

DYNEA PAKISTAN LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

1. THE COMPANY AND ITS OPERATIONS

Dyne Pakistan Limited (the Company) was incorporated on June 20, 1982, in Pakistan as a public limited company under the Companies Act, 1913 (now the Companies Ordinance, 1984) and is listed on the Karachi and Lahore stock exchanges in Pakistan. It is engaged in the manufacture and sale of formaldehyde, urea/melamine formaldehyde and aminoplast compound. The registered office of the Company is situated at 1st Floor, Siddiqsons Tower, 3-Jinnah Co-operative Housing Society, Block-7/8, Sharea Faisal, Karachi, Pakistan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

Accounting standards not yet effective

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretations.

Standard or Interpretation	Effective date (accounting periods beginning on or after)
IAS 1 – Presentation of Financial Statements (Revised)	January 01, 2009
IAS 23 – Borrowings Costs (Revised)	January 01, 2009
IFRS 7 - Financial Instruments: Disclosures	July 01, 2008
IFRS 8 - Operating Segments	January 01, 2009

These standards are not expected to have a material impact on the Company's financial statements other than an increase in disclosures in certain cases.

The other standards, amendments and interpretations effective from the accounting periods beginning on or after July 1, 2008 are not stated here as these are considered not to be relevant or to have any significant effect on the Company's operations.

2.2 Change in accounting estimate

During the year effective July 01, 2007, the Company has changed its basis of charging depreciation. Previously, the Company had a practice of charging full year's depreciation on additions whereas no depreciation on assets disposed off during the year. From the current year, depreciation on additions is charged from the month of addition and in case of deletion up to the month of disposal.

The above revision would result in a more accurate allocation of depreciation expense to the accounting year in which the depreciable assets are utilized by the Company. This change has been accounted for as a change in accounting estimate. Had there been no change in the accounting estimate, the depreciation charge for the year would have been higher by Rs. 1.927 million and the profit for the year would have been lower by Rs.1.899 million.

2.3 Accounting convention

These financial statements have been prepared under the historical cost convention.

2.4 Significant accounting judgments and estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In the process of applying the accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

- (a) determining the residual values and useful lives of property, plant and equipment (Note 2.5);
- (b) Impairment of inventories / adjustment of inventories to their Net Realizable Value (Note 2.7);
- (c) Provision for impairments of trade debts and other receivables (Note 2.8); and
- (d) recognition of taxation and deferred tax (Note 2.18).

2.5 Property, plant and equipment

Owned

These are stated at cost less accumulated depreciation and impairment in value, if any, except for freehold land which is stated at cost. Depreciation is charged to income using the reducing balance method, other than freehold land which is determined to have an indefinite life, at the rates specified in note 3 to the financial statements. From the current year, depreciation on additions is charged from the month of addition and in case of deletion up to the month of disposal.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains and losses on disposal of fixed assets are taken to profit and loss account currently.

Leasehold land is amortised in equal installments over the lease period.

Leased

Assets held under finance leases are capitalized at the lower of present value of the minimum lease payments at the inception of the lease term and the fair value of leased assets. The related obligations under finance lease less finance charges allocated to future periods are shown as liabilities. Finance cost is calculated at the rate implicit in the lease and is charged to profit and loss account. Depreciation is charged to income on the same basis as for owned assets.

2.6 Stores and spares

These are valued at the lower of cost and net realizable value (NRV). Cost is determined on weighted average basis. Stores and spares are regularly reviewed by the management and obsolete items if any, are brought down to their NRV.

2.7 Stock-in-trade

These are stated at the lower of NRV and cost determined as follows:

Raw and packing materials	- Weighted average cost.
Finished goods	- Cost of direct materials and labour plus attributable overheads.
Goods in transit and stock in bonded warehouse	- Invoice price plus other charges paid thereon.

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

2.8 Trade debts and other receivables

Trade debts originated by the Company are recognized and carried at original invoice amount less provision for impairment. Other receivables are carried at cost less provision for impairment. Provision for impairment is based on management's assessment of customers outstanding, and credit worthiness. Bad debts are written off as and when identified.

2.9 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand, bank balances and bank deposits net of running finances. The cash and cash equivalents are readily available known amount of cash and are therefore subject to insignificant risk of changes in value.

2.10 Staff retirement benefits

Defined contribution plan

The Company operates a recognised provident fund for its permanent employees. Equal monthly contributions are made to the fund by the Company and the employees in accordance with the rules of the scheme. The Company has no further obligation once the contributions have been paid. The contributions made by the Company are recognised as employee benefit expense when they are due.

2.11 Compensated absences

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

2.12 Trade and other payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

2.13 Dividends and appropriation to reserves

Dividend and appropriation to the reserves are recognized in the period in which these are approved.

2.14 Revenue recognition

Sales are recorded when goods are dispatched to customers.
Profit on bank deposits is recognized on an accrual basis.

2.15 Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the rates of exchange prevailing on the date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into rupees at the rates of exchange prevailing at the balance sheet date.

Exchange differences are taken to the profit and loss account.

2.16 Operating leases

Lease payments under operating leases are recognized as an expense in the profit and loss account on a straight line basis over the respective lease term.

2.17 Borrowing costs

Borrowing costs are recognized as expense, in the period in which these are incurred.

2.18 Taxation

2.18.1 Current

Provision for taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any, or one half percent of the turnover, whichever is higher.

2.18.2 Deferred

Deferred tax is provided using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of un used tax assets and un used tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduce to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to 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 tax rates (and tax loss) that have been enacted or substantively enacted at the balance sheet date.

2.19 Financial instruments

All the financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights that comprise the financial assets are realised, expired or surrendered. Financial liabilities are derecognised when they are extinguished - that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to the profit and loss account.

2.20 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to recognize the asset and settle the liability simultaneously. Corresponding income and expenditure is also netted off and reported on a net basis in the profit and loss account.

2.21 Related party transactions

All transactions with related parties are priced on an arm's length basis. Prices for these transactions are determined on the basis of admissible valuation methods.

2.22 Impairment of assets

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. Impairment losses are recognized in the profit and loss account.

2.23 Provisions

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

2.24 Segment reporting

A segment is a distinguishable component within a Company that is engaged in providing products and under a common control environment (business segment), or in providing products within a particular economic environment (geographical segments), which is subject to risks and returns that are different from those of other segments.

2.25 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistani Rupees, which is the Company's functional and presentation currency.

3. PROPERTY, PLANT AND EQUIPMENT

3.1 The following is a statement of operating assets:

	2008									
	COST					ACCUMULATED DEPRECIATION				
	As at July 01, 2007	Additions/transfers	Disposals	As at June 30, 2008	Rate	As at July 01, 2007	Charge for the year	Disposals	As at June 30, 2008	Written down value as at June 30, 2008
Rupees					%	Rupees				
Owned										
Freehold land	659,961	-	-	659,961	-	-	-	-	-	659,961
Leasehold land	4,164,884	-	-	4,164,884	99 years	430,020	42,062	-	472,082	3,692,802
Buildings on freehold land	20,307,457	-	-	20,307,457	10	13,086,810	722,064	-	13,808,874	6,498,583
Buildings on leasehold land	38,373,911	-	-	38,373,911	10	19,813,271	1,856,060	-	21,669,331	16,704,580
Plant and machinery	297,869,321	3,648,557	(3,987,271)	297,530,607	20	197,468,913	19,360,020	(3,063,814)	213,765,119	83,765,488
Electrical installations	16,400,087	-	(61,654)	16,338,433	20	11,928,242	893,354	(55,778)	12,765,818	3,572,615
Furniture and fixtures	2,444,190	-	(2,444,190)	-	20	1,957,535	16,231	(1,973,766)	-	-
Office equipments	2,015,989	523,317	(392,790)	2,146,516	20	1,142,293	212,749	(320,671)	1,034,371	1,112,145
Computers and accessories	2,600,084	307,500	(243,700)	2,663,884	50	2,050,373	387,289	(168,759)	2,268,903	394,981
Vehicles	9,165,570	3,168,090	(1,590,718)	10,742,942	20	3,479,762	1,317,498	(1,030,680)	3,766,580	6,976,362
Storage tanks	3,156,035	-	-	3,156,035	20	1,919,679	247,271	-	2,166,950	989,085
	<u>397,157,489</u>	<u>7,647,464</u>	<u>(8,720,323)</u>	<u>396,084,630</u>		<u>253,276,898</u>	<u>25,054,598</u>	<u>(6,613,468)</u>	<u>271,718,028</u>	<u>124,366,602</u>
Leased assets										
Motor vehicles	2,906,000	-	-	2,906,000	20	895,014	402,198	-	1,297,212	1,608,788
Plant and machinery	-	6,550,000	-	6,550,000	20	-	218,333	-	218,333	6,331,667
	<u>2,906,000</u>	<u>6,550,000</u>	<u>-</u>	<u>9,456,000</u>		<u>895,014</u>	<u>620,531</u>	<u>-</u>	<u>1,515,545</u>	<u>7,940,455</u>
	<u>400,063,489</u>	<u>14,197,464</u>	<u>(8,720,323)</u>	<u>405,540,630</u>		<u>254,171,912</u>	<u>25,675,129</u>	<u>(6,613,468)</u>	<u>273,233,573</u>	<u>132,307,057</u>

Dynea Pakistan Limited

	2007					2007				
	COST			Rate	ACCUMULATED DEPRECIATION				Written down value as at June 30, 2007	
	As at July 01, 2006	Additions/transfers	Disposals		As at June 30, 2007	As at July 01, 2006	Charge for the year	Disposals		As at June 30, 2007
	Rupees			%	Rupees				Rupees	
Owned										
Freehold land	659,961	-	-	659,961	-	-	-	-	-	659,961
Leasehold land	4,164,884	-	-	4,164,884	99 years	387,958	42,062	-	430,020	3,734,864
Buildings on freehold land	20,307,457	-	-	20,307,457	10	12,284,516	802,294	-	13,086,810	7,220,647
Buildings on leasehold land	38,373,911	-	-	38,373,911	10	17,750,979	2,062,292	-	19,813,271	18,560,640
Plant and machinery	293,730,411	4,138,910	-	297,869,321	20	173,249,740	24,219,173	-	197,468,913	100,400,408
Electrical installations	16,400,087	-	-	16,400,087	20	10,810,277	1,117,965	-	11,928,242	4,471,845
Furniture and fixtures	2,444,190	-	-	2,444,190	20	1,835,878	121,657	-	1,957,535	486,655
Office equipments	1,852,349	163,640	-	2,015,989	20	923,867	218,426	-	1,142,293	873,696
Computers and accessories	2,164,324	435,760	-	2,600,084	50	1,500,678	549,695	-	2,050,373	549,711
Vehicles	8,159,164	2,681,246	(1,674,840)	9,165,570	20	2,538,007	1,421,453	(479,698)	3,479,762	5,685,808
Storage tanks	3,156,035	-	-	3,156,035	20	1,610,590	309,089	-	1,919,679	1,236,356
	<u>391,412,773</u>	<u>7,419,556</u>	<u>(1,674,840)</u>	<u>397,157,489</u>		<u>222,892,490</u>	<u>30,864,106</u>	<u>(479,698)</u>	<u>253,276,898</u>	<u>143,880,591</u>
Leased assets										
Motor vehicles	2,906,000	-	-	2,906,000	20	392,267	502,747	-	895,014	2,010,986
	<u>394,318,773</u>	<u>7,419,556</u>	<u>(1,674,840)</u>	<u>400,063,489</u>		<u>223,284,757</u>	<u>31,366,853</u>	<u>(479,698)</u>	<u>254,171,912</u>	<u>145,891,577</u>

3.2 The following property, plant and equipment were disposed off during the year:

	Original cost	Accumulated depreciation	Written Down Value	Sale proceeds	Gain/ (loss) (Note 24)	Mode of disposal	Particulars of buyers
	Rupees						
Computers	196,000	122,291	73,709	196,000	122,291	Negotiation	Shabbir Tiles & Ceramics Limited – related party
Vehicle - Toyota Corolla ABS-818	594,500	508,324	86,176	100,000	13,824	Negotiation	Mrs. Zarina Hussain, Karachi
Vehicle - Toyota Corolla ADC-806	626,718	290,128	336,590	390,000	53,410	Company Scheme	Mr. Syed Ali, Karachi
Vehicle - Suzuki Mehran ACX-607	250,000	174,907	75,093	170,000	94,907	Tender	Mr. Muhammad Shaman Nasir, Karachi
Motor Cycle KAV-3031	48,500	33,654	14,846	12,000	(2,846)	Negotiation	Mr. Ghulam Mehdi, Employee
Motor Cycle KDD-0534	71,000	23,668	47,332	63,000	15,668	Insurance Claim	Received from Habib Insurance Co. Ltd. – related party
Various items having book value of less than Rs. 50,000/-	6,933,605	5,460,496	1,473,109	200,000	(1,273,109)	Negotiation	Various parties
	<u>8,720,323</u>	<u>6,613,468</u>	<u>2,106,855</u>	<u>1,131,000</u>	<u>(975,855)</u>		

3.3 Depreciation charge for the year has been allocated as follows:

Cost of sales	19	24,357,710	29,765,780
Distribution costs	20	293,282	350,254
Administrative expenses	21	1,024,137	1,250,819
		<u>25,675,129</u>	<u>31,366,853</u>

4. LONG-TERM LOANS AND ADVANCES

Unsecured - considered good

Due from employees	4.1	164,983	231,484
Less: Current portion shown under current assets	9	112,246	111,041
		<u>52,737</u>	<u>120,443</u>

4.1 Loans were granted for purchase of property, motor vehicles and for miscellaneous purposes to the employees of the Company repayable in three years and carry mark up @ Nil (2007:8%) per annum. These loans are secured against the retirement benefits of the employees.

Dynea Pakistan Limited

	Note	2 0 0 8 Rupees	2 0 0 7 Rupees
5. LONG-TERM DEPOSITS			
Deposits			
- Water and Power Development Authority		823,200	823,200
- Lasbela Industrial Estate Development Authority		212,870	212,870
- Against bank guarantees		-	981,583
- Others		<u>297,750</u>	<u>158,750</u>
		<u>1,333,820</u>	<u>2,176,403</u>
6. STORES AND SPARES			
Stores		1,775,231	1,750,269
Spares		<u>5,326,300</u>	<u>5,250,807</u>
		<u>7,101,531</u>	<u>7,001,076</u>
7. STOCK-IN-TRADE			
Raw material:			
In hand		93,161,812	93,196,524
In bonded warehouse		41,449,794	35,541,964
In transit		79,652,673	13,070,651
		<u>214,264,279</u>	141,809,139
Packing material		<u>3,115,991</u>	2,053,881
		<u>217,380,270</u>	143,863,020
Finished goods		<u>15,732,060</u>	19,955,947
		<u>233,112,330</u>	<u>163,818,967</u>
8. TRADE DEBTS – unsecured			
Considered good	8.1	<u>207,221,326</u>	206,882,035
Considered doubtful		<u>39,940,920</u>	39,695,509
		<u>247,162,246</u>	246,577,544
Less: Provision for impairment	8.2	<u>39,940,920</u>	39,695,509
		<u>207,221,326</u>	<u>206,882,035</u>
8.1 Includes amount of Rs. 20.46 million (2007: Rs. 11.65 million) due from Thal Limited – a related party.			
		2 0 0 8	2 0 0 7
		Rupees	Rupees
8.2 Reconciliation of provision for impairment of trade debts			
Opening provision		39,695,509	31,375,883
Charge for the year		20,000,000	11,632,053
Less: Reversal during the year		<u>(19,754,589)</u>	<u>(3,312,427)</u>
Balance at the end of the year		<u>39,940,920</u>	<u>39,695,509</u>

Dynea Pakistan Limited

		2 0 0 8 Rupees		2 0 0 7 Rupees
9. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES				
Loans and advances – unsecured, considered good				
Current portion of long term loans – employees	4	112,246		111,041
Advances				
- Suppliers and contractors		12,926,279	-	5,736,373
- Employees		2,327,753	-	1,874,336
		15,254,032	-	7,610,709
		15,366,278	-	7,721,750
Deposits and prepayments				
Margin against letters of credit		37,586,140	-	-
Prepayments		516,797	-	571,884
		38,102,937	-	571,884
Other receivables		-	-	333,315
		53,469,215	-	8,626,949
10. CASH AND BANK BALANCES				
Cash in hand		645,967	-	273,402
Cash at banks - current accounts		17,047,021	-	9,100,318
		17,692,988	-	9,373,720
11. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL				
		Number of ordinary shares of Rs. 5/- each		
		2 0 0 8	2 0 0 7	
		8,316,000	8,316,000	Fully paid in cash
		41,580,000	41,580,000	41,580,000
		10,556,413	10,556,413	Issued as fully paid bonus shares
		52,782,065	52,782,065	52,782,065
		18,872,413	18,872,413	94,362,065
		94,362,065	94,362,065	94,362,065
The shares held by related parties as at June 30, 2008 were 7,221,917 (2007: 7,221,917) ordinary shares of Rs. 5/- each.				
12. RESERVES				
Revenue Reserve				
General reserve		101,000,000	-	101,000,000
Unappropriated profit		141,005,546	-	101,160,735
		242,005,546	-	202,160,735

13. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	Minimum Lease Payments	Present Value of MLP	Minimum Lease Payments	Present Value of MLP
	2008		2007	
Not later than one year	3,058,740	2,307,165	700,416	488,897
Later than one year but not later than five years	5,443,107	4,862,094	1,628,566	1,404,641
Total minimum lease payments	8,501,847	7,169,259	2,328,982	1,893,538
Less : Financial charges allocated to future periods	1,332,588	-	435,444	-
Present value of minimum lease payments	7,169,259	7,169,259	1,893,538	1,893,538
Less: Current maturity shown under current liabilities	2,307,165	2,307,165	488,897	488,897
	4,862,094	4,862,094	1,404,641	1,404,641

This represents finance leases entered into with a modaraba and a banking company for vehicles and plant and machinery respectively. The balance of the liability is payable by May 2011 in monthly installments. The above lease contracts contain a bargain purchase option. Monthly lease payments include finance charges ranging from three months' KIBOR+1 percent to six months' KIBOR+3 percent per annum (2007: KIBOR+2 percent to KIBOR+2.75 percent per annum), which is used as a discounting factor. The liability is partly secured by deposits of Rs. 0.946 million (2007: Rs. 0.291 million). There are no financial restrictions in the lease agreements.

	Note	2008 Rupees	2007 Rupees
14. DEFERRED TAXATION			
Deferred taxation comprises temporary differences relating to:			
- Accelerated tax depreciation		16,981,262	19,610,706
- Liabilities against assets subject to finance lease		269,918	41,106
- Provisions		(13,893,428)	(13,893,428)
		3,357,752	5,758,384

15. TRADE AND OTHER PAYABLES

Trade creditors		4,733,959	3,148,908
Bills payable		57,401,324	9,571,307
Accrued liabilities	15.1	43,602,545	36,104,771
Infrastructure cess payable	17.2	16,620,035	13,373,813
Workers' Welfare Fund		1,577,191	1,028,143
Workers' Profit Participation Fund	15.2	3,497,616	1,490,910
Tax deducted at source		6,727	181,528
Unclaimed dividend		752,524	673,755
Vend / permit fee	15.3	4,552,438	6,326,183
Dividends payable		-	95,630
		132,744,359	71,994,948

15.1 This includes due to the following related parties:

Shabbir Tiles & Ceramics Limited	120,000	-
Thal Limited	4,819	-
	124,819	-

15.2 WORKERS' PROFIT PARTICIPATION FUND

Balance at the beginning of the year	1,490,910	3,168,169
Interest on fund utilized in the Company's business	41,240	46,985
	1,532,150	3,215,154
Allocation for the year	3,497,616	1,490,910
	5,029,766	4,706,064
Less: Payments during the year	1,532,150	3,215,154
Balance at the end of the year	3,497,616	1,490,910

15.3 This represents amount charged to certain customers in respect of vend and permit fee. Depending on the outcome of the law suit mentioned in note 17.3, the amount would either be paid to the Excise and Taxation Department, Government of Sindh or refunded to the customers. The Company has discontinued this practice of charging the fee from July 2002 in accordance with the industrial norms.

	Note	2008 Rupees	2007 Rupees
16. SHORT-TERM BORROWINGS – secured			
From banking companies			
Running finance under mark-up arrangements	16.1	145,155,180	17,087,299
Foreign currency import facility (FCIF)	16.2	-	138,431,596
Trust receipts (TR)	16.3	15,024,795	-
		<u>160,179,975</u>	<u>155,518,895</u>

16.1 Running finance under mark-up arrangements

These facilities have been obtained from various banks and are secured by hypothecation of stores and spares, stock-in-trade and trade receivables and are payable quarterly. The facilities available under mark-up arrangements amount to Rs. 320 million (2007: Rs. 320 million) of which the amount unavailed at the year end was Rs.174.845 million (2007: Rs. 302.91 million). The rate of mark-up on running finances ranges from 10.30 percent to 13.66 percent (2007: 9.37 percent to 12.63 percent) per annum.

16.2 Foreign currency import facility

The facilities for opening letters of credit and guarantees as at June 30, 2008 amounted to Rs. 415 million (2007: Rs. 415 million) and Rs. 23.875 million (2007: Rs. 16.375 million) respectively, of which the amount remaining unutilized at year end was Rs. 295.55 million (2007: Rs. 338.98 million) and Rs. 1.678 million (2007: Rs. Nil) respectively.

The facilities for foreign currency import financing obtained from banks as at June 30, 2008 amounted to Rs. Nil (2007: Rs. 138.432 million). Under the financing arrangements with the banks (except with Habib Metropolitan Bank Limited), FCIF facilities are combined with the facilities available under running finance arrangements. The rate of mark-up on FCIF ranges from 3.37 percent to 6.44 percent (2007: 6.29 percent to 6.80 percent) per annum.

16.3 Trust Receipt

This facility has been obtained from a bank and is secured by hypothecation of stores and spares, stock-in-trade and trade receivables and is payable quarterly. The facility available under mark-up arrangement amounts to Rs. 65 million (2007: 65 million) of which the amount unavailed at the year end was Rs.49.975 million (2007: Rs. 65 million). The rate of mark-up on this facility is three months KIBOR+1% (2007: Nil) per annum.

17. CONTINGENCIES AND COMMITMENTS

Contingencies

17.1 Bank guarantees amounting to Rs. 3.447 million (2007: Rs. 3.607 million) have been issued to the Collector of Customs against import of raw material, Excise & Taxation Department against liability on account of vend and permit fee and Sui Southern Gas Company Limited against gas connection at Hub Plant.

17.2 An amount of Rs. 2.130 million (2007: Rs. 0.376 million) is an un-utilized portion of a bank guarantee issued in favour of Excise and Taxation Department, Government of Sindh against the levy of infrastructure cess on the imported goods. The Company filed a suit in the Honorable High Court of Sindh against this charge and stay has been granted on this charge subject to the submission of bank guarantee. The utilized portion of guarantee amounting to Rs. 16.620 million (2007: Rs. 13.374 million) is shown under infrastructure cess payable in note 15 to the financial statements.

- 17.3** The Excise and Taxation Department, Government of Sindh imposed vend and permit fee on methanol, a major raw material used by the Company in the production of formaldehyde. The Company filed a petition against the imposition of these levies in the Honourable High Court of Sindh in August 1996. In June 2001, the Honourable High Court of Sindh decided the case in the favour of the Company. However, the Excise and Taxation department filed an appeal in the Honourable Supreme Court of Pakistan against the above judgement. The Honourable Supreme Court of Pakistan suspended the decision of the Honourable High Court of Sindh and reverted the case back to the Honourable High Court of Sindh for fresh hearing. After a number of hearings, finally the Honourable Bench of Sindh High Court kept the judgment order reserved in November 2002. In March 2003, the division bench announced the judgment order and termed the impugned declaration and the notification to that effect as unlawful and set aside the impugned demands of the vend and permit fee on methanol.

The Company was served a notice from the Advocate on record, Honourable Supreme Court of Pakistan that the Advocate General Sindh, High Court has filed a petition for Leave to Appeal in the Honourable Supreme Court of Pakistan, that has been accepted and a stay has been granted to them with the remarks that the matter would be decided in near future and till then the status quo would be maintained and the matter will be heard afresh.

Total liability against vend and permit fee, as on June 30, 2008 works out at Rs. 731.970 million (2007: Rs. 686.552 million). Since the Company is confident to get a favourable decision from the Supreme Court, therefore no provision for the possible liability has been made in these financial statements. Furthermore, management is making necessary efforts to resolve this matter and is confident that the Company will be able to continue as a going concern.

- 17.4** The Company is in litigation with the Income Tax Department, Peshawar against levy of minimum tax under section 80D of the repealed Income Tax Ordinance, 1979 (the Ordinance) on its former subsidiary M/s. Visionite (Private) Limited (the subsidiary) which was set up in June 1993. Though the profits of the subsidiary were exempt from income tax under clause 122-C of the Second Schedule to the Ordinance, while finalizing assessments for the years 1994-95 to 2002-03, minimum tax was levied by the Income Tax Department (the department). The matter was appealed and all the cases except 2000-01 were decided in Company's favour by the Commissioner of Income Tax (Appeals) and subsequently by the Income Tax Appellate Tribunal Peshawar. Reference applications were also filed by the department with the High Court of Peshawar against the judgment of the Appellate Tribunal on eight appeals.

Cases pertaining to the years 1994-95 to 1999-2000 pending with the learned High Court have been remanded back to the department for deciding afresh in the light of the decision of the learned Supreme Court of Pakistan with reference to the case of Commissioner of Income Tax, Peshawar v/s Zaman Cotton Mills Limited. The Income Tax Appellate Tribunal while deciding the Company's appeal for the Assessment Year 2000-01 directed the department not to charge minimum tax if the subsidiary was set up after November 07, 1990. There is no ambiguity of whatsoever nature in the referred decision of the Appellate Tribunal and it is mandatory on the department to follow directions of the Appellate Tribunal while deciding all set aside/remanded back cases.

Despite clear and unambiguous direction of the Income Tax Appellate Tribunal, the department has acted contrarily and levied minimum tax amounting to Rs. 5.4 million on the turnover of the Company for the years 1994-95 to 1999-2000. Appeals for the respective years have been filed with the Commissioner of Income Tax (Appeals). Since the Company is confident to win the cases in appellate forums, therefore, no provision against this liability has been made in these financial statements. Case for the year 2000-01 remanded back to the department is pending. Alleged liability on account of minimum tax amounting to Rs. 1.3 million paid earlier will be refunded in case it is decided favourably in higher appellate forums.

- 17.5** The Company during the year 2001 filed a writ petition in the High Court of Sindh against levy of Professional Tax by the Excise and Taxation Department. Since the Company is confident that the case would be decided in its favour, therefore professional tax amounting to Rs. 0.7 million (2007: Rs. 0.6 million) pertaining to the years 2001-07 has not been provided for in these financial statements.

- 17.6** Last year, the Taxation Officer issued an order for the recovery of Income Tax Credit amounting to Rs. 3.159 million pertaining to the Assessment Year 2002-03, allowed earlier u/s. 107AA of the repealed Ordinance, 1979 on the plea that such credit could not be allowed in such cases where minimum tax u/s. 80D of the repealed Income Tax Ordinance, 1979 is leviable. Since in the said year the Company was subjected to minimum tax, the Taxation Officer passed orders for the recovery of previously refunded amount.

An appeal was filed with the Commissioner of Income Tax (Appeals) against that order which has been vacated this year by the Commissioner of Income Tax (Appeals). The tax department has filed an appeal with the Income Tax Appellate Tribunal, Karachi against the said order.

As the Commissioner of Income Tax (Appeals) has already decided the case in favour of the Company, the management is confident that the ultimate decision would be in its favour and therefore no provision has been made for the above demand in these financial statements.

Commitments

- 17.7** Commitments under letters of credit as at the year end amounted to Rs. 119.447 million (2007: Rs. 76.021 million).

	2 0 0 8 Rupees	2 0 0 7 Rupees
17.8 Commitments for rentals under operating lease agreements in respect of vehicles and leased factory are as follows: Within one year	-	74,190
17.9 Post dated cheques issued in favour of collector of customs against custom duties and other levies on methanol kept in bonded ware house	10,959,128	13,409,437

18. TURNOVER – net

Sales	1,507,129,478	1,379,132,395
Less: Sales tax	189,408,807	178,854,506
Excise duty	12,644,429	-
Sales return	8,022,387	18,005,931
Trade discount	35,080,475	7,380,559
	245,156,098	204,240,996
	1,261,973,380	1,174,891,399

Dynea Pakistan Limited

	2 0 0 8	2 0 0 7
	Rupees	Rupees
19. COST OF SALES		
Opening stock – raw and packing materials	95,250,405	87,499,786
Purchases	856,361,522	856,156,694
Inter division transfers-in	170,546,352	182,183,412
	1,122,158,279	1,125,839,892
Closing stock – raw and packing materials	(96,277,803)	(95,250,405)
Inter division transfers-out	(23,213,455)	(16,784,391)
Raw and packing material consumed	1,002,667,021	1,013,805,096
Manufacturing expenses:		
Indirect material consumed	6,049,354	4,582,803
Stores and spares consumed	19,116,771	18,720,911
Fuel and power	53,601,928	50,306,542
Salaries, wages and other benefits	80,136,737	76,036,287
Rent, rates and taxes	483,602	312,574
Insurance	2,403,707	2,047,216
Repairs and maintenance	15,247,473	10,148,058
Vehicles running and maintenance	2,376,349	2,118,554
Vehicles lease rentals	74,190	337,948
Postage, telephone and telex	329,504	339,727
Storage and handling charges	4,732,500	4,346,269
Traveling and conveyance	1,587,061	776,633
Printing and stationery	450,505	434,071
Depreciation – note 3.3	24,357,710	29,765,780
Others	3,477,425	4,075,351
	214,424,816	204,348,724
Inter division transfers of stock	(147,332,897)	(165,399,021)
Cost of goods manufactured	1,069,758,940	1,052,754,799
Cost of finished goods		
Opening stock	19,955,947	9,929,824
Closing stock	(15,732,060)	(19,955,947)
	4,223,887	(10,026,123)
	1,073,982,827	1,042,728,676

19.1 Inter-segment pricing

Transfers between business segments are recorded at cost which includes direct material, direct labour and applicable overheads.

Dynea Pakistan Limited

	Note	2 0 0 8 Rupees	2 0 0 7 Rupees
20. DISTRIBUTION COSTS			
Salaries and other benefits		7,924,729	5,953,618
Cartage and freight		52,676,194	39,476,961
Rent, rates and taxes		642,010	199,840
Insurance		140,666	222,047
Repairs and maintenance		317,094	34,058
Vehicles running and maintenance		739,890	518,049
Postage, telephone and telex		261,541	172,243
Traveling and conveyance		1,218,639	841,005
Printing and stationery		61,552	19,219
Electricity		15,534	17,581
Depreciation	3.3	293,282	350,254
Sales promotion		898,603	119,151
Subscription		1,282	29,056
Provision for impairment of trade debts – net		245,411	8,319,626
Others		85,575	65,521
		<u>65,522,002</u>	<u>56,338,229</u>

21. ADMINISTRATIVE EXPENSES

Salaries and other benefits		17,882,197	16,816,927
Rent, rates and taxes		1,292,133	1,096,628
Insurance		361,836	370,691
Repairs and maintenance		4,537,942	2,995,489
Vehicles running and maintenance		696,166	594,866
Postage, telephone and telex		705,942	782,049
Traveling and conveyance		1,591,900	1,267,465
Printing and stationery		494,211	503,224
Electricity and gas		590,472	738,998
Depreciation	3.3	1,024,137	1,250,819
Legal and professional charges		3,937,431	3,210,384
Advertisement and publicity		211,195	138,563
Charity and donations	21.1	80,000	120,000
Annual listing fee		88,750	88,750
Computer service charges		829,786	626,434
Auditors' remuneration	21.2	422,328	420,467
Subscription		86,460	74,036
ISO certification fees		172,360	188,720
Others		207,489	221,686
		<u>35,212,735</u>	<u>31,506,196</u>

21.1 Charity and donations

Donations do not include any donee in whom any director of the Company or his / her spouse has any interest except an amount of Rs. 0.06 million (2007: Rs. 0.06 million) paid to Muhammad Ali Habib Welfare Trust, Karachi, of which Mr. Rafiq M. Habib, Director of the Company is a trustee.

	2 0 0 8 Rupees	2 0 0 7 Rupees
21.2 Auditors' remuneration		
Statutory audit fee	250,000	215,000
Fee for review of half yearly financial statements	80,000	90,000
Other certifications	45,000	40,000
Out of pocket expenses	47,328	75,467
	<u>422,328</u>	<u>420,467</u>

Dynea Pakistan Limited

	2 0 0 8	2 0 0 7
Note	Rupees	Rupees
22. OTHER OPERATING INCOME		
Income from financial assets		
Profit on bank deposits	131,656	3,209
Mark-up on loans to employees	3,175	11,137
Net exchange gain	-	69,760
	134,831	84,106
Income from non-financial assets		
Scrap sales	88,650	98,014
Profit on disposal of property, plant and equipment	-	687,097
Insurance claim	-	275,660
Others	3,588	3,000
	92,238	1,063,771
	227,069	1,147,877
23. FINANCE COSTS		
Mark-up on short term borrowings	9,660,523	14,604,164
Mark-up on finance lease	281,195	286,595
Interest on workers' profit participation fund	41,240	46,985
Bank guarantees commission	131,181	42,422
Bank charges	960,895	667,806
	11,075,034	15,647,972
24. OTHER CHARGES		
Workers' profit participation fund	3,497,616	1,490,910
Loss on disposal of property, plant and equipment	3.2 975,855	-
Net exchange loss	5,725,093	-
Workers' welfare fund	1,577,191	1,208,540
	11,775,755	2,699,450
25. TAXATION		
Current	27,048,822	17,632,647
Prior	139,095	1,135,718
Deferred	(2,400,632)	(9,359,616)
	24,787,285	9,408,749
25.1 Relationship between accounting profit and tax expense		
Profit before taxation	64,632,096	27,118,753
Tax @ 35%	22,621,234	9,491,564
Tax effects of the expenses that are inadmissible	9,239,527	14,590,909
Tax effects of the expenses that are admissible	(4,811,939)	(6,449,826)
Tax effect of temporary differences	(2,400,632)	(9,359,616)
Tax effects of prior years	139,095	1,135,718
Tax expense	24,787,285	9,408,749

Dynea Pakistan Limited

	2 0 0 8	2 0 0 7
	Rupees	Rupees
26. BASIC AND DILUTED EARNINGS PER SHARE		
There is no dilutive effect on the basic earnings per share which is based on :		
Profit after taxation	<u>39,844,811</u>	<u>17,710,004</u>
	Number of shares	
Weighted average number of ordinary shares	<u>18,872,413</u>	<u>18,872,413</u>
	Rupees	
Earnings per share	<u>2.11</u>	<u>0.94</u>

27. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	<u>June 2008</u>			<u>June 2007</u>		
	<u>Chief executive</u>	<u>Directors</u>	<u>Executives</u>	<u>Chief executive</u>	<u>Directors</u>	<u>Executives</u>
	----- (Rupees in '000) -----					
Managerial remuneration	865,209	371,930	4,519,989	771,876	-	5,484,131
Retirement and other benefits	352,197	75,286	2,079,251	230,034	-	1,738,600
House rent	347,340	167,370	1,840,310	347,340	-	2,110,762
	<u>1,564,746</u>	<u>614,586</u>	<u>8,439,550</u>	<u>1,349,250</u>	<u>-</u>	<u>9,333,493</u>
Number of persons	<u>1</u>	<u>1</u>	<u>5</u>	<u>1</u>	<u>-</u>	<u>6</u>

27.1 In addition, the chief executive, director and certain executives are provided with free use of company maintained cars.

27.2 Fee paid to non-executive directors for attending the Board meetings amounts to Rs. 8,000 (2007: Rs. 6,000).

28. SEGMENT INFORMATION

	<u>Resin division</u>	<u>Aminoplast Division</u>	<u>Total</u>	<u>Resin division</u>	<u>Aminoplast division</u>	<u>Total</u>
	<u>2 0 0 8</u>			<u>2 0 0 7</u>		
	----- Rupees -----			----- Rupees -----		
Sales	<u>688,218,735</u>	<u>573,754,645</u>	<u>1,261,973,380</u>	<u>582,610,909</u>	<u>592,280,490</u>	<u>1,174,891,399</u>
Segment results	102,589,502	32,724,855	135,314,357	59,956,097	24,410,039	84,366,136
Unallocated corporate expenses:						
Administrative and distribution costs			(48,058,541)			(40,047,838)
Other operating income			227,069			1,147,877
Operating profit			<u>87,482,885</u>			<u>45,466,175</u>
Finance costs			(11,075,034)			(15,647,972)
Other charges			(11,775,755)			(2,699,450)
Taxation			(24,787,285)			(9,408,749)
Net profit after taxation			<u>39,844,811</u>			<u>17,710,004</u>
Segment assets	364,203,693	246,023,160	610,226,853	325,148,272	191,444,307	516,592,579
Unallocated assets			42,064,151			27,298,591
Total assets			<u>652,291,004</u>			<u>543,891,170</u>
Segment liabilities	30,746,612	53,121,696	83,868,308	19,470,951	5,272,664	24,743,615
Unallocated liabilities			232,055,085			222,624,755
Total liabilities			<u>315,923,393</u>			<u>247,368,370</u>
Capital expenditure	11,021,913	527,050	11,548,963	3,866,101	3,553,455	7,419,556
Unallocated capital expenditure			2,648,501			-
Total capital expenditure			<u>14,197,464</u>			<u>7,419,556</u>
Depreciation	14,877,186	9,480,524	24,357,710	17,990,859	11,774,921	29,765,780
Unallocated depreciation			1,317,419			1,601,073
Total depreciation			<u>25,675,129</u>			<u>31,366,853</u>
Non-cash expenses other than depreciation	245,411	-	245,411	8,319,626	-	8,319,626

29. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Company comprise companies with common directorship, retirement funds, directors and key management personnel. Detail of transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2 0 0 8	2 0 0 7
	Rupees	Rupees
Sales	88,084,363	73,844,869
Purchases	1,275,626	86,262
Insurance premium paid	4,844,170	4,785,904
Insurance claim received	63,000	275,660
Provident fund contributions	3,423,087	3,478,739

There are no transactions with key management personnel other than under terms of employment as disclosed in note 27.

The related party status of outstanding receivable/payable as at June 30, 2008 is included in the respective notes to the financial statements.

30. LIQUIDITY RISK

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. To guard against the risk, the Company has diversified funding sources and assets are managed with liquidity in mind. The maturity profile is monitored to ensure that adequate liquidity is maintained.

31. YIELD / MARK-UP RATE RISK

Yield/mark-up rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market yield/mark-up rates. Sensitivity to yield/mark-up rate risk arises from mismatches of financial assets and liabilities that mature or reprice in a given period. The Company manages these mismatches through risk management strategies where significant changes in gap position can be adjusted. The Company is exposed to yield/mark-up rate risk in respect of the following:

	Effective Interest/Mark-up Rate	2 0 0 8		
		Exposed to yield / mark-up rate risk		
		Maturity Upto one	Maturity after one	Total
		Year	year	Total
		----- Rupees -----		
Financial assets				
Long-term loans and advances		-	-	-
Long-term deposits		-	-	-
Trade debtors		-	-	-
Loans, advances, deposits, Prepayments and other receivables		-	-	-
Cash and bank balances		-	-	-
<hr/>				
Financial liabilities				
Short term borrowings	10.30 – 13.66	160,179,975	-	160,179,975
Liabilities against assets subject to finance lease	12.61 – 13.65	2,307,165	4,862,094	7,169,259
Trade and other payables		-	-	-
		<hr/>	<hr/>	<hr/>
		162,487,140	4,862,094	167,349,234

Dynea Pakistan Limited

2007

	Effective Interest/ Mark-up Rate	Exposed to yield / mark-up rate risk		
		Maturity upto one	Maturity after one	Total
		Year	Year	
----- Rupees -----				
Financial assets				
Long-term loans and advances	8	59,028	-	59,028
Long-term deposits		-	-	-
Trade debtors		-	-	-
Loans, advances, deposits, prepayments and other receivables		-	-	-
Cash and bank balances		-	-	-
		59,028	-	59,028
Financial liabilities				
Short term borrowings	9.37 – 12.63	155,518,895	-	155,518,885
Liabilities against assets subject to finance lease	12.20 – 13.32	488,897	1,404,641	1,893,538
Trade and other payables		-	-	-
		156,007,792	1,404,641	157,412,423

32. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

The Company's exposure to credit risk is indicated by the carrying amount of its trade debtors. Out of the total financial assets of Rs. 228,050,350 (2007: 220,276,880), the financial assets subject to credit risk amounted to Rs. 207,221,326 (2007: Rs. 206,882,035). The Company controls credit risk by monitoring the amount of credit extended, limiting transactions with specific customers and continually assessing the credit worthiness of the customers.

33. FOREIGN EXCHANGE RISK MANAGEMENT

Foreign currency risk is the risk that the value of a financial asset or a liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions with foreign undertakings. Financial liabilities include Rs. Nil (2007: Rs. 138.432 million) which are subject to currency risk exposure and off-balance sheet risk consists of commitments under letters of credit as disclosed in note 17.7. The Company does not have any formal foreign currency risk management policy.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

35. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital is to safeguard the Company's ability to remain as a going concern and continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company is currently financing majority of its operations through equity and working capital. The capital structure of the Company is equity based with no financing through long term borrowings.

36. CAPACITY AND PRODUCTION

		Rated Capacity 2008	Actual Production 2008	Rated capacity 2007	Actual Production 2007
	Note	-----M. Tons-----			
RESIN DIVISION					
Urea/Melamine formaldehyde		34,000	35,017	34,000	31,362
Formaldehyde		39,000	31,034	39,000	29,659
	36.1	73,000	66,051	73,000	61,021
AMINOPLAST DIVISION					
Aminoplast compound	36.1	10,000	9,498	10,000	10,621

36.1 The reason for shortfall in actual production is due to low demand.

37. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 25,2008, by the Board of Directors of the Company.

38. GENERAL

Figures have been rounded off to the nearest rupee.

ALI REZA M ALLADIN
Chief Executive

SHABBIR ABBAS
Director