



ITTEHAD CHEMICALS LIMITED

Quarterly Report September 30, 2007



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

ITTEHAD CHEMICALS LIMITED

Quarterly Financial Statements *for the period ended September 30, 2007* *(Un-Audited)*

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CORPORATE INFORMATION

BOARD OF DIRECTORS	Mr. Muhammad Siddique Khatri Mr. Abdul Ghafoor Khatri Mr. Abdul Sattar Khatri Mr. Mansoor Ahmed Khatri Mr. Fawad Yousuf Ms. Farhana Abdul Sattar Ms. Noor-ul-Huda	Chairman & Chief Executive Director Director Director Director Director Director
AUDIT COMMITTEE	Mr. Mansoor Ahmed Khatri Mr. Abdul Sattar Khatri Mr. Fawad Yousuf	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 : 042-7981646	
SHARE REGISTRARS	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 Bank Limited Habib Metropolitan Bank Limited MCB Bank Limited Saudi Pak Industrial & Agricultural Investment Co. (Pvt.) Limited Pak Libya Holding Co. (Pvt.) Limited The Bank of Punjab Faysal Bank Limited United Bank Limited KASB Bank Limited Standard Chartered Bank Limited Citi Bank Allied Bank Limited My Bank Limited Pak Kawait Investment Co. (Pvt.) Limited	
AUDITORS	M/s.BDO Ebrahim & Co., Chartered Accountants, 2 nd Floor, Block-C, Lakson Square Building No.1, Sarwar Shaheed Road, Karachi. Ph: 021-5683189-5683498 Fax: 021-5684239	
LEGAL ADVISORS	M/s. Tahir Ali Tayebi & Co. 310, Marine Point, Schon Circle, Block 9, Clifton, Karachi. Ph : 021-5370458 Fax : 021-5370459	

On behalf of the Board of Directors of Ittehad Chemicals Limited, I am pleased to present the un-audited financial statements of the Company for the quarter ended September 30, 2007.

Your Company has earned an operating profit of Rs. 95.13 million for the quarter under review compared to Rs. 95.45 million in the corresponding period of last year. Profit after tax came in at Rs. 20.84 million for the quarter under review against Rs. 18.62 million in the corresponding period of last year. The results lead to an earning per share of Rs. 0.58 as compared to Rs. 0.52 for the corresponding period of last year.

The sale of the Company's products has remained under pressure due to highly competitive market, power breakdowns throughout the country and poor response to Caustic Soda from textile sector on account of ongoing crisis of this sector. Profitability of the Company during the current quarter, on the whole, has therefore not witnessed meaningful growth over the corresponding quarter of last year. Other major items that have affected the margins for the period were rise in raw material prices, increase in electricity tariff by LESCO in March 2007 and high finance cost as compared to the corresponding period of last year.

Looking into the next quarters, present crisis being faced by the textile industry is not expected to come to an end completely in the near future. Management however cautiously looks forward to the Government's ongoing measures for revival of this sector which would gradually improve the situation and resultantly the demand of Caustic Soda will increase in this sector. Production of the Company may be affected in coming winter if SNGPL cuts off the gas supply to Company's captive power plant on account of its load management strategy. Besides this your Company views the present competitive business environment to grow in the future. All this may result in tight margins in the coming quarters.

Chemi Chloride Industries Limited (CCIL), an associated company, has commenced the trial production and is expected to commence commercial production in the coming quarter which would also bring positive impact on Company's earnings. CCIL is expected to become subsidiary of the Company in 2nd quarter of current financial year upon issuance of 6,440,000 ordinary shares of Rs. 10 each to the Company. Approval to this issue has been accorded to CCIL by the SECP through letter dated October 19, 2007.

On behalf of the Board of Directors, I express my appreciation for the support and cooperation extended by Company's staff, valued customers and other stakeholders.

On Behalf of the Board



Muhammad Siddique Khatri
Chief Executive

Lahore: October 27, 2007

BALANCE SHEET

as at September 30, 2007 (un-audited)

	NOTE	SEPTEMBER 30	JUNE 30
		2007 UNAUDITED	2007 AUDITED
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment			
Operating fixed assets	4	2,320,129	2,359,749
Capital work in progress	5	65,963	47,679
		<u>2,386,092</u>	<u>2,407,428</u>
Intangible assets		1,487	1,538
Investment property		82,140	82,140
Long term investments		65,463	65,542
Deferred cost		687	901
Long term deposits		14,205	14,205
		<u>2,550,074</u>	<u>2,571,754</u>
CURRENT ASSETS			
Stores, spares and loose tools		301,280	290,006
Stock in trade		134,303	102,285
Trade debts		481,419	444,614
Loans and advances	6	45,061	26,163
Trade deposits and short term prepayments		14,579	8,195
Other receivables		267	307
Tax refunds due from Government		439	439
Taxation-net		63,952	60,563
Cash and bank balances		51,123	29,130
		<u>1,092,423</u>	<u>961,702</u>
TOTAL ASSETS		<u><u>3,642,497</u></u>	<u><u>3,533,456</u></u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized share capital			
75,000,000 shares of Rs. 10/- each	7.1	<u>750,000</u>	<u>750,000</u>
Issued, subscribed and paid up capital	7.2	360,000	360,000
Reserves		<u>371,242</u>	<u>404,477</u>
		731,242	764,477
SURPLUS ON REVALUATION OF FIXED ASSETS		643,372	643,372
NON CURRENT LIABILITIES			
Long term financing	8	834,375	584,158
Long term murabaha	9	350,000	217,438
Liabilities against assets subject to finance lease	10	812	913
Deferred liabilities		<u>258,280</u>	<u>246,640</u>
		1,443,467	1,049,149
CURRENT LIABILITIES			
Trade and other payables		252,049	190,038
Mark up accrued		47,998	51,006
Short term borrowings		380,003	442,930
Current portion of long term liabilities		144,366	392,484
		<u>824,416</u>	<u>1,076,458</u>
CONTINGENCIES AND COMMITMENTS	11	-	-
TOTAL EQUITY AND LIABILITIES		<u><u>3,642,497</u></u>	<u><u>3,533,456</u></u>

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



CHIEF EXECUTIVE




DIRECTOR

PROFIT AND LOSS ACCOUNT
for the period ended September 30, 2007 (Un-Audited)

		<u>Quarter ended</u>	
		<u>SEPTEMBER 30</u>	<u>SEPTEMBER 30</u>
		<u>2007</u>	<u>2006</u>
		(Rupees in thousands)	
Sales		654,427	601,046
Cost of sales	12	<u>(507,938)</u>	<u>(458,251)</u>
Gross profit		146,489	142,795
Selling and distribution expenses		(36,554)	(31,945)
General and administrative expenses		(16,234)	(13,809)
Other operating expenses		(1,925)	(2,436)
Other operating income		3,357	847
		<u>(51,356)</u>	<u>(47,343)</u>
Operating profit		95,133	95,452
Financial charges		<u>(59,512)</u>	<u>(50,118)</u>
Profit before taxation		35,621	45,334
Taxation		<u>(14,778)</u>	<u>(26,716)</u>
Profit after taxation		<u>20,843</u>	<u>18,618</u>
Earnings per share - basic and diluted	14	<u>Rs. 0.58</u>	<u>Rs. 0.52</u>

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

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


CHIEF EXECUTIVE

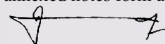

DIRECTOR

CASH FLOW STATEMENT

for the period ended September 30, 2007 (Un-Audited)

	Quarter ended	
	SEPTEMBER 30 2007	SEPTEMBER 30 2006
	(Rupees in thousands)	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	35,621	45,334
Adjustments for items not involving movement of funds:		
Depreciation	44,829	48,147
Amortization of intangible assets	150	-
Provision for gratuity	162	113
Amortization of deferred cost	213	213
Financial charges	59,512	50,118
Net cash flow before working capital changes	140,487	143,925
Decrease/(Increase) in current assets		
Stores, spares and loose tools	(11,274)	516
Stock in trade	(32,018)	(4,009)
Trade debts	(36,805)	(46,059)
Loans and advances	(18,898)	(11,341)
Trade deposits and short term prepayments	(6,384)	1,075
Other receivables	40	(6,129)
	(105,339)	(65,947)
Decrease in current liabilities		
Trade and other payables	62,013	25,014
Cash generated from operations	97,161	102,992
Taxes paid	(6,689)	(160)
Dividend paid	(54,000)	-
Net cash inflow from operating activities	36,472	102,832
CASH FLOW FROM INVESTING ACTIVITIES		
Additions to operating fixed assets - net	(5,209)	(5,591)
Additions to intangible assets	(100)	-
Additions to capital work in progress	(18,283)	(15,727)
Proceeds from sale of operating fixed assets	-	285
Long term investments	-	(16,460)
Net cash outflow from investing activities	(23,592)	(37,493)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long term financing	750,000	-
Repayment of long term financing	(654,164)	(46,662)
Proceeds from long term murabaha	350,000	-
Repayment of long term murabaha	(311,188)	(6,250)
Liabilities against assets subject to finance lease	(89)	-
Short term borrowings	(62,926)	(30,766)
Financial charges paid	(62,520)	(34,671)
Net cash inflow/ (outflow) from financing activities	9,113	(118,349)
Net increase/(decrease) in cash and cash equivalents	21,993	(53,010)
Cash and cash equivalents at the beginning of the period	29,130	257,713
Cash and cash equivalents at the end of the period	51,123	204,703

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, 2007 (Un-Audited)

	Issued, subscribed and paid-up capital	Fair value reserve	Unappropriated profits	Total
(Rupees in thousands)				
Balance as at July 01, 2006	300,000	809	326,030	626,839
Fair value gain	-	143	-	143
Profit after taxation for the period	-	-	18,613	18,613
Balance as at Sep 30, 2006	300,000	952	344,643	645,595
Issue of bonus shares	60,000	-	(60,000)	-
Fair value gain	-	182	-	182
Profit after taxation for the period	-	-	118,700	118,700
Balance as at June 30, 2007	360,000	1,134	403,343	764,477
Fair value gain	-	(78)	-	(78)
Dividend paid	-	-	(54,000)	(54,000)
Profit after taxation for the period	-	-	20,843	20,843
Balance as at Sep 30, 2007	360,000	1,056	370,186	731,242

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, 2007 (Un-Audited)

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 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.

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.

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

The disclosures made in these financial statements have, however, been limited in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting".

3 ACCOUNTING POLICIES

The accounting policies and methods of computation followed in the preparation of these financial statements are the same as those of preceding annual financial statements for the year ended June 30, 2007.

		Quarter ended September 30, 2007	Year ended June 30, 2007
4 OPERATING FIXED ASSETS	Note	(Rupees in thousands)	
Opening book value		2,359,749	2,510,171
Add: Additions during the period/year	4.1	5,209	73,288
		2,364,958	2,583,459
Less:			
Disposals and transfers during the period/year	4.2	-	29,009
Depreciation charged during the period/year		44,829	194,701
		44,829	223,710
Closing book value		2,320,129	2,359,749

NOTES TO THE FINANCIAL STATEMENTS
for the period ended September 30, 2007 (Un-Audited)

	Quarter ended September 30, 2007	Year ended June 30, 2007
	(Rupees in thousands)	
4.1 Details of additions during the period / year are as follows:		
Owned assets:		
Freehold land	-	4,798
Building on freehold land	-	121
Railway sidings	-	2,005
Plant and machinery	3,851	58,160
Other equipment	-	139
Furniture and fixtures	126	1,490
Vehicles	418	3,647
Office and other equipment	781	1,557
	5,176	71,917
Assets subject to finance lease:		
Vehicle	33	1,371
	5,209	73,288
4.2 Details of disposals /transfers during the period / year are as follows:		
Freehold land	-	28,800
Vehicle	-	209
	-	29,009
5 CAPITAL WORK -IN-PROGRESS		
Plant and machinery	65,963	47,679
5.1 No amount (June 30, 2007: Rs.36.414 million) has been transferred to operating fixed assets during the period		
6 LOANS AND ADVANCES		
Advances - (unsecured - considered good)		
- Against purchase of land	12,646	9,437
- To employees	3,501	2,736
- For supplies and services	28,508	13,702
- Against import	406	288
	45,061	26,163
Considered doubtful		
- For supplies and services	51	51
- To employees	104	104
	155	155
	45,216	26,318
Less: Provision for doubtful balances	155	155
	45,061	26,163

NOTES TO THE FINANCIAL STATEMENTS
for the period ended September 30, 2007 (Un-Audited)

	Quarter ended	Year ended
	September 30,	June 30,
	2007	2007
	(Rupees in thousands)	
7 SHARE CAPITAL		
7.1 Authorized Share Capital		
50,000,000 (June 30 2007: 50,000,000) ordinary shares of Rs. 10/- each	500,000	500,000
25,000,000 (June 30 2007: 25,000,000) preference shares of Rs. 10/- each	250,000	250,000
	<u>750,000</u>	<u>750,000</u>
7.2 Issued, subscribed and paid up capital		
100,000 (June 30 2007: 100,000) fully paid in cash	1,000	1,000
24,900,000 (June 30 2007: 24,900,000) issued for consideration other than cash	249,000	249,000
11,000,000 (June 30 2007: 11,000,000) fully paid bonus shares	110,000	110,000
	<u>360,000</u>	<u>360,000</u>
8 LONG TERM FINANCING		
From banking companies and financial institutions - Secured		
Balance as at July 01	799,253	939,541
Obtained during the period / year	8.1 <u>750,000</u>	<u>350,000</u>
	1,549,253	1,289,541
Repayments made during the period / year	<u>(654,164)</u>	<u>(490,288)</u>
	895,089	799,253
Current portion shown under current liabilities	<u>(60,714)</u>	<u>(215,095)</u>
	<u>834,375</u>	<u>584,158</u>
8.1 The Company has obtained long term Islamic finance facility amounting to Rs. 1,100 million through a syndicate of banks led by Standard Chartered Bank (Pakistan) Limited. This loan has been obtained by the company to swap its conventional loans into Islamic financing with better terms.		
9 LONG TERM MURABAHA		
From banking companies - Secured		
Balance as at July 01	311,188	337,500
Obtained during the period / year	8.1 <u>350,000</u>	<u>50,000</u>
	661,188	387,500
Repayments made during the period / year	<u>(311,188)</u>	<u>(76,312)</u>
	350,000	311,188
Current portion shown under current liabilities	<u>-</u>	<u>(93,750)</u>
	<u>350,000</u>	<u>217,438</u>

NOTES TO THE FINANCIAL STATEMENTS
for the period ended September 30, 2007 (Un-Audited)

	Quarter ended	Year ended
	September 30,	June 30,
	2007	2007
	(Rupees in thousands)	
10 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Secured		
Balance as at July 01	1,286	-
Addition during the period / year	-	1,371
	1,286	1,371
Payments made during the period / year	(89)	(85)
	1,197	1,286
Current portion shown under current liabilities	(385)	(373)
	812	913

11 CONTINGENCIES AND COMMITMENTS

11.1 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, 2007: 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, 2007: Rs. 5.974 million).
- c) Additional Commissioner Audit vide his order dated March 24, 2006 made assessment and added back certain provisions to the extent of Rs. 58.693 million. CIT Appeals allowed these expenses whereas the Department has challenged this order. In case of adverse decision, charge to profit will be to the extent of disallowance and tax liability will be accordingly increased.
- 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. 5.086 million (June 30, 2007: Rs. 5.086 million) against these claims.
- e) Letters of guarantee outstanding as at September 30, 2007 were Rs.202.244 million (June 30, 2007: Rs.202.887 million).

NOTES TO THE FINANCIAL STATEMENTS

for the period ended September 30, 2007 (Un-Audited)

11.2 Commitments

Commitments as on September 30, 2007 were as follows:

- Against letters of credit outstanding amounting to Rs.72.162 million (June 30, 2007: Rs. 69.016 million).
- Against purchase of land amounting to Rs. 1.838 million (June 30, 2007: Rs. 5.047 million).
- Against purchase of End User Licences of SAP Business One (ERP System) amounting Rs. 2.05 million (June 30, 2007: Rs. 2.05 million).

Quarter ended
September 30, 2007 September 30,
2006
(Rupees in thousands)

12 COST OF SALES

Cost of goods manufactured	497,395	469,944
Cost of stores traded	1,372	-
	<u>498,767</u>	<u>469,944</u>
Finished goods		
Opening stock	59,312	31,600
Closing stock	(50,141)	(43,293)
	<u>9,171</u>	<u>(11,693)</u>
	<u>507,938</u>	<u>458,251</u>

13 TRANSACTIONS WITH RELATED PARTIES INCLUDING ASSOCIATED UNDERTAKINGS

The related parties comprise group companies, local 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, 2007	September 30, 2006
		(Rupees in thousands)	
Associated companies	Sale of goods and services	4,048	194
	Late payment charges	-	238
	Mark up on loans & advances	207	-
	Loans & advances made	8,357	-
	Rental income	2,379	-
	Marketing Service charges	6,594	6,074
	Investments made	-	16,460
Retirement benefit plans	Contribution to staff retirement benefit plans	34	32
Key management personnel	Remuneration and other benefits	6,595	2,738

NOTES TO THE FINANCIAL STATEMENTS
for the period ended September 30, 2007 (Un-Audited)

14 EARNINGS PER SHARE - BASIC AND DILUTED

	(Rupees in thousands)	
Profit after taxation	<u>20,843</u>	<u>18,618</u>
	Number of shares in thousands	
Average issued ordinary shares	<u>36,000</u>	<u>36,000</u>
	(Rupees)	
Earnings per share	<u>0.58</u>	<u>0.52</u>

14.1 To comply with the requirements of International Accounting Standard (IAS) No. 33, comparative figures of earnings per share have been restated in view of bonus issue of 6,000,000 ordinary shares as declared by the Directors on October 07, 2006.

15 GENERAL

- i) These financial statements were authorized for the issue on October 27, 2007 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