying value as at 30 June,

Cost  
Accumulated amortization  
Net book value

	6,105	5,955
	(4,643)	(2,645)
	<u>1,462</u>	<u>3,310</u>

## Amortization % per annum

	<u>33.33%</u>	<u>33.33%</u>
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## 7.1 The amortization charge for the year has been allocated as follows:

Administrative expenses

38	<u>1,998</u>	<u>1,823</u>
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## 8 GOODWILL

Balance as at June 30,

	<u>6,445</u>	<u>6,445</u>
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## 9 INVESTMENT PROPERTIES

Freehold land (Commercial property)

9.1	<u>64,500</u>	<u>61,200</u>
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9.1 Opening balance  
Fair value gain/(loss) on revaluation shown in "income statement"

	61,200	52,950
	3,300	8,250
	<u>64,500</u>	<u>61,200</u>

This comprises commercial property that is free hold land held for capital appreciation. The carrying value of investment property is the fair value of the property as at June 30, 2010 as determined by approved independent valuer M/s. Dimen Associates (Private) Limited. Fair value was determined having regard to recent market transactions for similar properties in the same location and condition.

10 LONG TERM INVESTMENTS	Note	2010 (Rupees in thousand)	2009
<b>Available for sale</b>			
Investment in related parties - unquoted			
Chemi Visco Fiber Limited			
5,625,000 (2009: 5,625,000) fully paid ordinary shares of Rs.10/- each		56,250	56,250
Less: Provision for diminution in value of investment	10.1	(56,250)	(56,250)
		-	-
Relevant information:			
Percentage of investment in equity held 7.91% (2009: 7.91%) (Chief Executive : Mr. Usman Ghani Khatri)			
Investment in others - quoted			
National Bank of Pakistan Limited			
Nil (2009: 5,750) ordinary shares including Nil (2009: 4,967) bonus shares of Rs. 10/- each		-	8
Add: Fair value gain		-	378
		-	386
		-	386
10.1	This provision was made in earlier years as a matter of prudence since the project of the investee Company is not operating and there is some uncertainty regarding future earnings and related cash flows.		
<b>11 LONG TERM DEPOSITS</b>			
Long term deposits		21,449	12,186
<b>12 STORES, SPARES AND LOOSE TOOLS</b>			
Stores			
in hand		163,159	139,694
in transit		5,157	-
		168,316	139,694
Spares:			
in hand		250,913	194,032
in transit		43,910	27,484
		294,823	221,516

13 STOCK IN TRADE	Note	2010 (Rupees in thousand)	2009
Loose tools		352	505
		463,491	361,715
Less: Provision for obsolete stores and spares	12.2	17,244	17,244
		446,247	344,471
12.1	Stores and spares also include items which may result in capital expenditure but are not distinguishable at the time of purchase.		
12.2	Movement of provision for stores and spares is as follows:		
	Opening balance	17,244	22,432
	Adjustment on account of write off during the year	-	5,188
		17,244	17,244
<b>13 STOCK IN TRADE</b>			
Raw materials:			
in hand	36	61,404	43,946
in transit		17,530	2,330
		78,934	46,276
Packing materials		10,584	6,367
Work in process	36	8,822	4,384
Finished goods	36 & 13.1	99,475	71,280
		197,815	128,307
13.1	These include provision for write down of finished goods inventory to net realisable value amounting to Rs. 2.304 million (2009: Nil).		
<b>14 TRADE DEBTS</b>			
Secured			
Considered good		179,859	297,993
Unsecured			
Considered good	14.1	321,953	303,694
Considered doubtful		20,381	22,093
		342,334	325,787
		522,193	623,780
Less: Provision for doubtful debts	14.2	20,381	22,093
		501,812	601,687
14.1	These include balances due from related parties and associated companies aggregating to Rs. 0.395 million (2009: Rs. 0.03 million) comprising of the following:		

	2010 (Rupees in thousand)	2009 (Rupees in thousand)
Chemi Dyestuff Industries (Private) Limited	395	30
<b>14.2</b> Movement of provision for doubtful debts is as follows:		
Opening balance	22,093	24,366
Adjustment on account of:		
Doubtful debts written off	(400)	(4,475)
Recovery of doubtful debts	(4,467)	(753)
Provision for doubtful debts for the year	3,155	2,955
Net adjustment	(1,712)	(2,273)
Closing balance	20,381	22,093
<b>15</b> <b>LOANS AND ADVANCES</b>		
Advances - (unsecured - considered good)		
Against purchase of land	1,639	1,639
To employees	2,525	7,280
For supplies and services	31,494	40,580
Against import	1,168	1,012
	36,826	50,511
Considered doubtful		
For supplies and services	-	51
To employees	104	104
	104	155
	36,930	50,666
Less: Provision for doubtful advances	104	155
	36,826	50,511
<b>16</b> <b>TRADE DEPOSITS AND SHORT TERM PREPAYMENTS</b>		
Trade deposits		
Considered good	3,576	11,444
Considered doubtful	193	193
	3,769	11,637
Less: Provision for doubtful deposits	193	193
	3,576	11,444
Prepayments	1,414	2,965
	4,990	14,409
<b>17</b> <b>OTHER RECEIVABLES</b>		
(Considered good)		
Insurance claims receivable	710	12

	2010 (Rupees in thousand)	2009 (Rupees in thousand)
<b>18</b> <b>TAX REFUNDS DUE FROM GOVERNMENT</b>		
(Considered good)		
Income tax	44,234	45,723
Sales tax and special excise duty	5,417	-
	49,651	45,723
<b>19</b> <b>TAXATION - NET</b>		
Advance income tax	67,316	-
Less: Provision for taxation	59,267	-
	8,049	-
<b>20</b> <b>CASH AND BANK BALANCES</b>		
Cash in hand	1,091	2,417
Cash at banks - current & saving accounts	14,308	24,077
	15,399	26,494
<b>21</b> <b>SHARE CAPITAL</b>		
21.1 Authorized share capital		
	<b>2010</b>	<b>2009</b>
	<b>Number of ordinary shares of Rs. 10/- each</b>	
50,000,000	50,000,000	Ordinary shares of Rs. 10 each
250,000	250,000	Preference shares of Rs. 10 each
750,000	750,000	
	500,000	500,000
	250,000	250,000
	750,000	750,000
21.2 Issued, subscribed and paid up capital		
100,000	100,000	Fully paid in cash
249,000	249,000	Issued for consideration other than cash
11,000,000	11,000,000	Fully paid bonus shares
36,000,000	36,000,000	
3,664,800	3,664,800	Shares held by associated companies
	10.18%	10.18%

	Note	2010 (Rupees in thousand)	2009
<b>22 RESERVES</b>			
Fair value reserve		-	378
Unappropriated profit		576,008	478,030
		<u>576,008</u>	<u>478,408</u>
<b>23 SURPLUS ON REVALUATION OF FIXED ASSETS</b>			
Balance as at July 01,		748,559	643,372
Surplus arising during the year	23.1	-	105,187
		<u>748,559</u>	<u>748,559</u>
23.1 This amount represents surplus arising on the revaluation of freehold land carried out on June 30, 2009 by an independent valuer M/s. Dimen Associates (Private) Limited on the basis of market value.			
<b>24 LONG TERM FINANCING</b>			
Secured			
Banking companies			
KASB Bank Limited-Syndicated- I		-	6,250
The Bank of Punjab-Syndicated- I		-	6,250
United Bank Limited-LTF	24.1	37,500	42,500
		<u>37,500</u>	<u>55,000</u>
Other Financial Institutions			
Pak Libya Holding Company (Private) Limited-Syndicated- I		-	6,250
Pak Kuwait Investment Company (Private) Limited- Syndicated- II	24.2	18,750	31,250
Saudi Pak industrial and Agricultural Investment Company Limited.-LTF (EOP)	24.1	45,433	53,693
Saudi Pak industrial and Agricultural Investment Company Limited.	24.3	11,471	16,375
Pak Kuwait Investment Company (Private) Limited- BMR	24.4	94,444	-
The Bank of Punjab-BMR	24.5	100,000	-
		<u>270,098</u>	<u>107,568</u>
Unsecured			
Directors	24.6	-	8,250
Ittehad Developers	24.6	6,660	10,660
Others	24.6	9,150	10,900
		<u>15,810</u>	<u>29,810</u>
		<u>323,408</u>	<u>192,378</u>
Less: Current portion shown under current liabilities	32	88,207	64,320
		<u>235,201</u>	<u>128,058</u>

24.1 These finances are sanctioned under LTF-EOP Scheme of the State Bank of Pakistan (SBP) for a period of five years including grace period of one year and carry markup at SBP's declared rate for the Scheme plus 2% per annum. These are secured against first pari passu charge by way of hypothecation over all present and future fixed assets of the Company excluding land and building.

24.2 This finance is secured against first pari passu charge on fixed assets of the Company and carries mark up at six months average KIBOR Ask rate plus 2.25 % per annum. This loan was disbursed in September 2006 and is repayable in eight semi annual equal installments commencing from September 2007.

24.3 This finance is sanctioned for a period of five years including grace period of one year and carries markup at six months KIBOR plus 3% per annum. This loan is secured against first pari passu charge by way of hypothecation over all present and future fixed assets of the Company excluding land and building.

24.4 This finance is secured against first pari passu charge on all present and future fixed assets of the Company with 25% margin and carries mark up at six months average KIBOR Ask rate plus 3 % per annum. This loan was disbursed in September 2009 and is repayable in eighteen quarterly equal installments commencing from September 2010.

24.5 This finance is secured against first pari passu charge on all present and future fixed assets of the Company with 25% margin and carries mark up at six months average KIBOR Ask rate plus 2.50 % spread with floor of 11% per annum. This loan was disbursed in June 2010 and is repayable in sixteen quarterly equal installments commencing from May 2011.

24.6 These are interest free loans and repayable in a period of 2 years starting from July 2009.

	Note	2010 (Rupees in thousand)	2009
<b>25 LONG TERM DIMINISHING MUSHARAKA</b>			
Secured			
Banking Companies			
Standard Chartered Bank	25.1	58,333	75,000
Askari Bank Limited	25.1	116,667	150,000
Dawood Islamic Bank	25.1	38,889	50,000
United Bank Limited Ameen	25.1	194,444	250,000
Atlas Bank Limited	25.1	38,889	50,000
		<u>447,222</u>	<u>575,000</u>

	Note	2010 (Rupees in thousand)	2009
Financial Institutions			
Pak Libya Holding Company (Private) Limited	25.1	116,667	150,000
UBL Fund Managers Limited	25.1	19,444	25,000
		136,111	175,000
		583,333	750,000
Less: Current portion shown under current liabilities	32	166,667	166,667
		416,666	583,333
25.1	The above finances are secured against first pari passu charge on fixed assets of the Company and carry mark up at six months average KIBOR rate plus 200 bps. These finances were disbursed from August 22, 2007 to September 01, 2007 and are repayable in nine semi annual equal installments commencing from August 22, 2009 being the 24th month from the Facility Date.		
<b>26</b>	<b>LONG TERM MURABAHA</b>		
Secured			
Banking Company			
Faysal Bank Limited	26.1	272,222	350,000
Less: Current portion shown under current liabilities	32	77,778	77,778
		194,444	272,222
26.1	This finance is secured against first pari passu charge on fixed assets of the Company and carries mark up at six months average KIBOR Ask rate plus 200 bps. This loan was disbursed in August 31, 2007 and is repayable in nine semi annual equal installments commencing from August 22, 2009.		
<b>27</b>	<b>LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>		
Secured			
Present value of minimum lease payments		-	498
Less: Current portion shown under current liabilities	32	-	498
		-	-

	Note	2010 (Rupees in thousand)	2009
<b>28</b>	<b>DEFERRED LIABILITIES</b>		
Provision for recoating of DSA anodes	28.1	6,740	21,993
Deferred taxation	28.2	299,852	330,020
Provision for gratuity	28.3	10,214	5,515
		316,806	357,528
28.1	Provision for Dimensionally Stable Anodes (DSAs)		
	Balance brought forward	37,554	31,646
	Payments made against recoating of anodes	(9,852)	(8,663)
	Provision (reversed) / made for recoating (net)	(12,630)	14,571
		15,072	37,554
	Less: Current portion included in accrued liabilities	(8,332)	(15,561)
		6,740	21,993
28.1.1	This represents reversal on account of use of alternate technology in respect of Northern Cell room which shall not require recoating.		
28.2	Deferred taxation		
	Deferred tax liability comprises as follows:		
	Taxable temporary differences		
	Tax depreciation allowances	315,492	332,984
	Deductible temporary differences		
	Provision for gratuity	(3,575)	(1,930)
	Provision for doubtful debts	(1,104)	(1,034)
	Unused tax credits	(10,961)	-
		299,852	330,020
28.3	<b>Defined benefit plan</b>		
a.	<b>General description</b>		
	The scheme provides for terminal benefits for all its permanent employees who qualify for the scheme. The defined benefit payable to each employee at the end of his/her service comprises of total number of years of his service multiplied by last drawn basic salary including cost of living allowance.		
	Annual charge is based on actuarial valuation carried out by an independent approved valuer M/S Nauman Associates as at June 30, 2010 using the Projected Unit Credit method.		

	Note	2010 (Rupees in thousand)	2009 (Rupees in thousand)
<b>b. Significant actuarial assumptions</b>			
Following are significant actuarial assumptions used in the valuation:			
Discount rate		12% per annum	
Expected rate of increase in salary		11% per annum	
<b>c. Reconciliation of payable to defined benefit plan</b>			
Present value of obligation		10,214	5,515
Liability recognized in balance sheet		10,214	5,515
<b>d. Movement of liability recognized in the balance sheet</b>			
Present value of obligation at the start of the year		5,515	4,060
Current service cost		3,441	1,468
Interest cost		661	494
Actuarial loss		1,205	-
Contribution paid to outgoing employees		(608)	(507)
Closing net liability		10,214	5,515
<b>e. Charge for the year</b>			
Current service cost		3,441	1,468
Interest cost		661	494
Actuarial loss		1,205	-
Charge for the year		5,307	1,962
<b>29 TRADE AND OTHER PAYABLES</b>			
Trade creditors		32,139	55,860
Accrued liabilities	29.1	252,292	327,712
Advances from customers		29,340	27,309
Retention money		630	647
Sales tax and excise duty payable		-	14,346
Income tax deducted at source		995	944
Other liabilities		179	787
Workers' Profit Participation Fund	29.2	8,743	15,154
Workers' Welfare Fund		3,698	5,488
		328,016	448,247

29.1 These include a balance due to Chemi Multifabrics Limited, an associated Company, amounting to Rs. 5.769 million (2009: Rs. 4.002 million).

	Note	2010 (Rupees in thousand)	2009 (Rupees in thousand)
29.2 Workers' profit participation fund balances comprise as follows:			
Balance as at July 01,		15,154	7,625
Interest at prescribed rate		-	-
		15,154	7,625
Less: Amount paid to fund		14,377	6,913
		777	712
Current year's allocation at 5%	39	7,966	14,442
		8,743	15,154
The Company retains the allocation of this fund for its business operations till the amounts are paid.			
<b>30 MARK UP ACCRUED</b>			
Accrued mark up / interest			
Secured			
Long term financing		32,847	45,614
Long term murabaha		13,728	19,724
Short term borrowings		14,165	9,222
		60,740	74,560
<b>31 SHORT TERM BORROWINGS</b>			
Secured			
Banking companies			
Running finances			
MCB Bank Limited	31.1	34,626	32,529
Askari Bank Limited	31.2	29,338	19,033
Askari Bank Limited	31.3	39,195	22,184
The Bank of Punjab Limited	31.4	39,130	28,000
KASB Bank Limited	31.5	19,372	10,581
Murabaha finance			
Faysal Bank Limited	31.6	40,000	40,000
Dawood Islamic Bank Limited	31.7	100,000	-
		301,661	152,327

31.1 This facility is secured against first pari passu charge over present and future current assets of the Company and hypothecation of stock of chemicals. The facility carries mark-up at three months average KIBOR Ask rate plus 2.5% spread with floor of 12.00 % per annum (2009: 2.5% with floor of 12%). The limit of finance is Rs. 90 million (2009: Rs. 90 million).

- 31.2 This facility is secured against first pari passu charge over all present and future current assets of the Company and carries mark-up at three months average KIBOR Ask rate plus 1.9 % per annum (2009: Three months average KIBOR Ask rate plus 1.9% per annum). The limit of finance is Rs. 200 million (2009: Rs. 200 million).
- 31.3 This facility is secured against first pari passu charge over all present and future current assets of the Company and carries markup at three months average KIBOR ask rate plus a spread of 1.9% per annum (2009: Three months average KIBOR Ask rate plus 2.25% per annum). The limit of finance is Rs. 75 million (2009: Rs. 75 million).
- 31.4 This facility is secured against first pari passu charge upto the limit of Rs. 150 million on all present and future current assets of the Company and carries mark-up at three months average KIBOR Ask rate plus 2.5 % per annum with floor of 11 % per annum (2009: Three months average KIBOR Ask rate plus 2.5% per annum with floor of 10 %). The limit of finance is Rs. 150 million (2009: Rs. 150 million).
- 31.5 This facility is secured against first pari passu charge over all present and future current assets of the Company and carries mark-up at three months average KIBOR Ask rate plus 2.75% per annum(2009: Three months average KIBOR Ask rate plus 3 % per annum). The limit of finance is Rs. 50 million (2009: Rs. 50 million).
- 31.6 This facility is secured against first pari passu charge over present and future current assets of the Company and carries mark-up at six months average KIBOR Ask rate plus 2.25% per annum (2009: Six months average KIBOR Ask rate plus 3% per annum). The limit of finance is Rs. 40 million (2009: Rs. 40 million).
- 31.7 This facility is secured against first pari passu charge over present and future current assets of the Company and carries mark-up at three months average KIBOR Ask rate plus 2.5% per annum (2009: Nil). The limit of finance is Rs. 100 million (2009: Nil).

### 32 CURRENT PORTION OF LONG TERM LIABILITIES

	Note	2010 (Rupees in thousand)	2009
Long term financing	24	88,207	64,320
Long term diminishing musharaka	25	166,667	166,667
Long term murabaha	26	77,778	77,778
Liabilities against assets subject to finance lease	27	-	498
		<u>332,652</u>	<u>309,263</u>

### 33 PROVISION FOR TAXATION - NET

Provision for taxation	-	35,451
Less: Advance income tax	-	25,864
	-	<u>9,587</u>

## 34 CONTINGENCIES AND COMMITMENTS

### 34.1 Contingent liabilities

- a) During the year the Company has received assessment order under section 122(5) of the Income Tax Ordinance, 2001 for tax year 2004 as a result of which brought forward losses of the Company have been decreased by Rs. 24.849 million. The company filed appeal before Commissioner of Income Tax (Appeals) Zone-1 against the impugned order who has given certain reliefs to the company. Both ICL and Income Tax Department has filed appeal before Income Tax Appellate Tribunal. However if the case is decided against the Company, the Company may be liable to pay a tax liability of Rs. 8.697 million.
- b) During the year the Company has received order under section 161/205 of the Income Tax Ordinance, 2001 for tax year 2004 creating demand of Rs. 12.069 million. The Company challenged it before Commissioner of Income Tax (Appeals) Zone-1 who decided the case in favour of the company. The Department has filed appeal before Income Tax Appellate Tribunal. However if the case is decided against the Company, it may result in tax payable of Rs. 12.069 million.
- c) During the year the Company has received an order under section 161/205 of the Income Tax Ordinance, 2001 creating demand of Rs. 8.661 million. The Company filed appeal before Commissioner of Income Tax (Appeals) Zone-1 who has granted certain relief to the Company. Both Income Tax Department and Company have filed appeals before Income Tax Appellate Tribunal. Company may be liable to pay tax of Rs. 8.661 million if the case is not decided in its favour.
- d) The Company is facing claims, launched in the labour courts, pertaining to staff retirement benefits. In the event of an adverse decision the Company would be required to pay an amount of Rs. 2.231 million (2009: Rs. 2.947 million) against these claims.
- e) Letters of guarantee outstanding as at June 30, 2010 were Rs. 217.348 million (2009: Rs. 198.240 million) and corporate guarantees on behalf of Chemi Chloride Industries Limited, subsidiary company amounted to Rs. 203 million (2009: Rs. 203 million).

### 34.2 Commitments

Commitments as on June 30, 2010 were as follows:

- a) Against letters of credit amounting to Rs. 50.831 million (2009: Rs. 128.073 million).
- b) Against purchase of land amounting to Rs. 1.838 million (2009: Rs. 1.838 million).

c) The Company has entered into Ijarah arrangement with Dawood Islamic Bank Limited for Plant and Machinery. Commitment of Ijarah rentals under this agreement are as follows:

	Note	2010 (Rupees in thousand)	2009
Not later than one year		27,196	-
Later than one year and not later than five year.		108,782	-
		135,978	-
<b>35 SALES</b>			
Sales			
Manufacturing	35.1	3,764,772	4,264,757
Trading		-	558
		3,764,772	4,265,315
Less: Sales tax		446,576	526,420
Commission to selling agents		32,349	72,587
Special Excise Duty		27,912	32,904
		506,837	631,911
		3,257,935	3,633,404

35.1 This amount includes export sales amounting to Rs. 298.549 million (2009: Rs. 177.241 million).

### 36 COST OF SALES

Raw materials consumed			
Opening stock		43,946	98,677
Purchases		379,450	359,134
		423,396	457,811
Closing stock	13	(61,404)	(43,946)
		361,992	413,865
Stores, spares and consumables		121,587	284,758
Packing materials consumed		21,202	16,104
Salaries, wages and other benefits	36.1	163,855	155,060
Fuel and power		1,638,721	1,691,808
Repair and maintenance		29,163	22,211
Rent, rates and taxes	36.2	11,599	-
Insurance		8,839	9,126
Depreciation	5.3	199,589	201,176
Vehicle running expenses		12,438	12,048
Postage, printing and stationery		1,071	1,291
Other expenses		2,464	2,650
		2,210,528	2,396,232

	Note	2010 (Rupees in thousand)	2009
Work in process			
Opening		4,384	3,694
Closing	13	(8,822)	(4,384)
		(4,438)	(690)
Cost of goods manufactured		2,568,082	2,809,407
Cost of stores traded		12,285	5,745
Finished goods			
Opening		71,280	48,756
Closing	13	(99,475)	(71,280)
		(28,195)	(22,524)
		2,552,172	2,792,628

36.1 This amount includes Rs. 2.880 million (2009: Rs.1.037 million) in respect of employees' retirement benefits.

36.2 These include operating lease rentals amounting to Rs. 11.331 million (2009: Nil).

### 37 SELLING AND DISTRIBUTION EXPENSES

Salaries and other benefits	37.1	20,170	17,975
Travelling and conveyance		2,526	2,183
Vehicle running expenses		1,597	1,854
Advertisement and export expenses		1,375	14,139
Telephone, telex and postage		1,001	1,085
Marketing service charges		30,560	35,887
Freight		166,059	136,353
Rent, rates and taxes		3,812	5,295
Printing and stationery		196	581
Fuel and power		1,686	1,377
Repair and maintenance		123	1,190
Depreciation	5.3	733	831
		229,838	218,750

37.1 This amount includes Rs. 1.045 million (2009: Rs. 0.370 million) in respect of employees' retirement benefits.

### 38 GENERAL AND ADMINISTRATIVE EXPENSES

Salaries and other benefits	38.1	56,721	57,211
Travelling and conveyance		16,124	11,592
Vehicle running expenses		3,397	3,166
Telephone, telex and postage		1,731	1,658
Rent, rates and taxes		2,680	2,156

	Note	2010 (Rupees in thousand)	2009
Printing and stationery		989	892
Fee and subscription		3,250	5,221
Legal and professional charges		3,674	1,879
Fuel and power		1,856	1,337
Provision for doubtful debts		3,155	2,955
Repair and maintenance		4,742	2,593
Depreciation	5.3	5,034	4,267
Amortization of intangible assets	7.1	1,998	1,823
Bad debts written off		3	646
Donations	38.2	4,040	3,888
Others		107	-
		<u>109,501</u>	<u>101,284</u>

38.1 This amount includes Rs. 1.577 million (2009: Rs. 0.584 million) in respect of employees' retirement benefits.

38.2 Donations

38.2.1 Interest of the Directors or their spouses in the donations made during the year is as follows:

Donation of Rs. 1.100 million (2009: Rs. 1.306 million) paid to Kiran Ibtadai School. Ms. Sabina Khatri w/o Mr. Muhammad Siddique Khatri, Chairman & Chief Executive of the Company is the patron of the said school.

38.2.2 Donations other than that mentioned above were not made to any donee in which any director of the Company or his / her spouse had any interest at any time during the year.

### 39 OTHER OPERATING EXPENSES

Auditors' remuneration

Audit fee	575	543
Half yearly review fee	125	100
Tax and certification charges	25	100
Out of pocket expenses	7	40
	<u>732</u>	<u>783</u>

Loss on sale of fixed assets

Loss on sale of fixed assets	1,792	-
Workers' profit participation fund	7,966	14,442
Workers' welfare fund	3,743	5,488
	<u>14,233</u>	<u>20,713</u>

	2010 (Rupees in thousand)	2009
<b>40 OTHER OPERATING INCOME</b>		
Income from financial assets		
Dividend income	-	28
Gain on sale of investment	469	-
Return on saving accounts	140	473
Gain on foreign exchange	1,117	385
Income from non- financial assets		
Gain on sale of fixed assets	-	394
Sale of scrap	5,352	3,036
Recovery of doubtful debts	4,467	753
	<u>9,819</u>	<u>4,183</u>
	<u>11,545</u>	<u>5,069</u>
<b>41 FINANCIAL CHARGES</b>		
Markup/interest on:		
Long term financing	119,688	133,805
Long term murabaha	44,463	53,548
Finance lease	24	101
Short term borrowings	47,703	59,466
	<u>211,878</u>	<u>246,920</u>
Bank charges and commission	4,454	3,987
	<u>216,332</u>	<u>250,907</u>
<b>42 TAXATION</b>		
For the year:		
Current	60,697	36,056
Prior year	(37,281)	13,001
Deferred	(30,169)	58,641
	<u>(6,753)</u>	<u>107,698</u>

### 43 ACCOUNTING ESTIMATES AND JUDGMENTS

The Company's main accounting policies affecting its result of operations and financial conditions are set out in Note 4. Judgments and assumptions have been required by the management in applying the Company's accounting policies in many areas. Actual results may differ from estimates calculated using these judgments and assumptions. Key sources of estimation, uncertainty and critical accounting judgments are as follows:

#### Income taxes

The Company takes into account relevant provisions of the current income tax laws while providing for current and deferred taxes as explained in note 4.9 to these financial statements.

**Defined benefit plan**

Certain actuarial assumptions have been adopted by external professional valuer (as disclosed in note 28.3 ) for valuation of present value of defined benefit obligations. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

**Property, plant and equipment**

The estimates for revalued amounts, if any, of different classes of property, plant and equipment, are based on valuation performed by external professional valuers and recommendation of technical teams of the Company. Further, the Company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment. As explained in note 23 to these financial statements, the Company has revalued its free hold land as on June 30, 2009 resulting in a revaluation surplus of Rs. 105.187 million.

**44 EARNINGS PER SHARE - BASIC AND DILUTED**

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

	2010 (Rupees in thousand)	2009
Weighted average number of ordinary shares (in thousand)	36,000	36,000
Profit after taxation (Rupees in thousand)	151,978	153,606
Earnings per share (Rupees)	4.22	4.27

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

**45 TRANSACTIONS WITH RELATED PARTIES INCLUDING ASSOCIATED UNDERTAKINGS**

The related parties comprise of related group companies, local associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and remuneration and benefits to key management personnel under the terms of their employment are as follows:

Relation with the Company	Nature of transaction	2010 (Rupees in thousand)	2009
Associated Company	Marketing service charges	30,560	35,888
Associated companies	Sale of goods	1,234	7,771
Associated companies	Purchase of goods	1,103	-
Associated Company	Loan received	4,000	1,000
Staff retirement fund	Contribution to staff retirement benefit plans	195	168
Directors and employees	Remuneration to directors and key management personnel	45,514	49,489
	Loan received from directors	-	3,400
Others	Loan received from others	-	1,600

## 46 FINANCIAL ASSETS AND LIABILITIES

Note	Total	2010			Not interest /mark up bearing
		Interest/mark up bearing			
		Maturity upto one year	Maturity after one year	Sub-total	
		(Rupees in thousand)			
<b>Financial assets</b>					
Long-term deposits	21,449	-	-	-	21,449
Trade debts	501,812	-	-	-	501,812
Trade deposits	4,990	-	-	-	4,990
Other receivables	710	-	-	-	710
Cash and bank balances	15,399	-	-	-	15,399
	<u>544,360</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>544,360</u>
<b>Financial liabilities</b>					
Long term financing	323,408	88,207	235,201	323,408	-
Long term diminishing musharaka	583,333	166,667	416,666	583,333	-
Long term murabaha	272,222	77,778	194,444	272,222	-
Trade and other payables	328,016	-	-	-	328,016
Short-term borrowings	301,661	301,661	-	301,661	-
	<u>(1,808,640)</u>	<u>(634,313)</u>	<u>(846,311)</u>	<u>(1,480,624)</u>	<u>(328,016)</u>
<b>On balance sheet gap</b>	<u>(1,264,280)</u>	<u>(634,313)</u>	<u>(846,311)</u>	<u>(1,480,624)</u>	<u>216,344</u>
<b>Off Balance sheet Items</b>					
Financial commitments:					
Letter of credits	34.2	50,831	-	-	50,831
Others	34.2	1,838	-	-	1,838
		<u>(52,669)</u>	<u>-</u>	<u>-</u>	<u>(52,669)</u>
<b>Total Gap</b>		<u>(1,316,949)</u>	<u>(634,313)</u>	<u>(846,311)</u>	<u>(1,480,624)</u>
		<u>163,675</u>			
Note	Total	2009			Not interest /mark up bearing
		Interest/mark up bearing			
		Maturity upto one year	Maturity after one year	Sub-total	
		(Rupees in thousand)			
<b>Financial assets</b>					
Long term investments					
Long-term deposits	87,786	-	-	-	87,786
Trade debts	11,321	-	-	-	11,321
Trade deposits	573,001	-	-	-	573,001
Other receivables	1,404	-	-	-	1,404
Cash and bank balances	26,037	-	-	-	26,037
	<u>699,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>699,549</u>
<b>Financial liabilities</b>					
Long term financing	192,378	64,320	128,058	192,378	-
Long term diminishing musharaka	583,333	166,667	416,666	583,333	-
Long term murabaha	350,000	77,778	272,222	350,000	-
Liabilities against assets subject to finance lease	498	498	-	498	-
Trade and other payables	448,247	-	-	-	448,247
Short-term borrowings	152,327	152,327	-	152,327	-
	<u>(1,726,783)</u>	<u>(461,590)</u>	<u>(816,946)</u>	<u>(1,278,536)</u>	<u>(448,247)</u>
<b>On balance sheet gap</b>	<u>(1,027,234)</u>	<u>(461,590)</u>	<u>(816,946)</u>	<u>(1,278,536)</u>	<u>251,302</u>
<b>Off Balance sheet Items</b>					
Financial commitments:					
Letter of credits	34.2	128,073	-	-	729,811
Others	34.2	1,838	-	-	15,240
		<u>(129,911)</u>	<u>-</u>	<u>-</u>	<u>(745,051)</u>
<b>Total Gap</b>		<u>(1,157,145)</u>	<u>(461,590)</u>	<u>(816,946)</u>	<u>(493,749)</u>

## 47 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

- Credit risk
- Liquidity risk
- Market risk

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

## 47.1 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if the counter party fails completely to perform as contracted and arise principally from trade debts, loans and advances, trade deposits and other receivables. The carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date is as follows:

	2010	2009
	(Rupees in thousand)	
Trade debts	501,812	601,687
Loans and advances	36,826	50,511
Trade deposits	3,576	11,444
Other receivables	710	12
Bank balances	14,308	24,077

To manage exposure to credit risk in respect of trade receivables, management performs credit reviews taking into account the customer's financial position, past experience and other factors. Credit terms are approved by the approval committee. Where considered necessary, advance payments are obtained from certain parties. The management has set a maximum credit period of 30 days to reduce the credit risk.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

The maximum exposure to credit risk for trade debts at the balance sheet date by geographic region is as follows:

	76,067	59,448
Export	425,745	542,239
Domestic	<u>501,812</u>	<u>601,687</u>

The maximum exposure to credit risk for trade debts at the balance sheet date by type of customer is as follows:

	2010 (Rupees in thousand)	2009
Distributor	120,092	259,378
End-user customers	381,720	342,309
	<u>501,812</u>	<u>601,687</u>

The aging of trade receivable at the reporting date is:

	2010	2009
Not past due	237,706	375,830
Past due 1-30 days	124,300	136,970
Past due 30-150 days	79,743	68,785
Past due more than 150 days	60,063	20,102
	<u>501,812</u>	<u>601,687</u>

The Company's most significant customers are distributors from whom the receivable was Rs. 103.701 million (2009: Rs. 155.631 million) and foreign debtors amounting to Rs. 40.750 million (2009: 24.432 million) of the total carrying amount as at June 30, 2010.

On the prudence basis an amount of Rs. 3.155 million (2009: Rs. 2.955 million) has been charged, as provision for doubtful debts, to profit and loss account.

#### 47.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure as far as possible to always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

	Carrying amount	Contractual cash flow	Six months or less	Six to twelve months	One to two years	Two to five years
(Rupees in thousand)						
<b>2010</b>						
<b>Financial liabilities</b>						
Long term financing	323,408	429,341	68,608	50,560	112,168	198,005
Long term diminishing musharaka	583,333	751,098	125,276	119,283	220,591	285,948
Long term morabaha	272,222	350,513	58,462	55,666	102,942	133,443
Trade and other payables	328,016	328,016	328,016	-	-	-
Markup accrued	60,740	60,740	60,740	-	-	-
Short term borrowing	301,661	312,438	312,438	-	-	-
	<u>1,869,380</u>	<u>2,232,146</u>	<u>953,540</u>	<u>225,509</u>	<u>435,701</u>	<u>617,396</u>

	Carrying amount	Contractual cash flow	Six months or less	Six to twelve months	One to two years	Two to five years
(Rupees in thousand)						
<b>2009</b>						
<b>Financial liabilities</b>						
Long term financing	192,378	209,072	38,953	32,223	62,092	75,804
Long term diminishing musharaka	750,000	1,043,071	141,945	135,433	476,605	289,088
Long term morabaha	350,000	486,764	66,241	63,202	117,287	240,034
Liabilities against assets subject to finance lease	498	522	258	264	-	-
Trade and other payables	448,247	448,247	448,247	-	-	-
Markup accrued	74,560	74,560	74,560	-	-	-
Short term borrowing	152,327	165,068	165,068	-	-	-
	<u>1,968,010</u>	<u>2,427,304</u>	<u>935,272</u>	<u>231,122</u>	<u>655,984</u>	<u>604,926</u>

#### 47.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities, and liquidity in the market. The Company is exposed to currency risk and interest rate risk only.

##### 47.3.1 Currency risk

The Company is exposed to currency risk on trade debts, import of raw materials and stores and spares and export sales that are denominated in a currency other than the respective functional currency of the Company, primarily in U.S. dollar. The Company's exposure to foreign currency risk is as follows:

	2010 (Rupees in thousand)	2009
Trade debts	76,067	59,448
Gross balance sheet exposure	76,067	59,448
Outstanding letters of credit	(50,831)	(128,073)
<b>Net exposure</b>	<u>25,236</u>	<u>(68,625)</u>

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
	2010	2009	2010	2009
USD to PKR	83.45	80.00	85.60	81.30

##### Sensitivity analysis

At reporting date, if the PKR had strengthened by 10% against the US dollar with all other variables held constant, post tax profit for the year would have been lower by the amount shown below.

	2010 (Rupees in thousand)	2009 (Rupees in thousand)
<b>Effect on profit or loss</b>		
Loss	<u>(7,607)</u>	<u>(5,945)</u>

The weakening of the PKR against US dollar would have had an equal but opposite impact on the post tax profits / loss.

#### 47.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from long term loans and short term borrowings. These are benchmarked to variable rates which expose the Company to cash flow interest rate risk. At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments is as follows:

	2010 Carrying amount (Rupees in thousand)	2009 Carrying amount (Rupees in thousand)
<b>Financial liabilities</b>		
Variable rate instruments		
Long term loans	323,408	192,378
Long term diminishing musharaka	583,333	750,000
Long term murabaha	272,222	350,000
Liabilities against assets subject to finance lease	-	498
Short term borrowings	301,661	152,327
	<u>1,480,624</u>	<u>1,445,203</u>

Effective interest rates are mentioned in the respective notes to the financial statements.

#### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have decreased / (increased) loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Profit and loss 100 bp increase	100 bp decrease
<b>As at June 30, 2010</b>		
Cash flow sensitivity - Variable rate financial liabilities	<u>(14,806)</u>	<u>14,806</u>
<b>As at June 30, 2009</b>		
Cash flow sensitivity - Variable rate financial liabilities	<u>(14,452)</u>	<u>14,452</u>

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

#### 47.4 Fair value of financial instruments

The carrying value of all the financial assets and financial liabilities approximate their fair values. 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.

#### 48 CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitor the return on capital, which the Company defines as net profit after taxation divided by total shareholders' equity. The Board of Directors also monitor the level of dividend to ordinary shareholders. There were no changes to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

#### 49 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	(Rupees in thousand)					
Managerial remuneration	2,400	2,400	4,000	4,000	33,372	25,737
House rent allowance	1,080	1,080	1,800	1,800	15,017	11,581
Medical expenses	120	120	200	200	1,669	1,287
	<u>3,600</u>	<u>3,600</u>	<u>6,000</u>	<u>6,000</u>	<u>50,058</u>	<u>38,605</u>
Number of persons	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>54</u>	<u>44</u>

49.1 The Company also provides the Chief Executive and some of the Directors and Executives with free use of cars and mobile phones.

## PATTERN OF SHAREHOLDING AS AT JUNE 30, 2010

### 48 CAPACITY AND PRODUCTION

	Installed capacity		Actual production		Reason for shortfall
	Tons		Tons		
	2010	2009	2010	2009	
Caustic soda	143,550	143,550	75,358	95,448	
Liquid Chlorine	13,200	13,200	8,213	7,758	
Hydrochloric acid	150,000	150,000	126,450	133,680	
Sodium hypochlorite	49,500	49,500	24,941	31,035	
Bleaching earth	3,300	3,300	1,129	2,253	
Zinc sulphate	600	600	10	29	Cautious production
Chlorinated parafin wax	3,000	3,000	-	261	strategy based on
Sulphuric acid	3,300	3,300	588	60	actual demands.
Calcium Chloride Prills	20,000	20,000	11,436	5,702	

### 51 DETAIL OF SUBSIDIARY

Name of subsidiary	Accounting year end	Percentage of holding	Country of Incorporation
Chemi Chloride Industries Limited	30-Jun-10	95%	Pakistan

### 52 NON ADJUSTING EVENTS

The Board of Directors of the Company has recommended a 5% final cash dividend (2009:10% interim dividend and 5% final dividend) in their meeting held on August 30, 2010.

### 53 DATE OF AUTHORIZATION OF ISSUE

These financial statements were authorized for issue on August 30, 2010 by the Board of Directors of the Company.

### 54 GENERAL

- a Figures have been rounded off to the nearest rupees in thousand unless stated otherwise.
- b Previous year's figures have been re-arranged and re-classified wherever necessary for the purpose of comparison, the effect of which is not material.



CHIEF EXECUTIVE



DIRECTOR

No. of Shareholders	Shareholding		Total Shares held
	From	To	
23	1	100	544
19	101	500	6,512
65	501	1,000	48,711
124	1,001	5,000	423,662
166	5,001	10,000	1,191,299
4	10,001	15,000	46,736
4	15,001	20,000	75,073
1	20,001	25,000	20,280
3	25,001	30,000	80,897
4	35,001	40,000	144,000
1	45,001	50,000	49,500
1	55,001	60,000	55,200
3	70,001	75,000	215,458
1	75,001	80,000	79,200
1	85,001	90,000	86,400
3	140,001	145,000	432,000
3	155,001	160,000	473,040
1	175,001	180,000	176,000
1	190,001	195,000	194,400
1	215,001	220,000	216,000
3	250,001	255,000	756,000
2	280,001	285,000	567,360
3	315,001	320,000	959,040
1	320,001	325,000	324,000
2	345,001	350,000	698,432
4	350,001	355,000	1,411,200
2	355,001	360,000	715,680
1	365,001	370,000	367,200
2	370,001	375,000	747,064
1	395,001	400,000	396,000
1	405,001	410,000	406,080
1	410,001	415,000	413,280
1	445,001	450,000	446,400
1	460,001	465,000	460,800
1	465,001	470,000	468,000
1	475,001	480,000	478,080
1	540,001	545,000	541,860
1	790,001	795,000	792,000
1	845,001	850,000	846,670
1	935,001	940,000	936,000
1	1,230,001	1,235,000	1,231,500
1	1,685,001	1,690,000	1,686,240
1	1,975,001	1,980,000	1,978,560
1	2,155,001	2,160,000	2,155,680
1	2,255,001	2,260,000	2,257,322
1	2,430,001	2,435,000	2,432,160
1	2,755,001	2,760,000	2,757,600
1	4,750,001	4,755,000	4,754,880
<b>468</b>			<b>36,000,000</b>

## PATTERN OF SHAREHOLDING

As required under Code of Corporate Governance  
as at June 30, 2010

Shareholders' Category	No. of Shares held	Percentage
<b>ASSOCIATED COMPANIES</b>		
1 CHEMITEX INDUSTRIES LTD.	1,978,560	5.4960%
2 JHELUM SILK MILLS (PVT) LTD.	1,686,240	4.6840%
	<b>3,664,800</b>	<b>10.1800%</b>
<b>DIRECTORS, CEO AND THEIR SPOUSES AND MINOR CHILDREN</b>		
1 MR. ABDUL GHAFOR	460,800	1.2800%
2 MR. ABDUL SATTAR KHATRI	2,155,680	5.9880%
3 MR. MANSOOR AHMED	324,000	0.9000%
4 MRS. FARHANA	319,680	0.8880%
5 MR. MUHAMMAD SIDDIQ	144,000	0.4000%
MR. MUHAMMAD SIDDIQ (CDC)	4,754,880	13.2080%
6 MST. NOOR-UL-HUDA (CDC)	55,200	0.1533%
7 MR. FAWAD YOUSUF	374,400	1.0400%
MR. FAWAD YOUSUF (CDC)	25,597	0.0711%
8 MRS. MAH-E-DARAKSHAN W/O MANSOOR AHMED	144,000	0.4000%
9 MRS. SABINA W/O MUHAMMAD SIDDIQ	352,800	0.9800%
10 MRS. FAREEDA W/O ABDUL GHAFOR	283,680	0.7880%
	<b>9,394,717</b>	<b>26.0964%</b>
<b>PUBLIC SECTOR COMPANIES &amp; CORPORATIONS</b>		
1 NATIONAL FERTILIZER CORP. OF PAKSITAN	11,110	0.0309%
2 SITARA CHEMICAL INDUSTRIES LTD. (CDC)	36,000	0.1000%
3 NH SECURITIES (PVT) LTD. (CDC)	1,440	0.0040%
4 NETWORTH SECURITIES (PVT) LTD. (CDC)	7,200	0.0200%
	<b>55,750</b>	<b>0.1549%</b>
<b>FINANCIAL INSTITUTIONS</b>		
	<b>0</b>	<b>0.0000%</b>
<b>GENERAL PUBLIC</b>		
	<b>22,884,733</b>	<b>63.5687%</b>
<b>TOTAL:</b>	<b>36,000,000</b>	<b>100.0000%</b>
<b>SHAREHOLDERS HOLDING 10% OR MORE SHARES</b>		
	<b>Holding</b>	<b>Percentage</b>
MR. MUHAMMAD SIDDIQ	<b>4,898,880</b>	<b>13.6080%</b>

## FORM OF PROXY

I/We \_\_\_\_\_  
of \_\_\_\_\_ being a member of ITTEHAD CHEMICALS LIMITED  
and holder of \_\_\_\_\_ Ordinary Shares as per  
(Number of Shares)

Shares Register Folio No. \_\_\_\_\_ and / or CDC  
Participant I.D. No. \_\_\_\_\_ and Sub Account No. \_\_\_\_\_,  
hereby appoint \_\_\_\_\_ of \_\_\_\_\_ or failing hi m / her  
\_\_\_\_\_ of \_\_\_\_\_ as my proxy to  
vote for me and on my behalf at the 19<sup>th</sup> Annual General Meeting of the Company to be held on  
Thursday, September 30, 2010 at 11:30 a.m. at the Registered Office at 39, Empress Road, Lahore  
and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2010

### WITNESSES:

1. Signature : \_\_\_\_\_

Name : \_\_\_\_\_

Address : \_\_\_\_\_

CNIC or \_\_\_\_\_

Passport No. : \_\_\_\_\_

Signature

Please affix  
Rupees five  
revenue stamp

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

2. Signature : \_\_\_\_\_

Name : \_\_\_\_\_

Address : \_\_\_\_\_

CNIC or \_\_\_\_\_

Passport No. : \_\_\_\_\_

**Note :** Proxies, in order to be effective, must be received by the Company not less than 48  
hours before the meeting. A proxy must be a member of the Company.

CDC Shareholders and their proxies are requested to attach an attested photocopy of  
their Computerized National Identity Card or Passport with this proxy form before  
submission to the Company.