



**ITTEHAD CHEMICALS LIMITED**  
**UN-AUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED**  
**SEPTEMBER 30, 2006**

<b>CONTENTS</b>	<b>PAGES</b>
<b>Corporate Information</b>	<b>2</b>
<b>Directors' Review</b>	<b>3</b>
<b>Balance Sheet</b>	<b>5</b>
<b>Profit &amp; Loss Account</b>	<b>6</b>
<b>Cash Flow Statement</b>	<b>7</b>
<b>Statement of Changes in Equity</b>	<b>8</b>
<b>Notes to the Financial Statements</b>	<b>9</b>

## CORPORATE INFORMATION

BOARD OF DIRECTORS	Mr. Muhammad Siddique Khatri Mr. Abdul Ghafoor Khatri Mr. Abdul Sattar Khatri Mr. Abdul Aziz Khatri Mr. Mansoor Ahmed Khatri Ms. Farhana Sattar Mr. Fawad Yousuf	Chairman & Chief Executive Director Director Director Director Director Director
AUDIT COMMITTEE	Mr. Mansoor Ahmed Mr. Abdul Sattar Khatri Mr. Mohammad Siddique	Chairman Member Member
CHIEF FINANCIAL OFFICER	Mr. Javed Iqbal	
COMPANY SECRETARY	Mr. Noor Zaman Khan	
REGISTERED OFFICE/HEAD OFFICE	39-Empress Road, P.O. Box 1414, Lahore-54000. Tel : 042- 6306586 - 88 Fax : 042- 6365697 www.ittehadchemicals.com E-mail: info@ittehadchemicals.com	
PLANT	G.T. Road, Kala Shah Kaku, District Sheikhpura. Ph : 042-7980026 - 28 Fax : 042-7990544	
SHARE REGISTRAR	M/s. Corplink (Pvt.) Limited Corporate and Financial Consultants Wings Arcade, 1-K Commercial, Model Town, Lahore. Ph: 042-5839182 Fax: 042-5869037	
BANKERS TO THE COMPANY	Askari Commercial Bank Ltd Metropolitan Bank Ltd Muslim Commercial Bank Ltd Pakistan Industrial Credit & Investment Corporation Ltd Saudi Pak Industrial & Agricultural Investment Co. (Pvt.) Ltd Pak Libya Holding Co. (Pvt.) Ltd The Bank of Punjab Faysal Bank Ltd. United Bank Ltd KASB Bank Ltd. Union Bank Ltd Citi Bank	
AUDITORS	M/s. BDO Ebrahim & Co., Chartered Accountants, 2nd Floor, Block-C, Lakson Square Bldg. No.1, Sarwar Shaheed Road, Karachi. Ph : 021-568 31 89 - 568 34 98 Fax : 021-568 42 39	
LEGAL ADVISORS	M/s. Tahir Ali Tayebi & Co. 310, Marine Point, Schon Circle, Block 9, Clifton, Karachi. Ph : 021-537 04 58 Fax : 021-537 04 59	

## DIRECTORS' REVIEW

On behalf of the Board of Directors of Ittehad Chemicals Limited, I am pleased in presenting the un-audited accounts of the Company for the quarter ended September 30, 2006. First quarter highlights of the operating and financial results of your Company are as under:

Net sales for the quarter under review were Rs. 601.05 million compared with Rs. 522.08 million, 15.13 % higher than the same period last year. Caustic Soda has contributed around 78% to total net sales and its sales volume has recorded an increase of 17.24%.

Gross margin improved to 23.76% from 19.97 % in the same period last year. Increase in sales volume and strict check over factory overheads have been the major causes for growth in this profitability measure. This also has cast a positive impact on operating profit which amounted to Rs. 95.45 million as against Rs. 70.38 million posting a growth of 35.62 % over the corresponding period last year. Gas tariff was raised by 9.95% w.e.f July 01, 2006 which resulted in increase in power generation cost of the Company's Captive Power Plant. Had there been no rise in gas tariff the gross profit would have been higher than that has been actually achieved.

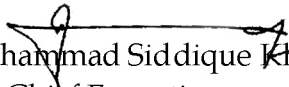
Compared with the first quarter of last year, post tax profit stood at Rs. 18.62 million compared with Rs. 27.39 million. The reduction caused the earning per share to go down to Rs. 0.62 per share as against Rs. 0.91 per share. The downfall is attributable to high finance cost and deferred tax charge. Increase in finance cost is primarily due to increase in financing and mark up rates.

Out of Rs. 102.83 million cash generated from operations, Rs. 37.49 million invested in capital projects and Chemi Chloride Industries Limited, an associated company, whereas the balance amount used in retiring financial obligations.

Looking ahead, we expect that the demand seen in the first quarter would continue into the second quarter as well, although the ongoing volatility in energy and finance costs creates some uncertainty in relation to the stable profitability. Subject to the foregoing we have reasons to believe that 2007 will be yet another good year for the Company.

Your Board appreciates the Company staff, valued customers and other stakeholders for their support and cooperation.

On behalf of the Board

  
Muhammad Siddique Khatri  
Chief Executive

Lahore: October 28, 2006

## BALANCE SHEET AS AT SEPTEMBER 30, 2006

		SEPTEMBER 2006 UNAUDITED	JUNE 2006 AUDITED
	NOTE	(Rupees in thousand)	
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, Plant and equipment			
Operating fixed assets	4	2,467,326	2,510,171
Capital work in progress	5	39,883	24,156
		2,507,209	2,534,327
Long term investments		18,420	1,817
Deferred cost		1,537	1,751
Long term deposits		14,658	14,658
		2,541,824	2,552,553
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools	6	301,280	301,796
Stock in trade	7	148,626	144,617
Trade debts		247,401	201,342
Loan and advances	8	32,913	21,572
Trade deposit and short term prepayments		4,130	5,205
Other receivable		8,306	2,177
Tax refunds due from the Government		7,717	5,974
Taxation -net		62,867	67,550
Cash and bank balances		204,703	257,713
		1,017,943	1,007,946
<b>TOTAL ASSETS</b>		<b>3,559,767</b>	<b>3,560,499</b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Authorized share capital			
75,000,000 shares of Rs. 10/- each	9	750,000	750,000
Issued, subscribed and paid up capital		300,000	300,000
Capital reserve-Fair value reserve		952	809
Un-appropriated profit		344,643	326,030
Shareholders' equity		645,595	626,839
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>		638,574	638,574
<b>NON CURRENT LIABILITIES</b>			
Redeemable capital	10	83,267	83,266
Long term financing	11	686,868	739,251
Long term morabaha	12	245,563	261,187
Deferred liabilities		193,646	169,921
		1,209,344	1,253,625
<b>CURRENT LIABILITIES</b>			
Trade and other payables		246,108	221,094
Mark up accrued		43,970	28,520
Short term borrowings		401,211	431,977
Current portion of long term liabilities		374,965	359,870
		1,066,254	1,041,461
<b>CONTINGENCIES AND COMMITMENTS</b>	13	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,559,767</b>	<b>3,560,499</b>

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



**CHIEF EXECUTIVE**

**5**



**DIRECTOR**

**PROFIT AND LOSS ACCOUNT**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2006 (UN-AUDITED)**

	NOTE	Quarter ended	
		SEPTEMBER 2006 (Rupees in thousand)	SEPTEMBER 2005
Sales		601,046	522,081
Cost of sales	14.	(458,251)	(417,832)
Gross profit		142,795	104,249
Selling and distribution expenses		(31,945)	(20,594)
General and administrative expenses		(13,809)	(11,392)
Other operating expenses		(2,436)	(2,484)
Other operating income		847	603
		(47,343)	(33,867)
Operating profit		95,452	70,382
Finance cost		(50,118)	(24,145)
Profit before taxation		45,334	46,237
Taxation		(26,716)	(18,843)
Profit after taxation		18,618	27,394
Earning per share- basic and diluted	16.		
Before provision for taxation		Rs. 1.51	Rs. 1.54
After provision for taxation		Rs. 0.62	Rs. 0.91

Appropriations have been reflected in the statement of changes in equity

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



**CHIEF EXECUTIVE**



**DIRECTOR**

**CASH FLOW STATEMENT  
FOR THE PERIOD ENDED SEPTEMBER 30, 2006 (UN-AUDITED)**

	Quarter ended	
	SEPTEMBER 2006	SEPTEMBER 2005
	(Rupees in thousand)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before tax	45,334	46,237
Adjustments for items not involving movement of funds		
Depreciation	48,147	24,002
Provision for gratuity	113	113
Amortization of deferred cost	213	213
Finance cost	50,118	24,145
	<u>143,925</u>	<u>94,710</u>
<b>Decrease/(Increase) in current assets</b>		
Stores, Spares and loose tools	516	(164,660)
Stock in trade	(4,009)	(1,673)
Trade debts	(46,059)	(4,675)
Loan and advances	(11,341)	17,038
Trade deposit and short term prepayment	1,075	(6,597)
Other receivable	(6,129)	8,712
Tax refund due from the Government	-	47,060
	<u>(65,947)</u>	<u>(104,795)</u>
<b>Decrease / (Increase) in current liabilities</b>		
Trade and other payables	25,014	59,504
<b>Cash generated from operations</b>	<u>102,992</u>	<u>49,419</u>
Taxes paid	(160)	(798)
<b>Net cash inflow from operating activities</b>	<u>102,832</u>	<u>48,621</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Additions to operating fixed assets - net	(5,591)	(759,318)
Less : Transfers from capital work in progress	-	757,801
	(5,591)	(1,517)
Additions to capital work in progress	(15,727)	(115,341)
Proceeds from sale of operating fixed assets	285	-
Long term investments	(16,460)	-
<b>Net cash outflow from investing activities</b>	<u>(37,493)</u>	<u>(116,858)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Long term financing	(46,662)	(24,998)
Long term murabaha	(6,250)	121,000
Short term borrowings	(30,766)	(39,219)
Finance cost paid	(34,671)	(24,865)
<b>Net cash outflow financing activities</b>	<u>(118,349)</u>	<u>31,918</u>
<b>Net increase/ (decrease) in cash equivalents</b>	<u>(53,010)</u>	<u>(36,319)</u>
Cash and cash equivalents at the beginning of the period	257,713	80,831
<b>Cash and cash equivalents at the end of the period</b>	<u>204,703</u>	<u>44,512</u>

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



CHIEF EXECUTIVE



DIRECTOR

**STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED SEPTEMBER 30, 2006 (UN-AUDITED)**

	<b>Issued, subscribed and paid-up capital</b>	<b>Unappro- priated profits</b>	<b>Fair value reserve</b>	<b>Total</b>
( Rupees in thousand )				
Balance as at Sep 30, 2004	250,000	222,237	167	472,404
Fair value gain	-	-	292	292
Profit after taxation for the period	-	61,673	-	61,673
Issue of bonus shares	50,000	(50,000)	-	-
Balance as at Sep 30, 2005	300,000	233,910	459	534,369
Fair value gain	-	-	493	493
Profit after taxation for the period	-	110,733	-	110,733
Balance as at Sep 30, 2006	300,000	344,643	952	645,595

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



**CHIEF EXECUTIVE**



**DIRECTOR**



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2006  
(UN-AUDITED)**

**1. NATURE AND STATUS 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 share 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 business of manufacturing and selling caustic soda and other allied chemicals. The Company also deals in real estate business.

**2. STATEMENT OF COMPLIANCE**

These financial statements are unaudited and are being submitted to the shareholders as required under Section 245 of the Companies Ordinance, 1984 and have been prepared in accordance with the requirements of International Accounting Standard - 34 "Interim Financial Reporting" as applicable in Pakistan.

**3. ACCOUNTING POLICIES**

The accounting policies and methods of computation followed in the preparation of Quarterly Financial Statements are the same as those of published in Annual Financial Statements for the year ended June 30, 2006.

**4. OPERATING FIXED ASSETS**

		<b>Quarter ended</b>	<b>Year ended</b>
		<b>September 30,</b>	<b>June 30,</b>
		<b>2006</b>	<b>2006</b>
		<b>(Rupees in thousand)</b>	
Opening book value		2,510,171	1,023,734
Add: Additions during the period / year	4.1	<u>5,591</u>	<u>1,974,931</u>
		2,515,762	2,998,665
Less:			
Disposals and retirements during the period / year	4.2	<span style="border: 1px solid black; padding: 2px;">285</span>	<span style="border: 1px solid black; padding: 2px;">297</span>
Depreciation charged during the period / year		<u>48,151</u>	<u>488,197</u>
		48,436	488,494
Closing book value		<u><u>2,467,326</u></u>	<u><u>2,510,171</u></u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2006  
(UN-AUDITED)**

4.1	Details of additions during the period / year are as follows		
	Freehold land	-	638,574
	Building on freehold land	-	39,269
	Plant and machinery	5,419	1,267,486
	Other equipment	-	27
	Furniture and fixtures	-	150
	Vehicles	-	28,026
	Office and other equipment	172	1,399
		<u>5,591</u>	<u>1,974,931</u>
4.2	Details of disposals / retirement during the period / year are as follows:		
	Vehicles	285	297
		<u>285</u>	<u>297</u>
<b>5.</b>	<b>CAPITAL WORK-IN -PROGRESS</b>		
	This consist of:		
	Plant and machinery	39,883	24,156
		<u>39,883</u>	<u>24,156</u>
5.1	No amount (June 30, 2006: Rs. 1,278.189 million) has been transferred to operating fixed assets during the period		
<b>6.</b>	<b>STORES, SPARES AND LOOSE TOOLS</b>		
	Stores	98,089	98,703
	Spares		
	in hand	195,118	217,185
	in transit	29,810	8,110
		<u>224,928</u>	<u>225,295</u>
	Losse tools	695	230
		<u>323,712</u>	<u>324,228</u>
	Less: provision for obsolete stores and spares	22,432	22,432
		<u>301,280</u>	<u>301,796</u>
<b>7.</b>	<b>STOCK IN TRADE</b>		

The fair value of the free hold land held for sale as determined by an approved valuer, as at balance sheet date was Rs. 53.340 million

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2006  
(UN-AUDITED)**

**Quarter ended**      **Year ended**  
**September 30,**      **June 30,**  
**2006**                      **2006**  
**(Rupees in thousand)**

**8. LOAN AND ADVANCES**

Advances- considered		
- To employees	1,783	1,273
- For supplies and services	23,284	11,376
- Against purchase of land	7,437	7,437
- Against import	409	1,486
	<u>32,913</u>	<u>21,572</u>
Considered doubtful		
- For supplies and services	1,525	1,525
- For employees	259	259
	<u>1,784</u>	<u>1,784</u>
	<u>34,697</u>	<u>23,356</u>
Less: Provision for doubtful balances	1,784	1,784
	<u>32,913</u>	<u>21,572</u>

**9. AUTHORIZE SHARE CAPITAL**

50,000,000 ordinary shares of Rs. 10/- each	500,000	500,000
25,000,000 preference shares of Rs. 10/- each	250,000	250,000
	<u>750,000</u>	<u>750,000</u>

**10. REDEEMABLE CAPITAL**

Balance as at July 01	166,533	249,800
Repayments made during the period / year	-	83,267
	<u>                    </u>	<u>                    </u>

**11. LONG TERM FINANCING**

From banking companies and financial institutions- Secured		
Balance as at July 01	939,541	746,190
Obtained during the period / year	-	360,000
	<u>939,541</u>	<u>1,106,190</u>
Repayments made during the period / year	46,662	166,649
	<u>892,879</u>	<u>939,541</u>
Current portion shown under current liabilities	206,011	200,290
	<u>686,868</u>	<u>739,251</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2006  
(UN-AUDITED)**

**Quarter ended      Year ended**  
**September 30,      June 30,**  
**2006                      2006**  
**(Rupees in thousand)**

**12. LONG TERM MORABAHA**

From banking companies		
Balance as at July 01	337,500	200,000
Obtained during the period / year	-	150,000
	337,500	350,000
Repayments made during the period / year	6,250	12,500
	331,250	337,500
Current portion shown under current liabilities	85,687	76,313
	245,563	261,187

**13. CONTINGENCIES AND COMMITMENTS**

**13.1 Contingent liabilities**

- a) Demand created for assessment year 1996-97 with respect to disallowance of expenses incurred on account of Golden Hand Shake (GHS) and of Voluntary Separation Scheme (VSS) amounting to Rs. 56.437 million for reason of non deduction of withholding tax on payment of such expenses had been set aside by the Honorable Income Tax Appellate Tribunal (ITAT) with direction to re-compute the tax liability by using the specified methodology. The Inspecting Additional Commissioner (IAC), vide his order dated December 23, 2003 had restored the original assessment under section 66-A of the Income Tax Ordinance 1979 without considering the directions of ITAT. Management had filed a revised petition before ITAT and Reference Application before the Learned Lahore High Court. The matter has now been remanded back to IAC by ITAT. In the event of an adverse decision, the Company would be faced with a charge against profit of Rs. 34.107 million (June 30, 2006: Rs. 34.107 million).
  
- b) The liability for income tax determined for assessment year 2002-03 amounted to Rs. 46.112 million. The Company had filed an appeal to the Commissioner Appeals (CIT) against the assessment order of Deputy Commissioner Income Tax (DCIT). CIT appeals vide his order dated October 03, 2005 has given the decision in favour of the Company and accepted all the items as permissible which were not acknowledged by the DCIT. The department has filed an appeal against the order of CIT Appeals. In the event of an adverse decision the Company would be faced with a charge against profit of Rs. 5.974 million (June 30, 2006: Rs. 5.974 million).
  
- c) Letters of guarantee outstanding as at September 30, 2006 were Rs.101.860 million (June 30, 2006: Rs.103.239 million).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2006  
(UN-AUDITED)**

**13.2 Commitments**

Commitments as on September 30, 2006 were as follows:

- a) Against letters of credit outstanding amounting to Rs.48.602 million (June 30, 2006: Rs. 23.068 million)
- b) Against purchase of land amounting to Rs.7.047 million (June 30, 2006:Rs 7.047 million).

**Quarter ended**  
**September 30      September 30**  
**2006                      2005**  
**(Rupees in thousand)**

**14. COST OF SALES**

Cost of goods manufactured	469,944	414,051
Cost of stores traded	-	129
	469,944	414,180
Finished goods		
Opening stock	31,600	14,371
Closing stock	(43,293)	(10,719)
	(11,693)	3,652
	458,251	417,832

**15. TRANSACTIONS WITH RELATED PARTIES INCLUDING ASSOCIATED UNDERTAKINGS**

The related parties and associated companies/undertakings comprise group companies, other associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings are given as under:

**Relation with the company Nature of transactions**

**Quarter ended**  
**September 30,      September 30,**  
**2006                      2005**  
**(Rupees in thousand)**

Associated companies	Sale of good and services	194	9,680
	Late payment charges	238	1,063
	Marketing Service charges	6,074	5,256
	Investments made	16,460	-
Retirement benefit plans	Contribution to staff retirement benefit plans	32	33
Key management personnel	Remuneration and other benefits	2,738	1,650

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2006  
(UN-AUDITED)**

	Quarter ended	
	September 30, 2006	September 30, 2005
	(Rupees in thousands)	
Profit before taxation	<u>45,334</u>	<u>46,237</u>
Profit after taxation	<u>18,618</u>	<u>27,394</u>

Profit before taxation

Profit after taxation

**Number of shares in thousand**

Average issued ordinary shares

<u>30,000</u>	<u>30,000</u>
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**(Rupees)**

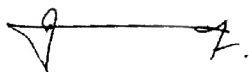
Earnings per share before provision for taxation

Earnings per share after provision for taxation

<u>1.51</u>	<u>1.54</u>
<u>0.62</u>	<u>0.91</u>

**17. GENERAL**

- i) These financial statements were authorized for the issue on October 28, 2006 by the Board of Directors of the Company.
- ii) Figures have been rounded off to the nearest rupees in thousand unless otherwise stated.



**CHIEF EXECUTIVE**



**DIRECTOR**