# 13 Annual Report

Sitara Peroxide Limited

# Contents

# Vision Statement

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

The Leading Chemical Company.

Commitment towards uncompromised Reliability, Quality, Services and Safety.

Assure customer the most complete value package to become chosen partner in customer's view.

High return generation for sustainable growth.

View change as rule of life.

Together with the employees, to ensure success.

# Mission Statement

Better bottom line results with well contained risks through continuing growth and diversification.

Create opportunities for success through trusted and reliable partnership.

# Company Information

**Board of Directors**

Haji Bashir Ahmed
Mr. Imran Ghafoor
Mr. Muhammad Adrees
Mrs. Sharmeen Imran
Mr. Muhammad Asif Pasha
Mr. Muhammad Khalil
Mr. Waleed Asif

**Chief Financial Officer**

Mr. Waqas Ashraf (FCA)

**Company Secretary**

Mr. Mazhar Ali Khan

**Head of Internal Audit**

Mr. Zia-ul-Mustafa

**Audit Committee**

Mr. Muhammad Asif Pasha (Chairman)
Mrs. Sharmeen Imran (Member)
Mr. Waleed Asif (Member)
Mr. Zia-ul-Mustafa (Secretary)

**Human Resource and Remuneration Committee**

Mr. Muhammad Khalil (Chairman)
Mr. Muhammad Asif Pasha (Member)
Mr. Waleed Asif (Member)

**External Auditors**

M/s. M. Yousuf Adil Saleem & Co.,
Chartered Accountants

**Legal Advisor**

Sahibzada Waqar Arif

**Registered Office**

601-602 Business Centre, Mumtaz Hassan Road,
Off. I.I. Chundrigar Road, Karachi-74000.
Ph: 021 32401373, 32413944

**Company Website**

www.sitaraperoxide.com

**Bankers**

Askari Bank Limited
Al-Baraka Islamic Bank Limited
Bank Alfalah Limited
Faysal Bank Limited
Habib Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank Limited
Silk Bank Limited
Soneri Bank Limited
Standard Chartered Bank (Pakistan) Limited
Summit Bank Limited
United Bank Limited

**Share Registrar**

THK Associates (Private) Limited
Ground Floor, State Life Building No. 3,
Dr. Ziauddin Ahmed Road, Karachi,
75530 P.O. Box No. 8533
UAN : +92 (21) 111-000-322
Fax: +92 (21) 35655595,

**Head Office & Project Location**

26 - KM Sheikhupura Road, Faisalabad.
Ph : (92 41) 2400900 - 5

# Notice of Annual General Meeting

Notice is hereby given that the 10th Annual General Meeting of Sitara Peroxide Limited will be held at Dr. Abdul Qadeer Khan Auditorium, Haji Abdullah Haroon Muslim Gymkhana, near Shaheen Complex, Aiwan-e-Sadr Road, Karachi, on Tuesday, October 29, 2013 at 6:00 p.m. to transact the following business:

1. To confirm the minutes of 9th Annual General Meeting held on October 23, 2012.

2. To receive, consider and adopt the Annual Audited Accounts of the Company for the year ended June 30, 2013 together with the Reports of the Auditors and Directors thereon.

3. To elect seven directors as fixed by the Board of Directors of the company for a period of three years in accordance with the provisions of the Companies Ordinance, 1984. The retiring directors are Haji Bashir Ahmed, Mr. Imran Ghafoor, Mr. Muhammad Adrees, Mrs. Sharmeen Imran, Mr. Muhammad Khalil, Mr. Muhammad Asif Pasha and Mr. Waleed Asif.

   Following persons have notified their intention for election as directors of the Company for the next three years, namely Mr. Imran Ghafoor, Mr. Muhammad Adrees, Mrs. Sharmeen Imran, Mr. Muhammad Khalil, Mr. Muhammad Asif Pasha, Mr. Waleed Asif and Mr. Saim Bin Saeed.

4. To appoint Auditors for the year ending June 30, 2014 and to fix their remuneration.

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

By order of the Board

**Karachi:**

September 20, 2013

**MAZHAR ALI KHAN**
Company Secretary

**NOTES:**

i. The share transfer books of the company will remain closed from October 23, 2013 to October 29, 2013 (both days inclusive).

ii. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must be received at Company's Share Registrar's Office M/s. THK Associates (Pvt) Limited, Ground Floor, State Life Building-3, Dr. Ziauddin Ahmed Road, Karachi not less than 48 hours before the time of meeting.

iii. Shareholders who have deposited their shares into Central Depository Company are advised to bring their Computerized National Identity Card alongwith their CDC account number at the meeting venue.

iv. Shareholders are advised to notify any change in their addresses.

# DIRECTORS' REPORT

The Directors of Sitara Peroxide Limited are pleased to submit their annual report along with audited financial statements of the Company for the year ended June 30, 2013.

## Business & Operational Review

Current financial year was another challenging year for the economy of country and the local chemical industry. During the year, we faced number of challenges including power crises, higher inflation, depressed economy, law and order situation and political instability, which continued to exert significant pressure on the depressed economy in general and manufacturing industry in particular. Considering these challenges and market competition, Alhamdulillah, your Company performed very well. It proves sustainability and adaptability of management of your Company to face critical challenges. Further, current year financial results established our capability towards combating with local and international competition as well.

All praises to Almighty Allah who blessed us with success in all aspects. Your Management has been able to improve profitability by effectively adopting the principle of lean management in every sphere of business of the Company to minimize production costs, controlling operational and financial costs and increasing its market share despite of highly challenging business environment. Demand and price of our product are very sensitive to international prices because our product was designed for import substitution. During current year, despite severe pressure from import of hydrogen peroxide in local market, your Company was able to increase its market share viz. increase in sales price and sales volume which became possible only through focused sales and marketing development strategies backed by stable production. Obviously this happened with the great help of Almighty Allah and colossal efforts by the management of your Company.

The Company produced 22,731 MT of hydrogen peroxide (50%) and achieved production capacity of 76% which is 3% higher than the previous year. The Company achieved sales of 23,186 MT of hydrogen peroxide during the year under review, hence achieving increase of 10% in sales volume over the previous year. Your Company's management showed its efficiency and strength by achieving this growth, despite of plant shut down for approximately two months due to persistent curtailment of natural gas and certain major maintenance/shut down jobs.

# Directors' Report

## Financial Review

| | 2013 | 2012 |
|---|---|---|
| | Rupees | |
| Net sales | 1,110,400,106 | 985,001,331 |
| Gross profit | 273,486,939 | 152,513,110 |
| Operational profit | 177,834,257 | 74,520,092 |
| Net loss after taxation | (19,228,075) | (198,634,425) |
| Earnings per share – Basic | (0.35) | (3.60) |

During the current year, net sales increased by 13% as compared to previous financial year. This increase was mainly attributed to increase in sales volume and slight rise in prices of hydrogen peroxide in local market as well. However, cost of sales increased by only 1% during the same period. This depicts efficient use of resources by the Company management. That resulted in increase of gross margin to 25% as compared to 15% is the previous year. The operational expenses increased by 23% as compared to previous year. Increase in operation costs is due to rise in distribution costs which resulted from high transportation costs. Finance cost decreased by 24% as compared to previous year. Reduction in outstanding loans amount and decrease in kibor rates contributed in saving. Loss after tax has decreased to Rs. 19 million from Rs. 199 million in the prior year.

During the year under review, your Company entered into an agreement for rescheduling of privately placed diminishing Musharaka based SUKUK certificates. These certificates were issued by the Company during 2008-09 to a consortium of financial institutions (investors). Operational and economical constraints resulted in weak financial position which forced the Company to enter into restructuring agreements, which were successfully negotiated and executed. Management of your Company expresses its gratitude over the co-operation and support of the investors.

## Employee Benefit Plan

The Company operates a non-funded defined benefit plan (gratuity scheme). The latest actuarial valuation was carried out on June 30, 2013. The Company has fully paid its all obligations against this scheme in 2012-13. Appropriate provision has been made in accordance with IAS-19 in the accounts.

## Health, Safety and Environment (HSE)

HSE continues to be the Company's top priority. The Company places particular emphasis on changing peoples' behavior to improve safety. The Company follows best practices and it aims to comply with highest standards of HSE. Management safety audit program is one of the key elements of behavioral safety program.

## Human Resource Development

The management of the SPL is committed to induct talented and innovative professionals through a transparent process while complying with ethical and legal practices and SPL code of conduct. SPL wants to be an equal opportunity employer. SPL has formed a Human Resource and Management Committee which is responsible for the hiring, development, evaluation and succession planning of his personnel. The management believes in empowering people by providing them with challenging opportunities to develop their abilities and enhance their potential.

## Research and Development

Your Company continued its research and development activities at its exclusive R&D department that constitutes highly professional and fully dedicated staff. For optimal utilization of raw materials, R&D department performed marvelous job and we hope further achievements in coming years.

## Information Technology

Your Company is committed to utilize the relevant developments in IT sector to achieve its strategic business goals. It is equipped with necessary hardware, software, applications, and personnel to cope with all business challenges and developments taking place in the market.
Corporate Social Responsibility

SPL duly recognizes its role in empowerment of under privileged, employee welfare, safe industrial operations and alignment of Company's policies and practices with globally recognized principles. SPL is active in contributing to various sectors which require foremost attention such as education, healthcare, environmental protection and poverty alleviation.

## Board of Directors

The Board comprises of two executive and five non-executive directors. The Board has delegated

# Directors' Report

day-to-day operations of the Company to the Chief Executive officer.

During the year, Mr. Muhammad Anis resigned from the Board of directors of the Company and Mr. Waleed Asif was nominated by the Board to fill the casual vacancy. The Board places on record the appreciation for valuable contribution made by Mr. Muhammad Anis and welcome the new director of the Company.

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

| | Name of Director | Meetings Attended |
|---|---|---|
| i) | Haji Bashir Ahmad | 5 |
| ii) | Mr. Imran Ghafoor | 5 |
| iii) | Mr. Muhammad Adrees | 5 |
| iv) | Mr. Muhammad Anis (Resigned) | 1 |
| v) | Mr. Muhammad Khalil | 5 |
| vi) | Mrs. Sharmeen Imran | 5 |
| vii) | Mr. Muhammad Asif Pasha | 5 |
| viii) | Mr. Waleed Asif (New) | 2 |

All meetings of the Board met minimum quorum as prescribed by Code of Corporate Governance and were also attended by Chief Financial Officer and Company Secretary. Details of attendance by directors at each Board meeting are shown in the above table.

The current Board members are going to retire after completion of their term. Election of seven Board members, as fixed by the Board of directors, is scheduled in upcoming AGM, for next three years.

As required by code of corporate governance, at least one member of the Board must undergo orientation and training for enhancing his management skills each year. During current year, Mr. Muhammad Khalil completed his training from Institute of Corporate Governance of Pakistan.

The Board has put in place a mechanism for performance evaluation by setting realistic, specific, measureable and achievable goals for the year and then evaluation the performance of each member against these goals. The annual review of the Board is based on the progress of the Company in following major functions:

- Corporate governance
- Compliance with regulatory requirements of legal framework
- Value addition for all stakeholders of the Company
- Financial performance of the Company
- Strategic capital expenditures and their payback period
- Operational efficiency and balancing, modernization and replacements
- Employee turnover and retention

## Compliance with Corporate Governance

The Board of Directors reviews all significant matters of the Company. These include the Company's strategic direction, annual business plans and targets, decision on long term investments and borrowings. The Board of Directors is committed to maintain high standards of Corporate Governance. The Directors are pleased to state that your Company is compliant with the provisions of the code of corporate governance as required by the SECP and formed as part of listing regulations of Karachi Stock Exchange Limited. Statement of compliance with code of corporate governance is annexed.

The Board of Directors is pleased to report that:

- The financial statements prepared by the management presents fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of accounts have been maintained.
- Appropriate accounting policies have been consistently applied in 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 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.
- There are no significant doubts upon the ability of the Company to continue as a going concern.
- There have been no departures from the best practices of corporate governance, as detailed in the listing regulations.

## Pattern of Shareholding

The pattern of shareholding of the Company is annexed. No trading was made in shares of the Company by its Directors, CEO, CFO, Company Secretary, their spouses and minor children, except as disclosed in pattern of shareholding.

## Dividends

Accumulated losses of the Company on balance sheet date stands at 290 million rupees, therefore, Board of Directors has not announced any dividend during the year.

## Auditors

The existing auditors M/S M. Yousuf Adil Saleem & Company, Chartered Accountants, shall retire on the conclusion of the upcoming Annual General Meeting. Being eligible, they offered themselves for re-appointment as auditors of the Company for financial year ending June 30, 2014. The audit committee has recommended the appointment of aforesaid M/S M. Yousuf Adil Saleem & Company, as external auditors for the financial year ending June 30, 2014.

## Risk and opportunity report

Chemical industry dynamics brings new challenges and opportunities every day. Your Company also faces risks of increase in power tariff, natural gas curtailment, changes in load management, enhancement in tariff and imposition of additional taxes and other charges. Expected depreciation of pak rupee against dollar would raise inflation and cost of imported raw materials will also increase. Tightening of monitory policy will also increase the

# Directors' Report

finance cost of the Company. But on positive side, weakening of pak rupee will result in decrease of import of hydrogen peroxide in the country and prices in local market are expected to remain high in future. Management of your Company is confident that it can cope with future risks and can ripe benefits of opportunities.

## Future Outlook

Going forward, we plan to continue to maintain our focus on safe and stable plant operations coupled with improving operational efficiencies across all aspects of the business, to gain the most favorable economic benefits.

Your Company is considering all business options including higher production, new marketing/sale venues as well as cost efficiencies, to achieve better bottom line results.

## Acknowledgement

We acknowledge our employees for their valuable contributions and to our customers for the trust. Directors also wish to express their gratitude to the shareholders of the Company and financial institutions for their support and confidence in the management.

For and on behalf of the
Board of Directors

September 20, 2013
Faisalabad

IMRAN GHAFOOR
Chief Executive Officer

# Six Years Financial Summary

## Six years financial summary

| | | 2012-13 | 2011-12 | 2010-11 | 2009-10 | 2008-09 | 2007-08 |
|---|---|---|---|---|---|---|---|
| | | Rupees in "000" | | | | | |
| **Profit and Loss Account** | | | | | | | |
| Net Sales | | 1,110,400 | 985,001 | 1,289,332 | 714,986 | 627,121 | 291,177 |
| Gross Profit | | 273,487 | 152,513 | 503,484 | 20,141 | 101,247 | 19,458 |
| Operating Profit | | 177,834 | 74,520 | 432,147 | (29,097) | 57,886 | (4,615) |
| Profit / (loss) before tax | | (9,921) | (172,113) | 179,435 | (272,888) | (188,047) | (89,447) |
| Profit / (loss) after tax | | (19,228) | (198,634) | 166,251 | (179,146) | (99,907) | (59,879) |
| **Balance Sheet** | | | | | | | |
| Property, plant and equipment | | 1,832,861 | 2,019,742 | 2,248,853 | 2,259,948 | 2,386,364 | 1,568,181 |
| Long term advances | | 46,205 | 46,005 | 3,705 | 3,705 | 8,115 | 36,532 |
| Current assets | | 709,978 | 668,874 | 622,855 | 457,794 | 572,625 | 446,731 |
| Current liabilites | | 805,416 | 1,077,233 | 791,413 | 625,265 | 725,797 | 618,417 |
| Non-current liabilities | | 1,094,672 | 949,203 | 1,177,182 | 1,355,614 | 1,321,594 | 964,660 |
| Share capital | | 551,000 | 551,000 | 551,000 | 551,000 | 551,000 | 550,095 |
| Shaeholders equity | | 261,247 | 248,549 | 417,790 | 219,692 | 369,365 | 468,367 |
| Surplus on revaluation | | 427,709 | 459,635 | 489,029 | 520,875 | 550,348 | - |
| **Financial Ratios** | | | | | | | |
| Gross Profit to Sales | (%) | 24.63 | 15.48 | 39.05 | 2.82 | 16.14 | 6.68 |
| Net Profit to Sales | (%) | (1.73) | (20.17) | 12.89 | (25.06) | (15.93) | (20.56) |
| Return on Equity | (%) | (7.36) | (79.92) | 39.79 | (81.54) | (27.05) | (12.78) |
| Return on Capital Employed | (%) | (1.08) | (11.86) | 7.98 | (8.55) | (4.46) | (4.18) |
| Current Ratio | times | 0.88 | 0.63 | 0.79 | 0.73 | 0.79 | 0.72 |
| Quick ratio | times | 0.34 | 0.23 | 0.31 | 0.32 | 0.32 | 0.26 |
| Earnings per share - Basic and diluted | Rupees | (0.35) | (3.60) | 3.02 | (3.25) | (1.81) | (1.09) |
| Price Earning Ratio | times | (33.96) | (3.52) | 4.42 | (4.83) | (13.98) | (45.55) |
| Market Value per share (at year end) | Rupees | 12.73 | 9.90 | 16.75 | 9.29 | 19.03 | 54.86 |
| Market value per share (lowest) | Rupees | 9.55 | 8.73 | 7.67 | 8.61 | 15.01 | 35.76 |
| Market value per share (highest) | Rupees | 15.62 | 17.95 | 19.99 | 22.19 | 55.58 | 84.70 |
| Breakup value of share with revaluation surplus | Rupees | 12.50 | 12.85 | 16.46 | 13.44 | 16.69 | 8.51 |

# Pattern of Shareholding

AS AT JUNE 30, 2013

| NUMBER OF SHAREHOLDERS | SHAREHOLDINGS | | TOTAL NUMBER OF SHARES |
|---|---|---|---|
| | FROM | TO | |
| 438 | 1 | 100 | 9,401 |
| 6,110 | 101 | 500 | 3,030,535 |
| 1,317 | 501 | 1,000 | 1,303,804 |
| 1,461 | 1,001 | 5,000 | 3,972,851 |
| 342 | 5,001 | 10,000 | 2,755,192 |
| 102 | 10,001 | 15,000 | 1,299,972 |
| 69 | 15,001 | 20,000 | 1,272,183 |
| 37 | 20,001 | 25,000 | 882,712 |
| 26 | 25,001 | 30,000 | 733,200 |
| 17 | 30,001 | 35,000 | 569,000 |
| 11 | 35,001 | 40,000 | 422,500 |
| 5 | 40,001 | 45,000 | 211,500 |
| 16 | 45,001 | 50,000 | 791,500 |
| 6 | 50,001 | 55,000 | 318,900 |
| 4 | 55,001 | 60,000 | 239,000 |
| 5 | 60,001 | 65,000 | 315,750 |
| 6 | 65,001 | 70,000 | 405,588 |
| 3 | 70,001 | 75,000 | 215,500 |
| 1 | 75,001 | 80,000 | 76,500 |
| 1 | 80,001 | 85,000 | 82,500 |
| 2 | 85,001 | 90,000 | 174,000 |
| 2 | 90,001 | 95,000 | 188,697 |
| 7 | 95,001 | 100,000 | 700,000 |
| 4 | 100,001 | 105,000 | 406,009 |
| 2 | 105,001 | 110,000 | 219,000 |
| 1 | 120,001 | 125,000 | 125,000 |
| 3 | 135,001 | 140,000 | 412,870 |
| 1 | 145,001 | 150,000 | 148,162 |
| 2 | 150,001 | 155,000 | 304,717 |
| 1 | 190,001 | 195,000 | 195,000 |
| 2 | 195,001 | 200,000 | 400,000 |
| 1 | 205,001 | 210,000 | 210,000 |
| 1 | 225,001 | 230,000 | 230,000 |
| 1 | 245,001 | 250,000 | 250,000 |
| 1 | 275,001 | 280,000 | 280,000 |
| 1 | 315,000 | 320,000 | 315,325 |
| 1 | 320,000 | 325,000 | 324,500 |
| 1 | 375,001 | 380,000 | 380,000 |
| 1 | 390,000 | 395,000 | 393,000 |
| 1 | 395,001 | 400,000 | 400,000 |
| 1 | 415,001 | 420,000 | 416,666 |
| 1 | 495,001 | 500,000 | 499,545 |
| 1 | 1,470,001 | 1,475,000 | 1,472,000 |
| 1 | 1,995,001 | 2,000,000 | 2,000,000 |
| 1 | 2,195,001 | 2,200,000 | 2,197,921 |
| 1 | 2,620,001 | 2,625,000 | 2,624,435 |
| 1 | 3,495,001 | 3,500,000 | 3,500,000 |
| 1 | 17,425,001 | 17,430,000 | 17,425,065 |
| **10,021** | | | **55,100,000** |

# Pattern of Shareholding

AS AT JUNE 30, 2013

| | Number | Share Held | Percentage |
|---|---|---|---|
| **Associated Companies, Undertakings and Related Parties** | | | |
| Sitara Chemical Industries Limited | 1 | 3,500,000 | 6.35 |
| **Directors, CEO and their Spouse and Minor Children** | | | |
| Haji Bashir Ahmed | 1 | 2,500 | 0.00 |
| Mr. Imran Ghafoor | 1 | 17,425,065 | 31.62 |
| Mrs. Sharmeen Imran | 2 | 2,634,435 | 4.78 |
| Mr. Muhammad Adrees | 1 | 35,000 | 0.06 |
| Mr. Muhammad Khalil | 1 | 1,000 | 0.00 |
| Mr. Muhammad Asif Pasha * | 1 | 5,000 | 0.01 |
| Mr. Waleed Asif ** | 1 | 1,000 | 0.00 |
| Banks, Development Finance Institutions, Non-Banking Finance Institutions | 3 | 10,500 | 0.02 |
| Mudarabas and Mutual Funds | 2 | 64,400 | 0.12 |
| Charitable Trusts | 1 | 5,000 | 0.01 |
| Foreign Companies | 1 | 10,000 | 0.02 |
| General Public (Local) | 9,902 | 29,445,833 | 53.44 |
| General Public (Foreign) | 52 | 730,219 | 1.33 |
| Joint Stock Companies | 51 | 1,230,048 | 2.23 |
| | **10,021** | **55,100,000** | **100.00** |

Except the following, there was no trading of shares of the Company by Directors, Executives, Company Secretary, Head of Internal Audit Department, Chief Financial Officer and their spouses or minor children during 2012-2013.

* Mr. Muhammad Asif Pasha (director) sold 115,000 shares during the year
** Mr. Waleed Asif (director) acquired 1,000 qualification shares during the year

Following persons have shareholding of 5% and above in the Company.

| | |
|---|---|
| Mr. Imran Ghafoor (CEO) | 17,425,065 |
| Sitara Chemical Industries Limited | 3,500,000 |

The Board has determined threshold under clause xvi (I) of Code of Corporate Governance 2012 in respect of trading of Company's shares by executives and employees who are drawing annual basic salary of Rs. 2.4 million or more.

None of the employee of the Company has made any trading of shares of the Company who falls beyond the threshold of Rs. 2.4 million annual basic salary.

# Review Report to the Members on Statement of Compliance with the Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Sitara Peroxide Limited (the Company) to comply with the relevant Listing Regulations of the Karachi Stock Exchange 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's personnel and review of various documents prepared by the Company to comply with the Code.

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

Further, Sub-Regulation (x) of Listing Regulation 35 notified by the Karachi Stock Exchange Limited requires the Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail at 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, 2013.

M. Yousuf Adil Saleem

Chartered Accountants

Engagement Partner:
Talat Javed

September 20, 2013
Multan

# Statement of Compliance with the Code of Corporate Governance Sitara Peroxide Limited for the year ended June 30, 2013.

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 35 of listing regulations of Karachi Stock Exchange Limited 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.

The company has applied the principles contained in the CCG in the following manner:

1. The Board of Directors of the Company comprises of seven individuals; five non-executive directors and two executive directors. At present the Board includes;

| Category | Director Name |
|---|---|
| Executive | Mr. Imran Ghafoor |
| Executive | Mr. Muhammad Khalil |
| Non-Executive | Haji Bashir Ahmed |
| Non-Executive | Mr. Muhammad Adrees |
| Non-Executive | Mrs. Sharmeen Imran |
| Non-Executive | Mr. Muhammad Asif Pasha |
| Non-Executive | Mr. Waleed Asif |

The condition of clause I (b) of the CCG in relation to independent director will be fulfilled after election of next Board of Directors of the Company on October 29, 2013.

2. The directors have confirmed that none of them is serving as a director on board of more than seven listed companies, including this Company.

3. All directors of the Company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI. None of the directors is member of stock exchange.

4. A casual vacancy occurring on the Board on October 09, 2012 was filled up by the directors within 90 days.

5. The Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All 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, other executive and non-executive directors, have been taken by the Board/shareholders.

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 arranged appropriate training programs for its directors during the year.

10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit including their remuneration and terms and conditions of employment.

11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.

## Statement of Compliance with the Code of Corporate Governance Sitara Peroxide Limited for the year ended June 30, 2013.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. The Directors, CEO and Executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the CCG

15. The Board has formed an Audit Committee. It comprises of three members; all of them are non-executive directors including Chairman of the Audit Committee.

16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

17. The board has formed an HR and Remuneration Committee. It comprises of three members; chairman of the Committee is an executive director and members are non-executive directors.

18. The Board has set up an effective internal audit function which is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), 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 the ICAP.

20. 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.

21. The "closed period", prior to the announcement of interim/final results, and business decisions, which may materially affect market price of Company's securities, was determined and intimated to directors, employees and Karachi Stock Exchange Limited.

22. Material/price sensitive information has been disseminated among all market participants at once through the Karachi Stock Exchange Limited.

23. We confirm that all other material principles enshrined in the CCG have been complied with.

CHIEF EXECUTIVE OFFICER

DIRECTOR

September 20, 2013
Faisalabad

# Auditors' Report To The Members

We have audited the annexed balance sheet of Sitara Peroxide Limited ("the Company") as at June 30, 2013 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion-

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;

  (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 explainations give to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2013 and of the loss, its cash flows and changes in equity for the year then ended; and

(d) in our opinion no Zakat was deductible at source under Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

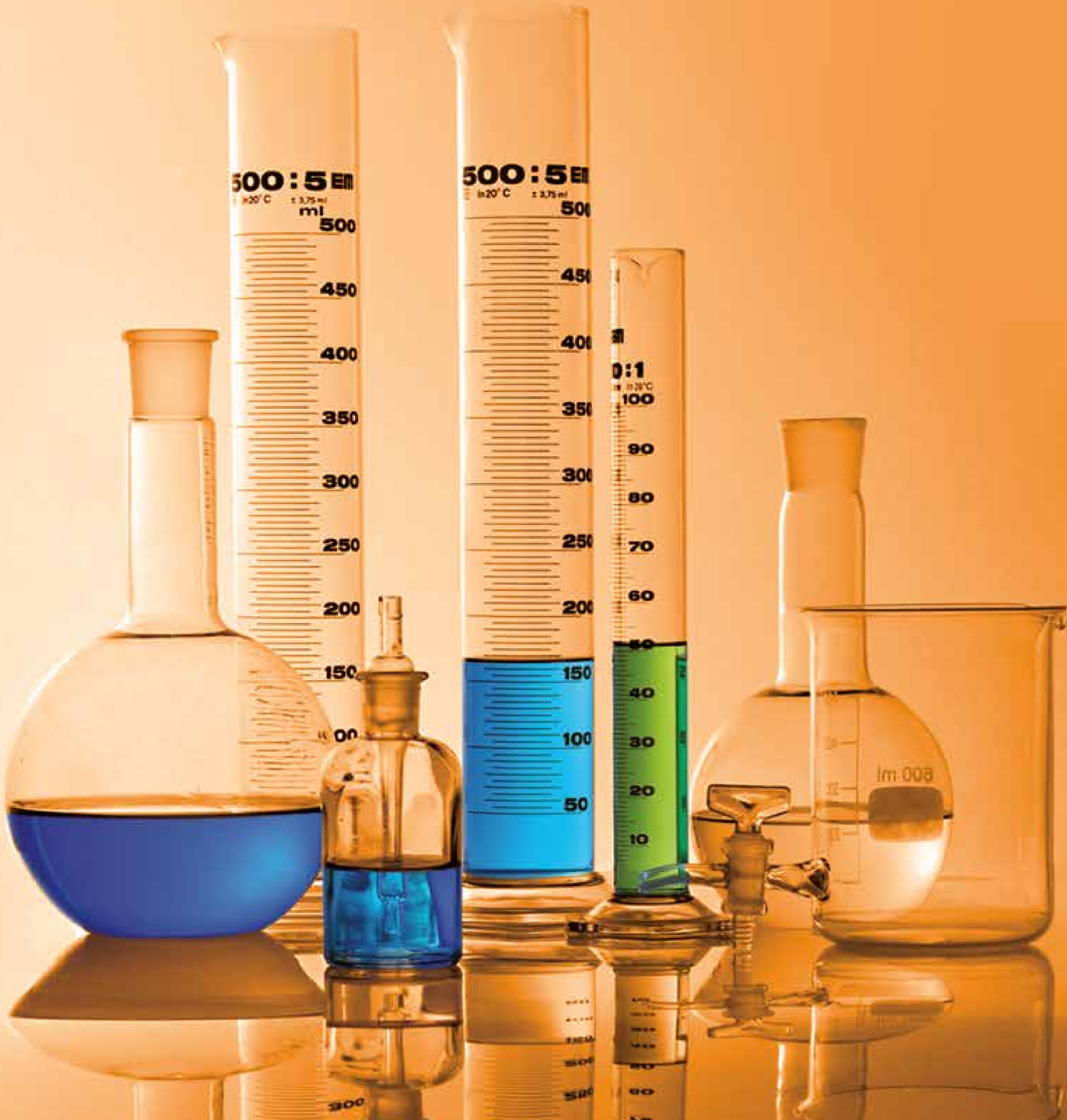
M. Yousuf Adil Saleem

**Chartered Accountants**

Engagement Partner:
**Talat Javed**

Date: September 20, 2013
Multan

# Financial Statements



# BALANCE SHEET

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | |
| **ASSETS** | | | |
| ***Non-current assets*** | | | |
| Property, plant and equipment | 4 | 1,832,861,429 | 2,019,742,050 |
| Long term advances and deposits | 5 | 46,205,000 | 46,005,000 |
| | | 1,879,066,429 | 2,065,747,050 |
| ***Current assets*** | | | |
| Stores, spare parts and loose tools | 6 | 70,054,497 | 64,599,121 |
| Stock in trade | 7 | 438,579,847 | 421,915,901 |
| Trade debts | 8 | 35,557,733 | 6,884,148 |
| Advances | 9 | 62,212,816 | 91,091,075 |
| Deposits and short term prepayments | 10 | 22,792,839 | 28,603,582 |
| Sales tax refundable | 11 | 64,808,319 | 44,826,923 |
| Cash and bank balances | 12 | 15,972,007 | 10,953,312 |
| | | 709,978,058 | 668,874,062 |
| ***Total assets*** | | 2,589,044,487 | 2,734,621,112 |

The annexed notes from 1 to 40 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

# AS AT JUNE 30, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | ------------- Rupees | -------------- |
| **EQUITY AND LIABILITIES** | | | |
| ***Equity*** | | | |
| Share capital | 13 | 551,000,000 | 551,000,000 |
| Accumulated losses | | (289,753,009) | (302,450,712) |
| | | 261,246,991 | 248,549,288 |
| ***Surplus on revaluation of property, plant and equipment*** | 14 | 427,709,455 | 459,635,233 |
| ***Non-current liabilities*** | | | |
| Long term financing | 15 | 987,829,376 | 920,026,318 |
| Liabilities against assets subject to finance lease | 16 | 6,255,827 | 9,059,058 |
| Deferred liabilities | 17 | 27,042,661 | 20,118,084 |
| Deferred Mark-up | 18 | 73,544,266 | - |
| | | 1,094,672,130 | 949,203,460 |
| ***Current liabilities*** | | | |
| Trade and other payables | 19 | 126,249,012 | 146,385,445 |
| Accrued mark-up | 20 | 33,005,516 | 79,301,803 |
| Short term borrowings | 21 | 415,612,810 | 465,082,757 |
| Current portion of long term financing | 15 | 220,291,677 | 372,942,497 |
| Current portion of liabilities against assets subject to finance lease | 16 | 4,540,246 | 3,419,032 |
| Provision for taxation | | 5,716,650 | 10,101,597 |
| | | 805,415,911 | 1,077,233,131 |
| ***Contingencies and commitments*** | 22 | | |
| ***Total equity and liabilities*** | | 2,589,044,487 | 2,734,621,112 |

The annexed notes from 1 to 40 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER DIRECTOR

# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Sales | 23 | 1,110,400,106 | 985,001,331 |
| Cost of sales | 24 | (836,913,167) | (832,488,221) |
| Gross profit | | 273,486,939 | 152,513,110 |
| Other income | 25 | 1,259,339 | 1,943,755 |
| | | 274,746,278 | 154,456,865 |
| Distribution cost | 26 | 38,662,283 | 23,243,195 |
| Administrative expenses | 27 | 54,212,693 | 51,267,171 |
| Other expenses | 28 | 2,777,706 | 3,482,652 |
| Finance cost | 29 | 189,014,321 | 248,576,845 |
| | | (284,667,003) | (326,569,863) |
| Loss before taxation | | (9,920,725) | (172,112,998) |
| Provision for taxation | 30 | (9,307,350) | (26,521,427) |
| Loss for the year | | (19,228,075) | (198,634,425) |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | (19,228,075) | (198,634,425) |
| Earnings per share - basic and diluted | 31 | (0.35) | (3.60) |

The annexed notes from 1 to 40 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

# CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | |
| ***A. CASH FLOWS FROM OPERATING ACTIVITIES*** | | | |
| Loss before taxation | | (9,920,725) | (172,112,998) |
| Adjustments for: | | | |
| Depreciation on property, plant and equipment | | 171,176,778 | 168,195,985 |
| Provision for staff retirement benefits - gratuity | | 4,388,183 | 2,325,449 |
| Finance cost | | 189,014,321 | 248,576,845 |
| Profit on bank deposits | | (1,146,239) | (128,745) |
| | | 353,512,318 | 246,856,536 |
| Working capital changes | | | |
| (Increase) / decrease in current assets | | | |
| Stores, spare parts and loose tools | | (5,455,376) | 4,299,765 |
| Stock in trade | | (16,663,946) | (44,244,313) |
| Trade debts | | (28,673,585) | 17,488,950 |
| Advances | | 38,509,973 | (23,509,105) |
| Deposits and short term prepayments | | 5,810,743 | (2,085,652) |
| Sales tax refundable | | (19,981,396) | 6,683,190 |
| (Decrease) / increase in trade and other payables | | (20,136,433) | 54,386,031 |
| | | (46,590,020) | 13,018,866 |
| Cash generated from operations | | 306,922,298 | 259,875,402 |
| Finance cost paid | | (161,766,342) | (234,214,259) |
| Staff retirement benefits - gratuity paid | | (968,238) | (1,380,740) |
| Income taxes paid - net | | (19,819,379) | (12,523,281) |
| Profit received | | 1,146,239 | 128,745 |
| | | (181,407,720) | (247,989,535) |
| Net cash from operating activities | | 125,514,578 | 11,885,867 |
| ***B. CASH FLOWS FROM INVESTING ACTIVITIES*** | | | |
| (Purchase) / disposal of property, plant and equipment | | (23,386,095) | 19,915,012 |
| Proceeds from advances for capital work in progess | | 40,700,000 | - |
| Increase in long-term deposits | | (200,000) | - |
| Net cash from investing activities | | 17,113,905 | 19,915,012 |
| ***C. CASH FLOWS FROM FINANCING ACTIVITIES*** | | | |
| Proceeds from long term financing | | - | 22,000,000 |
| Repayment of long term financing | | (102,827,762) | (99,600,596) |
| Proceeds from sale and lease-back arrangement | | - | 11,700,000 |
| Lease rentals paid | | (3,292,079) | (811,168) |
| Net cash used in financing activities | | (106,119,841) | (66,711,764) |
| Net increase / (decrease) in cash and cash equivalents (A+B+C) | | 36,508,642 | (34,910,885) |
| Cash and cash equivalents at beginning of the year | | (436,149,445) | (419,218,560) |
| Cash and cash equivalents at end of the year | 32 | (399,640,803) | (454,129,445) |

The annexed notes from 1 to 40 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2013

| | Share capital | Accumulated losses | Total |
|---|---|---|---|
| | ---------- | Rupees | ---------- |
| **Balance as at June 30, 2011** | 551,000,000 | (133,209,710) | 417,790,290 |
| Loss for the year | - | (198,634,425) | (198,634,425) |
| Other comprehensive income | - | - | - |
| Total comprehensive inome | - | (198,634,425) | (198,634,425) |
| Incremental depreciation charged during the year transferred to accumulated losses - net of tax | - | 29,393,423 | 29,393,423 |
| ***Balance as at June 30, 2012*** | 551,000,000 | (302,450,712) | 248,549,288 |
| Loss for the year | - | (19,228,075) | (19,228,075) |
| Other comprehensive income | - | - | - |
| Total comprehensive income | - | (19,228,075) | (19,228,075) |
| Incremental depreciation charged during the year transferred to accumulated losses - net of tax | - | 31,925,778 | 31,925,778 |
| ***Balance as at June 30, 2013*** | 551,000,000 | (289,753,009) | 261,246,991 |

The annexed notes from 1 to 40 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

## 1. GENERAL INFORMATION

**1.1** Sitara Peroxide Limited ("the Company") is limited by shares, incorporated in Pakistan on March 08, 2004 as a public limited company under the Companies Ordinance, 1984. The Company is listed on Karachi Stock Exchange. The registered office of the Company is situated at 601-602, Business Centre, Mumtaz Hassan Road, Karachi in the province of Sindh and the manufacturing facilities are located at 26-KM Sheikhupura Road, Faisalabad in the province of Punjab.

The principal activity of the Company is manufacturing and sale of hydrogen peroxide (H2O2).

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

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ESTIMATES

### 2.1 Statement of compliance

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

### 2.2 Standards, interpretation and amendment adopted during the year

The following amendments to existing standards have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after the following dates:

#### 2.2.1 Standards, amendments to published standards and interpretations that are effective in current year and are relevant to the Company's operations

Following are the amendments that are applicable for accounting periods beginning on or after July 1, 2012:

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items that will never be reclassified. Income tax on items of other comprehensive income is required to be allocated on the same basis i.e. the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments require retrospective application.

#### 2.2.2 New accounting standards, amendments to published standards and interpretations that are not yet effective.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures except for amendments in IAS 19.

| | |
|---|---|
| **Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information** | **Effective from accounting period beginning on or after January 01, 2013** |

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

| | |
|---|---|
| **Amendments to IAS 16 - Property, Plant and Equipment – Classification of servicing equipment** | **Effective from accounting period beginning on or after January 01, 2013** |

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

| | |
|---|---|
| **Amendments to IAS 19 - Employee Benefits** | **Effective from accounting period beginning on or after January 01, 2013** |

It eliminates the corridor approach and recognizes all actuarial gains and losses in other comprehensive income as they occur, immediately recognizes all past service costs and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. Unrecognized loss of Rs. 3.403 million will be retrospectively adjusted in next year.

| | |
|---|---|
| **Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction** | **Effective from accounting period beginning on or after January 01, 2013** |

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

| | |
|---|---|
| **Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities** | **Effective from accounting period beginning on or after January 01, 2014** |

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. It will be necessary to assess the impact to the entity by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

| | |
|---|---|
| **Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities** | **Effective from accounting period beginning on or after January 01, 2013** |

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

| | |
|---|---|
| **Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities** | **Effective from accounting period beginning on or after January 01, 2013** |

These amendments require an entity to disclose information about rights to set-off and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

| | |
|---|---|
| **IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine** | **Effective from accounting period beginning on or after January 01, 2013** |

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity.

**2.2.3 Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:**

| | | |
|---|---|---|
| - | IFRS 1 | First Time Adoption of International Financial Reporting Standards |
| - | IFRS 9 | Financial Instruments |
| - | IFRS 10 | Consolidated Financial Statements |
| - | IFRS 11 | Joint Arrangements |
| - | IFRS 12 | Disclosure of Interests in Other Entities |
| - | IFRS 13 | Fair Value Measurement |
| - | IAS 27 (Revised 2011 | Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11 |
| - | IAS 28 (Revised 2011) | Investments in Associates and Joint Ventures due to non-adoption of IFRS 10 and IFRS 11 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

## 2.3 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under circumstances, and the results of which form the basis for making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

### 2.3.1 Employee benefits

The Company operates an unfunded gratuity scheme (defined benefit plan) for all its permanent employees who have completed minimum qualifying period of service as defined under the respective scheme. Provisions are made annually to cover the obligation under the scheme on the basis of actuarial valuation and are charged to income. The calculation requires assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and discount rate used to derive present value of defined benefit obligation. The assumptions are determined by independent actuaries.

### 2.3.2 Property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular 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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

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

- revaluation of certain property, plant and equipment.
- financial instruments at fair value.
- recognition of certain employee retirement benefits at present value.

The principal accounting policies adopted are set out below :

**3.2 Property, plant and equipment**

Property, plant and equipment except laboratory equipment, office equipment, furniture and fittings, vehicles and capital work-in-progress are stated at revalued amounts less accumulated depreciation and impairment in value, if any. Freehold land is stated at revalued amount. Laboratory equipment, office equipment, furniture and fittings and vehicles are stated at cost less accumulated depreciation and impairment in value, if any. Capital work-in-progress is stated at cost less impairment in value, if any. Cost also includes borrowing cost wherever applicable.

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

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

Subsequent costs are recognized as part of asset, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

Depreciation is charged to profit and loss account applying the straight line method over its estimated useful life at the rates specified in relevant note to the financial statements. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment is available for use while no depreciation is charged for the month in which property, plant and equipment is disposed off.

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

Gains or losses on disposal of assets, if any, are included in the profit and loss account, as and when incurred.

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

**3.3 Assets subject to finance lease**

Assets subject to finance lease are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, over the term of the relevant lease.

**3.4 Stores, spare parts and loose tools**

These are valued at cost less allowance for the obsolete and slow moving items. Cost is determined using moving average method. Items in transit are valued at cost comprising invoice value and other charges incurred thereon.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

**3.5 Stock in trade**

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

| | |
|---|---|
| Raw material | - weighted average cost. |
| Work in process | - average manufacturing cost. |
| Finished goods | - average manufacturing cost. |
| Waste | - net realizable value. |

Average manufacturing cost in relation to work-in-process and finished goods includes prime cost and appropriate production overheads, based on normal capacity.

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

**3.6 Impairment**

The Company assesses at each balance sheet date whether there is any indication that assets may be impaired. If such indication exists, the carrying value of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account, unless asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised recoverable amount but limited to the extent of the carrying value that would have been determined (net of depreciation and amortization) had no impairment loss been charged in the previous periods. Reversal of impairment loss is recognized as income.

**3.7 Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired.

The gain or loss on disposal of financial instruments is recognized immediately in the profit and loss account.

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

**3.8 Trade debts and other receivables**

Trade debts and other receivables are recognized initially at fair value and subsequently measured at amortised cost less provision for impairment, if any. A provision for impairment is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Trade debts and other receivables considered irrecoverable are written off.

**3.9 Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, balances with banks, highly liquid short-term investments that are convertible to known amount of cash and are subject to insignificant risk of change in value and running finance under markup arrangement.

**3.10 Trade and other payables**

Trade and other payables are recognised initially at fair value plus directly attributable cost, if any, and subsequently measured at amortised cost using the effective interest method.

**3.11 Leases**

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as liabilities against assets subject to finance lease. The liabilities are classified as current and long-term depending upon the timing of payment. Lease payments are apportioned between finance charges and reduction of the liabilities against assets subject to finance lease so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit and loss account, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the company's general policy on borrowing costs.

**3.12 Staff retirement benefits - gratuity**

The Company operates an unfunded gratuity scheme (defined benefit plan) for its permanent employees who have completed minimum qualifying period of service as defined under the respective scheme. Provisions are made to cover the obligations under the schemes on the basis of actuarial valuation and are charged to income.

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

Actuarial gains / losses are recognized in accordance with the limits set-out by IAS - 19 "Employee Benefits".

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Details of the scheme are given in relevant note to these financial statements.

The Company provides for compensated absences of its employees on unavailed balance of leaves in the period in which the leaves are earned.

**3.13 Provisions**

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

**3.14 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.
Revenue from local sales is recognized when goods are dispatched to customers.
Revenue from export sales is recognized on shipment of goods to customers.
Profit on bank deposits is accrued on a time proportion basis taking into account the effective rate of return.

**3.15 Borrowings**

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

**3.16 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss account for the year.

**3.17 Taxation**

**Current**
The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credits, rebates and exemptions available, if any, or minimum taxation as per Income Tax Ordinance 2001, whichever is higher. However, for income covered

under final tax regime, taxation is based on applicable tax rates under such regime.

**Deferred**

Deferred tax is provided using the balance sheet liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amount for financial reporting purposes. In this regard, the effects on deferred taxation of the portion of income subject to final tax regime is also considered in accordance with the requirement of "Technical Release - 27" of the Institute of Chartered Accountants of Pakistan.

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

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

Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity, in which case it is included in equity.

**3.18 Foreign currencies**

Transactions in currencies other than Pakistani Rupee are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date except where forward exchange contracts have been entered into for repayment of liabilities in that case, the rates contracted for are used.

Gains and losses arising on retranslation are included in profit or loss for the year.

**3.19 Off-setting of financial assets and financial liabilities**

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

**3.20 Impairment of Financial Assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

### 4. PROPERTY, PLANT AND EQUIPMENT

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Operating fixed assets | 4.1 | 1,826,370,173 | 1,971,872,231 |
| Capital work in progress | 4.6 | 6,491,256 | 47,869,819 |
| | | 1,832,861,429 | 2,019,742,050 |

### 4.1 Operating Fixed assets- at June 30, 2013

| Description | Cost / revalued amount | | | Accumulated depreciation | | | Book value at June 30, 2013 | Rate % |
|---|---|---|---|---|---|---|---|---|
| | At July 01, 2012 | Additions / (disposals) | At June 30, 2013 | At July 01, 2012 | Charge for the year / (on disposals) | At June 30, 2013 | | |
| | Rupees | | | | | | | |
| Land - freehold | 158,761,500 | - | 158,761,500 | - | - | - | 158,761,500 | - |
| Building on freehold land | 186,132,157 | - | 186,132,157 | 35,220,449 | 9,306,608 | 44,527,057 | 141,605,100 | 5 |
| Plant and machinery | 2,063,293,604 | 22,732,927 | 2,086,026,531 | 529,106,502 | 138,594,531 | 667,701,033 | 1,418,325,498 | 6.67 |
| Electric installations | 167,101,517 | 424,655 | 167,526,172 | 69,093,729 | 16,735,572 | 85,829,301 | 81,696,871 | 10 |
| Laboratory equipment | 3,432,720 | - | 3,432,720 | 1,277,417 | 343,272 | 1,620,689 | 1,812,031 | 10 |
| Factory equipment | 12,404,398 | - | 12,404,398 | 5,231,110 | 1,240,440 | 6,471,550 | 5,932,848 | 10 |
| Office equipment | 4,431,151 | 154,243 | 4,585,394 | 1,244,631 | 450,285 | 1,694,916 | 2,890,478 | 10 |
| Furniture and fittings | 3,352,572 | 74,270 | 3,426,842 | 1,225,130 | 339,342 | 1,564,472 | 1,862,370 | 10 |
| Vehicles | 6,689,326 | - | 6,689,326 | 3,677,746 | 1,337,865 | 5,015,611 | 1,673,715 | 20 |
| | 2,605,598,945 | 23,386,095 | 2,628,985,040 | 646,076,714 | 168,347,915 | 814,424,629 | 1,814,560,411 | |
| ***Leased*** | | | | | | | | |
| Vehicle | 13,000,000 | 2,288,625 | 15,288,625 | 650,000 | 2,828,863 | 3,478,863 | 11,809,762 | 20 |
| | 2,618,598,945 | 25,674,720 | 2,644,273,665 | 646,726,714 | 171,176,778 | 817,903,492 | 1,826,370,173 | |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

**Operating assets - as at June 30, 2012**

| Description | Cost / revalued amount | | | Accumulated depreciation | | | Book value at June 30, 2012 | Rate % |
|---|---|---|---|---|---|---|---|---|
| | At July 01, 2011 | Additions / (disposals) | At June 30, 2012 | At July 01, 2011 | Charge for the year / (on disposals) | At June 30, 2012 | | |
| | Rupees | | | | | | | |
| Land - freehold | 158,761,500 | - | 158,761,500 | - | - | - | 158,761,500 | - |
| Building on freehold land | 184,170,393 | 1,961,764 | 186,132,157 | 26,003,755 | 9,216,694 | 35,220,449 | 150,911,708 | 5 |
| Plant and machinery | 2,047,774,577 | 15,519,027 | 2,063,293,604 | 391,930,483 | 137,176,019 | 529,106,502 | 1,534,187,102 | 6.67 |
| Electric installations | 165,630,054 | 1,471,463 | 167,101,517 | 52,470,609 | 16,623,120 | 69,093,729 | 98,007,788 | 10 |
| Laboratory equipment | 3,432,720 | - | 3,432,720 | 934,145 | 343,272 | 1,277,417 | 2,155,303 | 10 |
| Factory equipment | 12,404,398 | - | 12,404,398 | 3,990,670 | 1,240,440 | 5,231,110 | 7,173,288 | 10 |
| Office equipment | 4,222,937 | 208,214 | 4,431,151 | 812,695 | 431,936 | 1,244,631 | 3,186,520 | 10 |
| Furniture and fittings | 3,231,624 | 120,948 | 3,352,572 | 899,404 | 325,726 | 1,225,130 | 2,127,442 | 10 |
| Vehicles | 5,835,931 | 14,818,094 | 6,689,326 | 2,453,667 | 2,188,778 | 3,677,746 | 3,011,580 | 20 |
| | | (13,964,699) | | | (964,699) | | | |
| | 2,585,464,134 | 34,099,510 | 2,605,598,945 | 479,495,428 | 167,545,985 | 646,076,714 | 1,959,522,231 | |
| | | (13,964,699) | | | (964,699) | | | |
| Leased | | | | | | | | |
| Vehicle | - | 13,000,000 | 13,000,000 | - | 650,000 | 650,000 | 12,350,000 | |
| | 2,585,464,134 | 47,099,510 | 2,618,598,945 | 479,495,428 | 168,195,985 | 646,726,714 | 1,971,872,231 | |
| | | (13,964,699) | | | (964,699) | | | |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

### 4.1.1 Depreciation charge for the year has been allocated as follows:

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | |
| Cost of sales | 24 | 166,850,707 | 165,217,044 |
| Distribution expenses | 26 | 743,490 | 730,703 |
| Administrative expenses | 27 | 3,582,581 | 2,248,238 |
| | | 171,176,778 | 168,195,985 |

### 4.2 Disposal of operating fixed assets

| Description | Cost | Accumulated depreciation | Book value | Sale proceed | Gain/(loss) on disposal | Mode of disposal | Particulars of buyer |
|---|---|---|---|---|---|---|---|
| | Rupees | | | | | | |
| **2013** | - | - | - | - | - | | |
| 2012 | 13,964,699 | 964,699 | 13,000,000 | 13,000,000 | - | Sale and leaseback | Standard Chartered Leasing Limited |

**4.3** In 2009, revaluation of owned operating fixed assets except laboratory equipment, office equipment, furniture and fixtures and vehicles was carried out by M/S Maricon Consultants (Pvt) Limited, independent valuers not connected with the Company and was incorporated in the financial statements for the year ended June 30, 2009. This revaluation resulted in surplus of Rs. 767,246,303. Forced sale value is used as basis for revaluation of these property, plant and equipment. Anterior to fixing forced sale value allowance of 15% has been considered for all relevant aspects including location, size, environment, marketability, in the area and the economic / political conditions of the country.

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

**4.5** Had there been no revaluation the cost, accumulated depreciation and book value of revalued assets would have been as under:

| | Cost | Accumulated depreciation | Book value |
|---|---|---|---|
| | | Rupees | |
| Freehold land | 65,112,852 | - | 65,112,852 |
| Building on freehold land | 161,737,333 | 39,648,093 | 122,089,240 |
| Plant and machinery | 1,457,817,109 | 500,094,761 | 957,722,348 |
| Electric installation | 148,522,447 | 78,227,809 | 70,294,638 |
| Factory equipment | 10,414,714 | 5,675,678 | 4,739,036 |
| **2013** | 1,843,604,455 | 623,646,341 | 1,219,958,114 |
| **2012** | 1,820,446,873 | 504,191,901 | 1,316,254,972 |

| | 2013 | 2012 |
|---|---|---|
| | Rupees | |
| **4.6 Capital work in progress** | | |
| Advances for fixed assets | 6,491,256 | 47,191,256 |
| Plant and machinery | - | 678,563 |
| | 6,491,256 | 47,869,819 |

**4.7** Plant and machinery includes two Gas Gensets held jointly by the Company on behalf of and in trust for the investor under the musharaka arrangements entered into by the Company. The musharaka facility has been fully paid during the current financial year. Cost and book value of assets held under these musharaka arrangements are as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| **Description** | **Cost** | **Book value** | **Cost** | **Book value** |
| Gas Gensets | 86,609,865 | 65,427,979 | 86,609,865 | 71,204,857 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | |
| **5. LONG TERM ADVANCES AND DEPOSITS** | | | |
| Advance for purchase of land | 5.1 | 41,000,000 | 41,000,000 |
| Security deposit for electricity connection | | 3,640,000 | 3,640,000 |
| Lease key money | | 1,500,000 | 1,300,000 |
| Security deposit to Central Depository Company of Pakistan Limited | | 50,000 | 50,000 |
| Other deposit | | 15,000 | 15,000 |
| | | 46,205,000 | 46,005,000 |

**5.1** This amount represents advance given for purchase of land of 104 Kanals and 1 Marla situated at 197 RB Faisalabad.

| | 2013 | 2012 |
|---|---|---|
| | Rupees | |
| **6. STORES, SPARE PARTS AND LOOSE TOOLS** | | |
| Stores | 28,546,973 | 27,657,610 |
| Spare parts | 41,313,044 | 36,859,250 |
| Loose tools | 194,480 | 82,261 |
| | 70,054,497 | 64,599,121 |
| **7. STOCK IN TRADE** | | |
| Raw material | 62,887,474 | 40,122,742 |
| Work-in-process | 341,025,388 | 319,414,175 |
| Finished goods | 11,545,648 | 25,103,496 |
| Packing material | 23,121,337 | 37,275,488 |
| | 438,579,847 | 421,915,901 |
| **8. TRADE DEBTS** | | |
| Considered good | | |
| From related party | 3,727,980 | 5,955,000 |
| Others - local | 31,829,753 | 929,148 |
| | 35,557,733 | 6,884,148 |

**8.1** Aging analysis of the amount due from related parties is as follow:

| | Up to 1 months | 1 to 3 months | More than 3 months | As at June 30, 2013 | As at June 30, 2012 |
|---|---|---|---|---|---|
| Sitara Textile Industries Limited | 1,326,000 | 1,326,000 | 1,075,980 | 3,727,980 | 5,955,000 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | |
| **9. ADVANCES** | | | |
| Considered good | | | |
| Advances to: | | | |
| Employees against salary - secured | | 670,168 | 995,871 |
| Employees for expenses - unsecured | | 1,358,256 | 1,400,510 |
| Suppliers - unsecured (Local) | | 20,084,101 | 58,734,685 |
| Suppliers - unsecured (Foreign) | | 1,610,940 | 1,102,372 |
| Advance income tax | | 38,489,351 | 28,857,637 |
| | | 62,212,816 | 91,091,075 |
| **10. DEPOSITS AND SHORT TERM PREPAYMENTS** | | | |
| Nazir of the Honorable Sindh High Court | 10.1 | 18,809,059 | 18,809,059 |
| Others | | 3,983,780 | 9,794,523 |
| | | 22,792,839 | 28,603,582 |

**10.1** This represents the amount deposited with Nazir of the Honorable Sindh High Court as required by the said court to file writ petition against the recovery notice issued by the Customs Department to deposit Government dues amounting to Rs. 18,809,059 involved in the clearance of import shipments.

### 11. SALES TAX REFUNDABLE

This represents accumulated difference of input tax on purchases and out put tax on sales.

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | |
| **12. CASH AND BANK BALANCES** | | | |
| Cash in hand | | 723,692 | 266,871 |
| Cash at banks - Current Accounts | | 2,703,513 | 182,717 |
| Cash at banks - Saving Accounts | 12.1 | 12,544,802 | 10,503,724 |
| | | 15,972,007 | 10,953,312 |

**12.1** Effective mark-up rate in respect of saving accounts ranges from 7.25% per annum to 9.50% per annum (2012: 6% per annum to 9.50% per annum)

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

## 13. SHARE CAPITAL

| 2013 | 2012 | | 2013 | 2012 |
|---|---|---|---|---|
| Number of shares | | | Rupees | |
| | | **Authorised** | | |
| 60,000,000 | 60,000,000 | Ordinary shares of Rs. 10 each | 600,000,000 | 600,000,000 |
| | | **Issued, subscribed and paid-up** | | |
| 55,100,000 | 55,100,000 | Ordinary shares of Rs. 10 each fully paid in cash | 551,000,000 | 551,000,000 |

**13.1** There is no movement in issued, subscribed and paid up capital during the year.

**13.2** The holder of ordinary shares are entitled to receive dividend as declared from time to time and are entitled to vote at meetings of the Company. All shares rank equally with regard to Company's residual assets.

**13.3** The Company has no reserved shares for issue under option and sales contracts.

**13.4** 3,500,000 (2012: 3,500,000) ordinary shares of Rs. 10 each are held by Sitara Chemical Industries Limited, an associated undertaking.

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | |
| **14. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT** | | | |
| Balance at beginning of the year | | 459,635,233 | 489,028,656 |
| Transfer to accumulated losses in respect of incremental depreciation charged during the year - net of tax | 14.1 | 31,925,778 | 29,393,423 |
| Balance at end of the year | | 427,709,455 | 459,635,233 |
| **14.1** Incremental depreciation charged during the year transferred to accumulated losses | | 45,220,651 | 45,220,648 |
| Less : tax liability relating to incremental depreciation | | 13,294,873 | 15,827,225 |
| | | 31,925,778 | 29,393,423 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| **15. LONG TERM FINANCING** | | | |
| **Secured - from financial institutions** | | | |
| **Under diminishing musharaka arrangements** | | | |
| Balance at beginning of year | | 1,243,421,053 | 1,312,500,000 |
| Less: paid during the year | | 64,500,000 | 69,078,947 |
| Less: current portion | | 213,091,677 | 345,394,735 |
| Balance at the end of year | 15.1 | 965,829,376 | 898,026,318 |
| **Under diminishing musharaka arrangement** | | | |
| Balance at beginning of year | | 20,347,762 | 50,869,411 |
| Less: paid during the year | | 20,347,762 | 30,521,649 |
| Less: current portion | | - | 20,347,762 |
| Balance at the end of year | 15.2 | - | - |
| **Unsecured** | | | |
| **From other parties** | | | |
| Balance at beginning of year | | 29,200,000 | 7,200,000 |
| Add: obtained during the year | | - | 22,000,000 |
| Less: current portion | | 7,200,000 | 7,200,000 |
| Balance at the end of year | 15.3 | 22,000,000 | 22,000,000 |
| | | 987,829,376 | 920,026,318 |

**15.1** During 2008 the Company had issued privately placed diminishing musharaka based SUKUK certificates arranged by consortium of financial institutions through trustee, amounting to Rs. 1,400 million. Due to financial difficulties, the Company was unable to comply with the prevailing repayment arrangements and negotiated with the investors to reschedule the repayment arrangements for the outstanding amount of Rs. 1,243 million payable under this arrangement. Accordingly, on November 19, 2012 the Company entered into second supplemental agreement which is effective from February 19, 2012. The major terms and conditions of the second supplemental agreement are given below:

**Profit Rate:**
According to the revised terms of the loan agreement, profit rate is 1 Month KIBOR + 1% p.a. (KIBOR to be reset on monthly basis).

**Rental / Profit Payment:**
Each year, rental / profit payments will be made for six months at the rate of 1 Month KIBOR. The 1% spread for the first six months and the rental / profit for the remaining six months shall be deferred to be paid in 12 equal installments after repayment of entire principal.

**Principal Repayment:**
The principal will be repaid in seven years period in 80 monthly installments starting from July 19, 2012.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

**Call Option:**
The Company has a call option in accordance with terms and conditions of the entire amount or partial amount in the event it has free cash flows available. The Company shall use at least 70% of its free cash flows, if available, in exercising the call option.

**Security:**
First Joint Pari Passu charge on the fixed assets of the company through equitable mortgage of land & building and Hypothecation charge on plant & machinery with a margin of 25%. First exclusive charge over fixed assets of the company for PKR 1,866.667 million, pledge over 10 million shares of the Company in the name of sponsors, and personal guarantees of Chief Executive Officer and three directors of the company.

**Other conditions:**
The Company is required not to declare any dividend during the entire tenor of the SUKUK issue.

**15.1.1** Effective rate of profit for the year is ranging from 10.23% to 13.05% (2012: 13.65% to 14.29%) per annum.

**15.2** This facility was obtained during the year 2009 from a financial institution to finance the purchase of two Gas Gensets. This facility carried mark-up at the rate of three months KIBOR plus 1.75% per annum with floor of 10% per annum and cap of 22% per annum, payable quarterly. Tenor of this facility was three years, including grace period of one year. The principal was payable in eight equal quarterly installments commencing from September 2010. This facility was secured against the specific charge and joint ownership of musharaka assets as given in the Note 4.7.

**15.3** This represents unsecured and interest free loans from various parties and are not payable within next twelve months of the balance sheet date.

| | 2013 | 2012 |
|---|---|---|
| | Rupees | |
| **16. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE** | | |
| Present value of minimum lease payments | 10,796,073 | 12,478,090 |
| Less: current portion | (4,540,246) | (3,419,032) |
| | 6,255,827 | 9,059,058 |

These represent vehicles acquired under finance lease arrangements. Rentals are payable monthly. The leases are priced at interest rate of six month KIBOR plus a spread of 3% per annum (2012: six month KIBOR plus a spread of 3% per annum). Under the terms of the agreement, taxes, repairs and insurance costs in respect of assets subject to finance lease are borne by the Company.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| The reconciliation between minimum lease payments and their present value is as under: | | | |
| Minimum lease payments | | | |
| Not later than one year | | 5,451,324 | 4,867,008 |
| Later than one year but not later than five years | | 6,583,553 | 10,222,848 |
| | | 12,034,877 | 15,089,856 |
| Finance cost allocated to future periods | | (1,238,804) | (2,611,766) |
| | | 10,796,073 | 12,478,090 |
| Current portion | | (4,540,246) | (3,419,032) |
| | | 6,255,827 | 9,059,058 |
| Present value of minimum lease payments | | | |
| Not later than one year | | 5,097,925 | 3,419,029 |
| Later than one year but not later than five years | | 5,698,148 | 9,059,061 |
| | | 10,796,073 | 12,478,090 |

### 17. DEFERRED LIABILITIES

| | Note | 2013 | 2012 |
|---|---|---|---|
| Staff retirement benefits - gratuity | 17.1 | 7,204,420 | 3,784,475 |
| Deferred taxation | 17.2 | 19,838,241 | 16,333,609 |
| | | 27,042,661 | 20,118,084 |

#### 17.1 Staff retirement benefits - gratuity

The calculation requires assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and discount rate used to derive present value of defined benefit obligations. The assumptions are determined by independent actuaries. The results of the actuarial valuation carried out using "Projected Unit Credit Method" as at June 30, 2013 are as follows:

| | 2013 Rupees | 2012 Rupees |
|---|---|---|
| **Movement in net liability recognized in the balance sheet:** | | |
| Balance at beginning of the year | 3,784,475 | 2,839,766 |
| Add: expense charged to profit and loss account | 4,388,183 | 2,325,449 |
| Less: paid during the year | (968,238) | (1,380,740) |
| Balance at end of the year | 7,204,420 | 3,784,475 |
| **Balance sheet reconciliation as at balance sheet date:** | | |
| Present value of defined benefit obligation | 10,607,791 | 6,700,607 |
| Less: unrecognized actuarial losses | (3,403,371) | (2,916,132) |
| Liability recognized in the balance sheet | 7,204,420 | 3,784,475 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

| | 2013 | 2012 |
|---|---|---|
| | Rupees | |
| **Charge for the year:** | | |
| Current service cost | 3,161,908 | 1,706,149 |
| Interest cost | 777,061 | 519,423 |
| Actuarial losses recognized | 449,214 | 99,877 |
| Expense recognized in the profit and loss account | 4,388,183 | 2,325,449 |
| **Movement in the present value of defined benefit obligations:** | | |
| Present value of defined benefit obligations as at July 01, 2012 | 6,700,607 | 3,710,166 |
| Current service cost | 3,161,908 | 1,706,149 |
| Interest cost | 777,061 | 519,423 |
| Benefits paid during the year | (968,238) | (1,380,740) |
| Actuarial loss on obligation | 936,453 | 2,145,609 |
| Present value of defined benefit obligations as at June 30, 2013 | 10,607,791 | 6,700,607 |
| **Movement in unrecognized actuarial losses :** | | |
| Balance as at July 01, 2012 | (2,916,132) | (870,400) |
| Actuarial loss on obligation | (936,453) | (2,145,609) |
| Actuarial loss recognized during the year | 449,214 | 99,877 |
| Balance as of June 30, 2013 | (3,403,371) | (2,916,132) |
| **Principal actuarial assumptions:** | | |
| Discount rate - per annum | 11.50% | 12.50% |
| Expected rate of growth per annum in future salaries | 11.50% | 12.50% |
| Average expected remaining working life time of employees | 5 years | 5 years |

**17.1.1 History of present value of deferred employee benefits**

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| As at June 30 | Rupees | | | | |
| Present value of defined benefit obligations | 10,607,791 | 6,700,607 | 3,710,166 | 3,481,431 | 1,358,944 |
| Experience adjustment: Loss on obligations | (3,403,371) | (2,916,132) | (870,400) | (1,062,533) | (426,548) |

### 17.2 Deferred taxation

| | 2013 | 2012 |
|---|---|---|
| | Rupees | |
| The balance of deferred taxation is in respect of following temporary differences: | | |
| Depreciation on property, plant and equipment | 269,949,876 | 295,449,023 |
| Provision for employee benefits - unfunded | (2,463,299) | (1,284,829) |
| Liabilities against assets subject to finance lease | 346,596 | (43,486) |
| Tax credits u/s 113c | - | (26,551,542) |
| Unused tax losses | (406,649,180) | (423,184,678) |
| | (138,816,007) | (155,615,512) |
| Deferred tax liability on account of surplus arose on revaluation of property, plant and equipment during the year | 158,654,248 | 171,949,121 |
| | 19,838,241 | 16,333,609 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

### 17.2.1 Movement in temporary differences during the year

| | Balance as at July 2011 | Recognised in Profit and loss during the year | Recognised in Equity during the year | Balance as at June 30, 2012 | Recognised in Profit and loss during the year | Recognised in Equity during the year | Balance as at June 30, 2013 |
|---|---|---|---|---|---|---|---|
| | Rupees | | | | | | |
| ***Deferred tax credits*** | | | | | | | |
| Depreciation on property, plant and equipment | 301,823,288 | (6,374,265) | - | 295,449,023 | (25,499,147) | - | 269,949,876 |
| Liabilities against assets subject to finance lease | - | (43,486) | - | (43,486) | 390,082 | - | 346,596 |
| Surplus on revaluation of property plant and equipment | 187,776,346 | (15,827,225) | - | 171,949,121 | (13,294,873) | - | 158,654,248 |
| | 489,599,634 | (22,244,976) | - | 467,354,658 | (38,403,938) | - | 428,950,720 |
| ***Deferred tax debits*** | | | | | | | |
| Unused tax losses | (488,648,482) | 65,463,804 | - | (423,184,678) | 16,535,498 | - | (406,649,180) |
| Tax credits | - | (26,551,542) | - | (26,551,542) | 26,551,542 | - | - |
| Provision for employee benefits - unfunded | (951,152) | (333,677) | - | (1,284,829) | (1,178,470) | - | (2,463,299) |
| | (489,599,634) | 38,578,585 | - | (451,021,049) | 41,908,570 | - | (409,112,479) |
| | - | 16,333,609 | - | 16,333,609 | 3,504,632 | - | 19,838,241 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

### 18. DEFERRED MARK-UP

This represents deferred mark-up payable on diminishing musharaka arrangement as mentioned in note 15.1.

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | |
| **19. TRADE AND OTHER PAYABLES** | | | |
| Creditors | 19.1 | 83,828,499 | 57,084,378 |
| Advances from customers | | 2,229,943 | 46,604,210 |
| Payable to associates | 19.2 | 13,851,395 | 14,046,560 |
| Accrued liabilities | | 25,934,796 | 28,202,674 |
| Retention money | | 278,778 | 376,866 |
| Withholding tax | | 115,601 | 60,757 |
| Others | | 10,000 | 10,000 |
| | | 126,249,012 | 146,385,445 |

**19.1** This includes Rs. 8,247,749 (2012: Rs. 5,147,981) payable to Sitara Chemical Industries Limited (associated undertaking) and Rs. 45,692,048 (2012: 23,676,249) payable to Sitara Spinning Mills Limited (associated undertaking) in ordinary course of business.

**19.2** This includes Rs. 4,351,395 (2012: Rs. 3,217,019) payable to Sitara Chemical Industries Limited and Rs. 9,500,000 (2012: Rs. 10,829,541) payable to Sitara Spinning Mills Limited against common expenses share.

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | |
| **20. ACCRUED MARK-UP** | | | |
| Mark-up accrued on: | | | |
| Long-term financing | | 23,593,619 | 65,864,600 |
| Short-term borrowings | | 9,411,897 | 13,437,203 |
| | | 33,005,516 | 79,301,803 |
| **21. SHORT TERM BORROWINGS** | | | |
| Banking companies - secured | 21.2 | 364,151,998 | 406,858,635 |
| Overdrawn balances - unsecured | | 29,249,868 | 20,244,122 |
| Others - unsecured | 21.4 | 6,000,000 | 20,000,000 |
| From Chief Executive Officer | 21.5 | 16,210,944 | 17,980,000 |
| | | 415,612,810 | 465,082,757 |

**21.1** The aggregate unavailed running finance facilities amount to Rs. 46.848 million (2012: Rs.16.141 million).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

**21.2** These fund based facilities have been obtained from various banks for working capital requirements, under mark-up arrangements against aggregate sanctioned limit of Rs. 411 million (2012: Rs. 423 million). These facilities carry mark-up at the rates ranging from three months KIBOR plus 1.75% to three months KIBOR plus 4.00% (2012: three months KIBOR plus 1.75% to three months KIBOR plus 3.50%) per annum on daily product payable quarterly. These facilities are expiring on various dates by December 31, 2013.

The aggregate short term borrowings facilities are secured against:

**First pari passu charge**
Rs. 601 million (2012: Rs. 601 million) over current assets of the Company.

**Equitable mortgage charge**
a) Rs. 34 million (2012: Rs. 34 million) over the fixed assets of the Company;
b) Rs. 103.97 million (2012: Rs. 103.97 million) over the assets of Sitara Spinning Mills Limited (related party);
c) Rs. 45.90 million (2012: Rs. 45.90 million) over the personal assets of the Chief Executive Officer.

**Ranking charge**
a) Rs. 100 million (2012: Rs.100 million) over present and future current assets of the Company.
b) Rs. 300 million (2012: Rs. 300 million) over present and future fixed assets of the Company.

**Personal guarantees**
Personal guarantees from Chief Executive Officer and a director of the Company.

**21.3** Facilities available for opening letter of credit amounting to Rs. 250 million (2012: Rs. 250 million) of which facilities amounting to Rs. 41.614 million (2012: Rs. 83.22 million ) were utilized at the year end. These facilities are secured against lien on shipping documents. These facilities areexpiring on various dates by December 31, 2013.

**21.4** This represents interest free loan obtained from a party and is repayable on demand.

**21.5** This represents a loan obtained from Chief Executive Officer of the Company and is unsecured, carrying interest rate of 11.91% (2012: Nil) and is payable on demand.

| | 2013 | 2012 |
|---|---|---|
| | Rupees | |
| **22. CONTINGENCIES AND COMMITMENTS** | | |
| **22.1. Contingencies** | | |
| **22.1.1** Bank guarantees issued by Faysal Bank Limited in favour of Sui Northern Gas Pipelines Limited for supply of gas | 53,538,000 | 53,538,000 |

**22.1.2 Workers' welfare fund**

Under the Workers' Welfare Fund Ordinance (the Ordinance), 1971, Workers Welfare Fund (WWF) was levied at 2% of the assessed income excluding income falling under the Final Tax Regime (FTR). Through Finance Act, 2008 an amendment was made in section 4(5) of the WWF Ordinance, 1971 (the Ordinance) whereby WWF liability is applicable at 2% of the higher of the profit before taxation as per the accounts or declared income as per the return.

In the year 2011, the Lahore High Court has struck down the aforementioned amendments to the WWF Ordinance. However Sindh High Court through its order dated March 1, 2013 held that amendments made in WWF laws through money bills were constitutional. As there is a conflict of views in the judgments of two High Courts on the subject, we understand matter will ultimately be decided in Supreme Court. Legal counsel of the Company has advised to follow the judgment of Lahore High Court and based on this management has not recorded the provision of WWF. The aggregate un recognised amount of WWF as at June 30, 2013 amount to Rs. 5.988 million (June 30, 2012: 4.289 million).

**22.1.3** Ministry of Petroleum and Natural Resources, Government of Pakistan, had imposed Gas Infrastructure Development Cess (GIDC) in pursuance of section 3 of Gas Infrastructure Development Cess Act, 2011. The Company has filed writ before Single Bench of Honorable Islamabad High Court against levy of GIDC in which interim Injunction was granted to the Company against writ petition afterwards the writ petition was accepted by the Single Bench of the Honorable Islamabad High Court and passed the judgment in favour of the Company by declaring GIDC illegal and unconstitutional. However, in July 2013, SNGPL challenged the decision of the Single Bench of Honorable Islamabad High Court, Islamabad through Intra Court Appeal before Division Bench of the Islamabad High Court. The Division Bench granted stay against the recovery of GIDC and the petition of the Company with other connected matters is still pending adjudication before the Division Bench of Islamabad High Court. Legal counsel of the Company has advised to follow the judgment of Islamabad High Court and based on this management has not recorded the provision of GIDC. The aggregate un-recognised amount of GIDC as at June 30, 2013 amount to Rs. 8.223 million (June 30, 2012: Rs Nil).

| | 2013 | 2012 |
|---|---|---|
| | Rupees | |
| **22.2 Commitments** | | |
| Irrevocable letters of credit | 41,614,000 | 83,220,000 |
| **23. SALES** | | |
| Local sales | 1,148,008,705 | 980,313,986 |
| Less: Commission and discount | (46,194,143) | (29,644,414) |
| | 1,101,814,562 | 950,669,572 |
| Export sales | 8,585,544 | 34,331,759 |
| | 1,110,400,106 | 985,001,331 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

## 24. COST OF SALES

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Raw material consumed | 24.1 | 140,602,139 | 267,744,358 |
| Fuel and power | | 252,474,249 | 266,427,795 |
| Packing material consumed | | 187,883,164 | 195,756,651 |
| Stores, spare parts and loose tools consumed | | 17,034,279 | 17,285,793 |
| Salaries, wages and benefits | 24.2 | 46,215,379 | 34,491,047 |
| Repairs and maintenance | | 23,837,864 | 17,348,069 |
| Insurance | | 6,034,146 | 6,067,838 |
| Depreciation | 4.1.1 | 166,850,707 | 165,217,044 |
| Traveling and conveyance | | 290,136 | 867,557 |
| Vehicle running and maintenance | | 1,965,085 | 1,203,227 |
| Entertainment | | 1,082,754 | 715,167 |
| | | 844,269,902 | 973,124,546 |
| Work-in-process | | | |
| Balance at beginning of the year | | 319,414,175 | 191,576,142 |
| Balance at end of the year | 7 | 341,025,388 | 319,414,175 |
| | | (21,611,213) | (127,838,033) |
| Cost of goods manufactured | | 822,658,689 | 845,286,513 |
| Finished goods | | | |
| Balance at beginning of the year | | 25,103,496 | 7,402,932 |
| Balance at end of the year | 7 | (11,545,648) | (25,103,496) |
| | | 13,557,848 | (17,700,564) |
| Cost of goods sold - own manufactured products | | 836,216,537 | 827,585,949 |
| - purchased goods | | 696,630 | 4,902,272 |
| | | 836,913,167 | 832,488,221 |

### 24.1 Raw material consumed

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Balance at beginning of the year | | 40,122,742 | 140,458,064 |
| Purchases | | 163,366,871 | 167,409,036 |
| | | 203,489,613 | 307,867,100 |
| Less: Balance at end of the year | 7 | (62,887,474) | (40,122,742) |
| | | 140,602,139 | 267,744,358 |

**24.2** Salaries, wages and benefits include Rs. 3,510,546 (2012: Rs. 1,860,359) in respect of employee benefits.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | |
| **25. OTHER INCOME** | | | |
| Income from financial assets | | | |
| Profit on bank deposits | | 1,146,239 | 128,745 |
| Income from assets other than financial assets | | | |
| Scrap sales | | 113,100 | 1,815,010 |
| | | 1,259,339 | 1,943,755 |
| **26. DISTRIBUTION COST** | | | |
| Salaries and benefits | | 3,540,920 | 3,180,387 |
| Printing and stationery | | 56,512 | 52,473 |
| Traveling and conveyance | | 407,486 | 567,473 |
| Vehicle running and maintenance | | 535,561 | 441,788 |
| Entertainment | | 84,042 | 35,733 |
| Freight and octroi | | 32,981,529 | 17,202,524 |
| Depreciation | 4.1.1 | 743,490 | 730,703 |
| Other expenses | | 312,743 | 1,032,114 |
| | | 38,662,283 | 23,243,195 |
| **27. ADMINISTRATIVE EXPENSES** | | | |
| Salaries and benefits | 27.1 | 30,090,424 | 26,366,194 |
| Director's remuneration | 33 | 4,975,123 | 5,012,609 |
| Printing and stationery | | 1,520,028 | 1,339,381 |
| Insurance | | 517,042 | 337,359 |
| Repairs and maintenance | | 492,777 | 202,809 |
| Traveling and conveyance | | 3,978,571 | 4,473,590 |
| Rent, rates and taxes | | 126,206 | 144,400 |
| Vehicle running and maintenance | | 2,128,859 | 1,317,628 |
| Entertainment | | 93,201 | 470,114 |
| Telephone and postage | | 990,452 | 902,679 |
| Advertisement | | 260,000 | 406,720 |
| Fees, subscription and periodicals | | 1,870,886 | 2,950,149 |
| Charity and donations | 27.2 | - | 1,866,463 |
| Legal and professional charges | | 705,740 | 734,073 |
| Auditors' remuneration | 27.3 | 1,100,000 | 900,000 |
| Depreciation | 4.1.1 | 3,582,581 | 2,248,238 |
| Others | | 1,780,803 | 1,594,765 |
| | | 54,212,693 | 51,267,171 |

**27.1** Salaries and benefits include Rs. 877,637 (2012: Rs. 465,090) in respect of staff retirement benefits.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

**27.2** It includes Rs. Nil (2012: Rs. 1,866,463) donated to Aziz Fatima Trust (AFT), Faisalabad which is primarily running a charitable hospital for needy and poor people. Mr. Haji Bashir Ahmed, Mr. Imran Ghafoor and Mr. Muhammad Adrees, the directors of the Company are also the Trustees of the AFT.

| | 2013 | 2012 |
|---|---|---|
| | Rupees | |
| **27.3 Auditors' remuneration** | | |
| Statutory audit fee | 700,000 | 500,000 |
| Half yearly review | 200,000 | 200,000 |
| Compliance report on Code of Corporate Governance | 125,000 | 125,000 |
| Out of pocket expenses | 75,000 | 75,000 |
| | 1,100,000 | 900,000 |
| **28. OTHER EXPENSES** | | |
| Exchange loss | 2,777,706 | 3,482,652 |
| | 2,777,706 | 3,482,652 |
| **29. FINANCE COST** | | |
| Mark-up on: | | |
| Long term financing | 133,230,946 | 182,193,385 |
| Short term borrowings | 49,730,498 | 61,548,588 |
| Liabilities against assets subject to finance lease | 1,400,364 | 324,258 |
| Bank charges and commission | 4,652,513 | 4,510,614 |
| | 189,014,321 | 248,576,845 |
| **30. PROVISION FOR TAXATION** | | |
| Current | | |
| - For the year | 5,802,718 | 10,101,597 |
| - Prior period | - | 86,221 |
| Deferred | 3,504,632 | 16,333,609 |
| | 9,307,350 | 26,521,427 |

**30.1** Numerical reconciliation between the average tax rate and applicable tax rate has not been presented in these financial statements as the Company is chargeable to minimum tax under Section 113 of the Income Tax Ordinance, 2001.

**30.2** Assessments of the Company for the tax years 2004 to 2012 are deemed to have been completed under section 120(1) of the Income Tax Ordinance, 2001. However, the tax year 2007 has been selected for audit under section 177 of the Income Tax Ordinance, 2001. Audit proceedings for the said tax year are still in progress.

## 31. EARNING PER SHARE - BASIC AND DILUTED

The calculation of basic earning per share is based on the following data:

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | |
| Loss for the year | Rupees | (19,228,075) | (198,634,425) |
| Weighted average number of ordinary shares | Number | 55,100,000 | 55,100,000 |
| Loss per share - basic | Rupees | (0.35) | (3.60) |

No figure for diluted loss per share has been presented as the Company has not issued any instrument carrying options which would have an impact on earnings per share when exercised.

## 32. CASH AND CASH EQUIVALENTS

| | Note | 2013 | 2012 |
|---|---|---|---|
| Cash and bank balances | 12 | 15,972,007 | 10,953,312 |
| Short term borrowings | 21 | (415,612,810) | (465,082,757) |
| | | (399,640,803) | (454,129,445) |

## 33. REMUNERATION TO CHIEF EXECUTIVE OFFICER AND EXECUTIVES

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

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Chief Executive Officer | Director | Executives | Chief Executive Officer | Director | Executives |
| Remuneration | 3,256,191 | 975,000 | 7,106,808 | 3,256,191 | - | 2,988,404 |
| House rent | 1,465,284 | - | 2,132,040 | 1,465,284 | - | 896,520 |
| Utilities allowance | 125,081 | - | 710,664 | 162,567 | - | 298,820 |
| Medical allowance | 128,567 | - | 710,688 | 128,567 | - | 37,400 |
| Special allowance | - | - | 91,800 | - | - | 298,856 |
| | 4,975,123 | 975,000 | 10,752,000 | 5,012,609 | - | 4,520,000 |
| Number of persons | 1 | 1 | 9 | 1 | - | 4 |

**33.1** Chief Executive Officer and three executives are also provided with Company maintained car.

**33.2** No meeting fee was paid to the directors and Chief Executive Officer of the Company.

## 34. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of associated undertakings, directors, key management personnel and post employment benefit plans. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables and remuneration of Chief Executive Officer and executives is disclosed in note 33 to these financial statements. Other significant transactions with related parties are as follows:

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

| | | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | |
| **Nature of Relationship** | **Nature of transaction** | | |
| Associated undertakings | | | |
| | Organizational expenses | 554,411 | 1,539,490 |
| | Purchases | 28,219,517 | 28,678,276 |
| | Sales | 15,975,000 | 16,205,000 |
| Key management personnel | | | |
| | Loan obtained from Chief Executive Officer | 23,000,000 | 17,980,000 |
| | Repayment of loan to Chief Executive Officer | 24,769,056 | - |
| | Remuneration and other benefits | 16,836,495 | 9,532,609 |
| Employee benefit plan | Paid during the year | 968,238 | 1,380,740 |

**34.1** All transactions with related parties have been carried out at commercial terms.

| | 2013 Tons | 2012 Tons |
|---|---|---|

## 35. PLANT CAPACITY AND ACTUAL PRODUCTION

| | 2013 Tons | 2012 Tons |
|---|---|---|
| Production capacity | 30,000 | 30,000 |
| Actual production | 22,731 | 22,035 |

**35.1** The average production during the year was 76% (2012: 73%). The main reason was the energy crises in the country which had adversely affected the industrial growth.

## 36. NUMBER OF EMPLOYEES

The total average number of employees during year ended June 30, 2013 and 2012 are as follows:

| | Number of Employees | |
|---|---|---|
| Average number of employees | 254 | 247 |
| Total number of employees | 252 | 257 |

## 37. FINANCIAL RISK MANAGEMENT

The Company has exposures to the following risks from its use of financial instruments:
Credit risk
Liquidity risk
Market risk

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

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

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

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

### 37.1 Credit risk and concentration of credit risk

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

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

The Company does not hold collateral as security.

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

**Counterparties**

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

**Trade debts**

Trade debts are essentially due from local customers and foreign customers against sale of hydrogen peroxide and the Company does not expect these counterparties to fail to meet their obligations. Sales to the Company's customers are made on specific terms. Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria. Credit quality of the customer is assessed based on an extensive credit rating. Outstanding customer receivables are regularly monitored and shipments to the foreign customers are generally covered by letters of credit or other form of credit insurance.

**Banks**

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

**Exposure to credit risk**

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

| | 2013 | 2012 |
|---|---|---|
| | ------- Rupees ------- | |
| **Financial assets** | | |
| Trade debts | 35,557,733 | 6,884,148 |
| Advances | 670,168 | 995,871 |
| Bank balances | 15,248,315 | 10,686,441 |
| | 51,476,216 | 18,566,460 |
| The trade debts at the balance sheet date are unsecured. | | |
| The aging of trade debts at the balance sheet date is as follows: | | |
| Past due 1 to 30 days | 2,138,229 | 2,977,500 |
| Past due 30 to 150 days | 33,419,504 | 3,906,300 |
| Past due 150 days | - | 348 |
| | 35,557,733 | 6,884,148 |

**Impairment losses**

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

**Cash at bank**

Total bank balance of Rs. 15.248 million (2012: Rs. 10.686 million) placed with banks have a short term credit rating of at least A1+ (2012: A1+).

**37.2 Liquidity risk management**

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

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 20.1 to these financial statements is a listing of additional undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

**37.2.1 Liquidity and interest risk table**

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

**Financial liabilities in accordance with their contractual maturities are presented below:**

| | 2013 | | | | |
|---|---|---|---|---|---|
| | **Carrying amount** | **Contractual cash flows** | **Less then 1 year** | **Between 1 to 5 years** | **Above 5 years** |
| | **Rupees** | | | | |
| Long term financing | 1,208,121,053 | 1,208,121,053 | 220,291,677 | 833,373,349 | 154,456,027 |
| Liabilities against assets subject to finance lease | 10,796,073 | 10,796,073 | 4,540,246 | 6,255,827 | - |
| Staff retirement benefits - gratuity | 7,204,420 | 7,204,420 | - | 7,204,420 | - |
| Trade and other payables | 123,903,468 | 123,903,468 | 123,903,468 | - | - |
| Accrued mark-up | 33,005,516 | 33,005,516 | 33,005,516 | - | - |
| Running finance | 415,612,810 | 415,612,810 | 415,612,810 | - | - |
| | 1,798,643,340 | 1,798,643,340 | 797,353,717 | 846,833,596 | 154,456,027 |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | **Carrying amount** | **Contractual cash flows** | **Less then 1 year** | **Between 1 to 5 years** | **Above 5 years** |
| | **Rupees** | | | | |
| Long term financing | 1,310,948,815 | 1,310,948,815 | 500,167,182 | 741,702,686 | 69,078,947 |
| Liabilities against assets subject to finance lease | 12,478,090 | 12,478,090 | 3,419,032 | 9,059,058 | - |
| Staff retirement benefits - gratuity | 3,784,475 | 3,784,475 | - | 3,784,475 | - |
| Trade and other payables | 99,720,478 | 99,720,478 | 99,720,478 | - | - |
| Accrued mark-up | 79,301,803 | 79,301,803 | 79,301,803 | - | - |
| Running finance | 447,102,757 | 447,102,757 | 447,102,757 | - | - |
| | 1,953,336,418 | 1,953,336,418 | 1,129,711,252 | 754,546,219 | 69,078,947 |

### 37.3 Market risk

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

### 37.3.1 Foreign currency risk management

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

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

The potential currency exposures are discussed below;

**Transactional exposure in respect of non functional currency monetary items**

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

**Transactional exposure in respect of non functional currency expenditure and revenues**

Certain operating and capital expenditure are incurred by the Company in currencies other than the functional currency. Certain sales revenue is earned in currencies other than the functional currency of the Company. These currency risks are managed as a part of overall risk management strategy. The Company does not enter into forward exchange contracts.

**Exposure to currency risk**

The Company is exposed to currency risk on import of raw materials, stores and spares and export of goods mainly denominated in US Dollar. The Company's exposure to foreign currency risk for US Dollar is as follows based on notional amounts:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Rupees** | **US$** | **Rupees** | **US$** |
| Short Term Financing | 40,062,887 | 403,453 | 39,181,438 | 407,080 |
| Balance sheet exposure | 40,062,887 | 403,453 | 39,181,438 | 407,080 |

| | Average rate | | Reporting date mid spot rate | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | Rupees | | | |
| The following significant exchange rates have been applied: | | | | |
| Rupee to US $ | 95.20 | 91.10 | 99.30 | 96.25 |

**Sensitivity analysis**

A 10 percent weakening of the Pak Rupee against the USD at June 30, 2013 would have increased loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for June 30, 2012.

| | **2013** | **2012** |
|---|---|---|
| **Effect on loss for the year:** | **Rupees** | **Rupees** |
| **US $ to Rupee** | | |
| Increase in loss for the year | 4,006,288 | 3,918,145 |

A 10 percent strengthening of the Pak Rupee against the US dollar at June 30, 2013 would have had the equal but opposite effect on foreign currency to the amounts shown above, on the basis that all other variables remain constant.

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

**37.3.2 Interest rate risk**

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

At the reporting date, the profit, interest and mark-up rate profile of the Company's significant financial assets and liabilities is as follows:

**Fixed rate financial instruments**

At the reporting date, the Company does not have any fixed rate interest bearing financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

| | 2013 Percentage | 2012 Percentage | 2013 Rupees | 2012 Rupees |
|---|---|---|---|---|
| Variable rate financial instruments | | | | |
| Financial liabilities | | | | |
| Long term financing | 12.05% to 10.23% | 13.65% to 14.39% | 1,208,121,053 | 1,310,948,815 |
| Short term finance | 11.28 % to 15.97% | 13.67 % to 17.28% | 33,005,516 | 406,858,635 |
| | | | 1,241,126,569 | 1,717,807,450 |

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in profit / mark-up / interest rates at the balance sheet 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 the year 2012.

| | Increase Rupees | Decrease Rupees |
|---|---|---|
| **At June 30, 2013** | | |
| Cash flow sensitivity - variable rate financial liabilities | 12,411,266 | (12,411,266) |
| **At June 30, 2012** | | |
| Cash flow sensitivity - variable rate financial liabilities | (17,178,075) | 17,178,075 |

The sensitivity analysis prepared is not necessarily indicative of the effects on loss for the year and liabilities of the Company.

### 37.4 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction other than in forced or liquidation sale. The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

### 37.5 CAPITAL RISK MANAGEMENT

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

The Company manages its capital structure which comprises capital and reserves by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders, appropriation of amounts to reserves or/and issue new shares. Gearing ratio of the Company is as follows:

| | 2013 | 2012 |
|---|---|---|
| | Rupees | |
| Total borrowings | 1,634,529,936 | 1,770,529,662 |
| Less: Cash and bank balance | 15,972,007 | 10,953,312 |
| Net debt | 1,618,557,929 | 1,759,576,350 |
| Total Equity | 688,956,446 | 708,184,521 |
| Total capital | 2,307,514,375 | 2,467,760,871 |
| Gearing ratio | 70% | 71% |

For the purpose of calculating the gearing ratio, the amount of total borrowings has been determined by including the effect of running finance under mark-up arrangement.

## 38. RE-CLASSIFICATION AND RE-ARRANGEMENTS

Corresponding figures have been re-classified and re-arranged wherever necessary to reflect more appropriate presentation of events and transactions for the purpose of comparison. Significant re-arrangements are as follows:

| Nature | From | To | Reason | Rupees |
|---|---|---|---|---|
| Loan from chief executive officer | Long term financing | Short term borrowings | For better presentation | 17,980,000 |

The above re-arrangements/re-classifications do not affect retained earnings for the year ended June 30, 2012, therefore, the balance sheet for the year ended June 30, 2011 has not been prepared.

## 39. DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been approved by the Board of Directors of the Company and authorized for issue on September 20, 2013.

## 40. GENERAL

Figures have been rounded off to the nearest Rupee.

CHIEF EXECUTIVE OFFICER

DIRECTOR

# FORM OF PROXY

| IMPORTANT |
|---|
| This form of Proxy, in order to be effective, must be deposited duly completed, at the Company's Share Registrar's Office at M/s. THK Associates (Pvt) Limited Ground Floor, State Life Building No. 3, Dr. Ziauddin Ahmed Road, Karachi not less than 48 hours before the time of holding the meeting.<br><br>A Proxy must be a member of the Company. Signature should agree with the specimen registered with the company. |
| Please quote Registered Folio Number/CDC Account Number |
| |

I/We ____________________________________________

of ____________________________________________

being a member of Sitara Peroxide Limited entitled to vote and holder of ____________________

ordinary shares, hereby appoint ____________________________________________

of ____________________________________________

who is also a member of the Company, as my/our proxy in my/our absence to attend and vote for me/us on my/our behalf at the 10th Annual General Meeting of the Company to be held at Dr. Abdul Qadeer Khan Auditorium, Haji Abdullah Haroon Muslim Gymkhana, Near Shaheen Complex, Aiwan-e-sadr Road, Karachi on Tuesday, October 29, 2013 at 6:00 pm and at any adjournment thereof.

As witness my/our hand this ____________________ day of ____________________ 2013

Signed by the said ____________________________________________ in the presence

of ____________________

| Affix Rs. 5/-<br><br>Revenue Stamp which must be cancelled either by signature over it or by some other means |
|---|

____________________

(Member's Signature)

Place ____________________

____________________

(Witness's Signature)

Date ____________________

Sitara Peroxide
Limited

AFFIX
CORRECT
POSTAGE

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