بسم الله الرحمن الرحيم

ITTEHAD CHEMICALS LIMITED
UN-AUDITED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED DECEMBER 31, 2006

CONTENTS | **PAGES**

CORPORATE INFORMATION

BOARD OF DIRECTORS	Mr. Muhammad Siddique Khatri	Chairman & Chief Executive
	Mr. Abdul Ghafoor Khatri	Director
	Mr. Abdul Sattar Khatri	Director
	Mr. Abdul Aziz Khatri	Director
	Mr. Mansoor Ahmed Khatri	Director
	Ms. Farhana Sattar	Director
	Mr. Fawad Yousuf	Director
AUDIT COMMITTEE	Mr. Mansoor Ahmed	Chairman
	Mr. Abdul Sattar Khatri	Member
	Mr. Fawad Yousuf	Member
CHIEF FINANCIAL OFFICER	Mr. Javed Iqbal	
COMPANY SECRETARY	Mr. Noor Zaman Khan	

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Corporate and Financial Consultants
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BANKERS TO THE COMPANY
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Habib Metropolitan Bank Ltd.
National Bank of Pakistan
MCB Bank Ltd.
Pakistan Industrial Credit & Investment Corporation Ltd.
Saudi Pak Industrial & Agricultural Investment Co. (Pvt.) Ltd.
Pak Libya Holding Co. (Pvt.) Ltd.
Pak Kawait Investment Co. (Pvt.) Ltd.
The Bank of Punjab
Allied Bank of Pakistan
Faysal Bank Ltd.
United Bank Ltd.
KASB Bank Ltd.
Standard Chartered Bank Ltd.
My Bank Ltd.
Citi Bank

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DIRECTORS' REVIEW

I take this opportunity to present to you the un-audited accounts of the Company for the half year ended December 31, 2006.

The Company has increased its net sales for the half year under review to Rs. 1,231.23 million from Rs. 1,046.25 million in the same period last year recording an improvement of 17.68 %. Increased production and sales volume has lifted up the Company's gross margin and operating profit which came in at Rs. 275.82 million and Rs. 178.65 million respectively compared with Rs. 220.74 million and Rs. 149.25 million against the corresponding figures showing an improvement of 24.95% and 19.70% respectively in both profitability measures. However, net profit for the period has gone down due to higher financial cost as compared to corresponding period. Increase in financial cost is primarily attributable to higher working capital requirements and constantly rising mark up rates in the country.

SNGPL cut off the gas supply to a large number of industrial units including the Company's captive power plant in the last week of November 2006 on account of its load management policy in winter season. The supply was restored in the last week of January 2007 and then disconnected again in second week of February 2007. Though the Company has successfully made alternative power arrangements from Lahore Electric Supply Company (LESCO) yet it has hit the Company's overall production especially of caustic soda flakes and bleaching earth as the supply of steam was not available for these processes. As a result Company could not make these products available for sale. Gas cut off also increased the production cost due to comparatively expensive power purchased from LESCO. Had there been regular gas supply available to captive power plant, Company's overall operating performance would have been better than stated above.

Local textile sector is one of the largest consumers of caustic soda. Unfortunately this sector has witnessed an unusual slump during the period under review and did not perform well due to many reasons including fluctuating cotton and yarn prices. To this end government is taking some corrective measures and it is now expected that situation will improve gradually in the coming quarters.

Company, after seeking approval from shareholders, has made an equity investment of Rs. 64.40 million in Chemi Chloride Industries Limited (CCIL) to finance the calcium chloride project which is expected to start commercial production in the first quarter of the financial year 2007-8.

We appreciate the Company staff for their continuous dedication and support. We also express our gratitude to our shareholders, bankers, customers and suppliers.

On Behalf of the Board

Muhammad Siddique Khatri
Chief Executive

Lahore: February 26, 2007

REVIEW REPORT TO THE MEMBERS

We have reviewed the annexed balance sheet of **ITTEHAD CHEMICALS LIMITED** as at December 31, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the "financial statements") for the half year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of Company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the annexed financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

KARACHI

DATED: February 26, 2007

BDO EBRAHIM & CO.
CHARTERED ACCOUNTANTS

BALANCE SHEET AS AT DECEMBER 31, 2006 (UN-AUDITED)

	NOTE	December 31, 2006 Un-audited	June 30, 2006 Audited
		(Rupees in thousands)	
ASSETS			
NON CURRENT ASSETS			
Property, Plant and equipment			
Operating fixed assets	4	2,421,790	2,510,171
Capital work in progress	5	47,883	24,156
		2,469,673	2,534,327
Long term investments	6	65,251	1,817
Deferred cost		1,325	1,751
Long term deposits		14,658	14,658
		2,550,907	2,552,553
CURRENT ASSETS			
Stores, spares and loose tools		289,468	301,796
Stock in trade	7	160,608	144,617
Trade debts		297,196	201,342
Loans and Advances		43,933	21,572
Trade deposits and short term prepayments		7,196	5,205
Other receivables		264	2,177
Tax refunds due from Government		7,717	5,974
Taxation-net		60,296	67,550
Cash and bank balances		59,196	257,713
		925,874	1,007,946
TOTAL ASSETS		3,476,781	3,560,499
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized share capital			
75,000,000 (June 30, 2006: 75,000,000) shares of Rs. 10/- each	8.1	750,000	750,000
Issued, subscribed and paid up capital			
36,000,000 (June 30, 2006: 30,000,000) ordinary shares of Rs. 10/- each	8.2	360,000	300,000
Reserves		304,862	326,839
		664,862	626,839
SURPLUS ON REVALUATION OF FIXED ASSETS		638,574	638,574
NON CURRENT LIABLITIES			
Redeemable capital	9	41,634	83,266
Long term financing	10	581,431	739,251
Long term murabaha	11	267,438	261,187
Deferred liabilities		210,962	169,921
		1,101,465	1,253,625
CURRENT LIABLITIES			
Trade and other payables		223,497	221,094
Markup accrued		41,934	28,520
Short term borrowings		421,533	431,977
Current portion of long term liabilities		384,916	359,870
		1,071,880	1,041,461
CONTINGENCIES AND COMMITEMNTS	12	-	-
TOTAL EQUITY AND LIABILITIES		3,476,781	3,560,499

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

CHIEF EXECUTIVE | **DIRECTOR**

PROFIT AND LOSS ACCOUNT
FOR THE HALF YEAR ENDED DECEMBER 31, 2006 (UN-AUDITED)

	Note	Half Year ended		Quarter ended	
		December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
		(Rupees in thousands)			
Gross sales		1,437,145	1,221,809	734,265	612,021
Sales tax and commission		(205,920)	(175,562)	(104,086)	(87,855)
Net sales		1,231,225	1,046,247	630,179	524,166
Cost of sales	13	(955,408)	(825,507)	(497,156)	(407,676)
Gross profit		275,817	220,740	133,023	116,490
Selling and distribution expenses		(65,975)	(44,173)	(34,030)	(23,578)
General and administrative expenses		(29,217)	(26,952)	(15,408)	(15,560)
Other operating expenses		(4,170)	(4,835)	(1,734)	(2,332)
Other operating income		2,190	4,469	1,343	3,586
		(97,172)	(71,491)	(49,829)	(37,884)
Operating profit		178,645	149,249	83,194	78,606
Finance cost		(102,834)	(61,558)	(52,716)	(37,412)
Profit before taxation		75,811	87,691	30,478	41,194
Taxation		(37,822)	(40,162)	(11,107)	(16,996)
Net profit after taxation		37,989	47,529	19,371	24,198
Earnings per share - basic and diluted	15	Rs. 1.06	Rs. 1.32	Rs. 0.54	Rs. 0.67

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

CHIEF EXECUTIVE

DIRECTOR

CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED DECEMBER 31, 2006 (UN-AUDITED)

	Half Year ended	
	December 31, 2006	**December 31, 2005**
	(Rupees in thousands)	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	75,811	87,691
Adjustments for items not involving movement of funds:		
Depreciation	96,755	62,973
Provision for gratuity	226	150
Amortization of deferred cost	425	426
Provision for doubtful debts	-	2,002
Provision for bad and doubtful debts written back	-	(497)
Gain on sale of fixed assets	(296)	-
Foreign exchange (gain) / loss	(22)	69
Finance cost	102,834	61,558
	275,733	214,372
(Increase) / decrease in current assets		
Stores, spares and loose tools	12,328	(242,740)
Stock in trade	(15,991)	9,832
Trade debts	(95,848)	15,959
Loans and advances	(22,361)	40,166
Trade deposits and short term prepayments	(1,991)	(5,330)
Other receivables	1,913	8,674
Tax refunds due from Government	-	44,357
	(121,950)	(129,082)
Increase / (decrease) in current liabilities		
Trade and other payables	11,853	33,500
Cash generated from operations	165,636	118,790
Income tax paid	(790)	(1,352)
Gratuity paid	(140)	-
Net cash inflow from operating activities	164,706	117,438
CASH FLOW FROM INVESTING ACTIVITIES		
Additions to operating fixed assets - (net)	(8,472)	(30,710)
Additions to capital work in progress	(23,727)	(189,251)
Proceeds from sale of operating fixed assets	394	-
Long term investments	(63,400)	-
Net cash outflow from investing activities	(95,205)	(219,961)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of redeemable capital	(41,633)	(41,633)
Proceeds from long term financing	250,000	-
Repayment of long term financing	(393,960)	(61,142)
Proceeds from long term murabaha	50,000	150,000
Repayment of long term murabaha	(32,562)	-
Finance cost paid	(89,419)	(56,398)
Short term borrowings	(10,444)	81,435
Net cash (outflow) / inflow from financing activities	(268,018)	72,262
Net decrease in cash and cash equivalents	(198,517)	(30,261)
Cash and cash equivalents at the beginning of the period	257,713	80,831
Cash and cash equivalents at the end of the period	59,196	50,570

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

CHIEF EXECUTIVE **DIRECTOR**

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED DECEMBER 31, 2006 (UN-AUDITED)

	Issued, subscribed and paid-up capital	Capital reserve - Fair value reserve	Unappro-priated profits	Total
	(Rupees in thousands)			
Balance as at July 01, 2005	300,000	333	206,516	506,849
Net profit after taxation for the period	-	-	47,529	47,529
Fair value gain	-	289	-	289
Balance as at December 31, 2005	300,000	622	254,045	554,667
Net profit after taxation for the period	-	-	71,985	71,985
Fair value gain	-	187	-	187
Balance as at June 30, 2006	300,000	809	326,030	626,839
Bonus shares issued during the period	60,000	-	(60,000)	-
Net profit after taxation for the period	-	-	37,989	37,989
Fair value gain	-	34	-	34
Balance as at December 31, 2006	360,000	843	304,019	664,862

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

CHIEF EXECUTIVE

DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED DECEMBER 31, 2006 (UN-AUDITED)

1 NATURE AND STATUS OF BUSINESS

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

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

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

2 STATEMENT OF COMPLIANCE

These financial statements are unaudited but subject to limited scope review by auditors and are being submitted to the shareholders as required under Section 245 of the Companies Ordinance, 1984.

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

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

3 ACCOUNTING POLICIES

The accounting policies adopted and methods of computation followed in the preparation of these financial statements are the same as those of the preceding published annual financial statements for the year ended June 30, 2006.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED DECEMBER 31, 2006 (UN-AUDITED)

	Note	December 31, 2006 Un-audited	June 30, 2006 Audited
		(Rupees in thousands)	
4 OPERATING FIXED ASSETS			
Opening book value		2,510,171	686,562
Additions during the period/year	4.1	8,472	1,974,931
		2,518,643	2,661,493
Disposals and retirements during the period/year	4.2	(98)	(41)
Depreciation charged during the period/year		(96,755)	(151,281)
		(96,853)	(151,322)
Closing book value		2,421,790	2,510,171
4.1 Detail of additions during the period/year are as follows:			
Freehold land		-	638,574
Buildings on freehold land		-	39,269
Plant and machinery		2,005	1,267,486
Other equipments		6,153	27
Furniture and fixtures		-	150
Office and other equipments		314	1,399
Vehicles		-	28,026
		8,472	1,974,931
4.2 Details of disposals during the period/year are as follows:			
Vehicles		98	41
		98	41
5 CAPITAL WORK-IN-PROGRESS			
This comprises of:			
Plant and machinery		47,883	24,156
		47,883	24,156

5.1 An amount of NIL (June 30, 2006: Rs. 1,278.189 million) has been transferred to operating fixed assets during the period/Year.

6 LONG TERM INVESTMENTS

This includes advance paid against future issuance of shares amounting to Rs. 64.4 million (June 30, 2006: Rs. 1 million) of Chemi Chloride Industries Limited (CCIL), an associated company. The Company anticipates that shares of CCIL will be issued by June 30, 2007.

7 STOCK IN TRADE

This includes freehold land held for sale in the ordinary course of business amounting to Rs. 48.399 million (June 30, 2006: Rs. 48.399 million). The fair value of the freehold land as at December 31, 2006 as determined by Sakina Enterprises, approved valuer, was Rs. 53.340 million (June 30, 2006: Rs. 53.340 million).

8 SHARE CAPITAL

8.1 Authorized Share Capital

December 31, 2006	June 30, 2006		Note	December 31, 2006 Un-audited	June 30, 2006 Audited
Number of shares				(Rupees in thousands)	
50,000,000	50,000,000	Ordinary shares of Rs.10 each		500,000	500,000
25,000,000	25,000,000	Preference shares of Rs.10 each		250,000	250,000
75,000,000	75,000,000			750,000	750,000

8.2 Issued, subscribed and paid up capital

100,000	100,000	Fully paid in cash		1,000	1,000
24,900,000	24,900,000	Issued for consideration other than cash		249,000	249,000
11,000,000	5,000,000	Fully paid bonus shares		110,000	50,000
36,000,000	30,000,000			360,000	300,000

9 REDEEMABLE CAPITAL

	Note	December 31, 2006	June 30, 2006
Term Finance Certificates (TFCs) - Secured			
Balance as at July 01, 2006		166,533	249,800
Repayments made during the period/year		(41,633)	(83,267)
		124,900	166,533
Current portion shown under current liabilities		(83,266)	(83,267)
		41,634	83,266

10 LONG TERM FINANCING - SECURED

	Note	December 31, 2006	June 30, 2006
Banking companies and financial institutions			
Balance as at July 01, 2006		939,541	746,190
Financing obtained during the period/year	10.1	250,000	360,000
		1,189,541	1,106,190
Repayments made during the period/year		(393,960)	(166,649)
		795,581	939,541
Current portion shown under current liabilities		(214,150)	(200,290)
		581,431	739,251

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED DECEMBER 31, 2006 (UN-AUDITED)

10.1 The Company has converted bridge finance facility of Rs. 300 million into syndicated finance arrangement amounting to Rs. 250 million and long term murabaha finance amounting to Rs. 50 million (refer note 11). The bridge finance facility was repayable in July 2007 and was carrying mark-up rate of six months average ask rate of KIBOR plus 300 bps. The new syndicated and murabaha finance facilities are repayable on half yearly basis in a period of five years including one year grace period and carry mark-up rate of six months KIBOR plus 225 bps.

11 LONG TERM MURABAHA - SECURED

	Note	December 31, 2006 Un-audited	June 30, 2006 Audited
		(Rupees in thousands)	
Banking companies			
Balance as at July 01, 2006		337,500	200,000
Financing obtained during the period/year	10.1	50,000	150,000
		387,500	350,000
Repayments made during the period/year		(32,562)	(12,500)
		354,938	337,500
Current portion shown under current liabilities		(87,500)	(76,313)
		267,438	261,187

12 CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

a) Demand created for assessment year 1996-97 with respect to disallowance of expenses incurred on account of Golden Hand Shake (GHS) and of Voluntary Separation Scheme (VSS) amounting to Rs. 56.437 million for reason of non deduction of tax on payment of such expenses had been set aside by the Honorable Income Tax Appellate Tribunal (ITAT) with direction to re-compute the tax liability by using the specified methodology. The Inspecting Additional Commissioner (IAC), vide his order dated Dec 23, 2003 had restored the original assessment under section 66-A of the Income Tax Ordinance, 1979 without considering the directions of ITAT. Management had filed a revised petetion before ITAT and Reference Application before the Learned Lahore High Court. The matter has now been remanded back to IAC by ITAT. In the event of adverse decision, the Company would be faced with the charge against profit of Rs. 34.107 million. (June 30, 2006: Rs. 34.107 million).

b) The liability for income tax determined for assessment year 2002-03 amounted to Rs. 46.112 million. The Company had filed an appeal to the Commissioner Appeals (CIT) against the assessment order of Deputy Commissioner Income Tax (DCIT). CIT appeals vide his order dated October 03, 2005 has given the decision in favour of the Company and accepted all the items as permissible which were not acknowledged by the DCIT. The department has filed an appeal against the order of CIT Appeals. In the event of an adverse decision the Company would be faced with a charge against profit of Rs. 5.974 million (June 30, 2006: Rs. 5.974 million).

c) The Company is facing claims, launched in the labour courts, pertaining to staff retirement benefits. In the event of an adverse decision the Company would be required to pay an amount of Rs. 2.904 million (June 30, 2006: Nil) against these claims.

d) Letters of guarantee outstanding as at December 31, 2006 amounted to Rs. 130.157 million (June 30, 2006: Rs. 103.239 million).

12.2 Commitments

Commitments as on December 31, 2006 were as follows:

a) Against outstanding letters of credit amounting to Rs. 26.602 million (June 30, 2006: Rs. 23.068 million).

b) Against purchase of land amounting to Rs. 5.047 million (June 30, 2006: Rs. 7.047 million).

	Half Year ended		Quarter ended	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
	(Rupees in thousands)			
13 COST OF SALES				
Raw materials consumed	142,401	119,172	68,980	62,096
Other overheads				
Stores, spares and loose tools consumed	83,683	83,729	52,779	36,324
Packing materials consumed	2,573	837	1,398	496
Production supplies consumed	9,430	10,000	9,430	5,000
Salaries, wages and benefits	44,456	36,604	22,582	19,045
Fuel and power	582,473	481,386	295,348	229,849
Repair and maintenance	10,784	26,159	7,403	17,805
Insurance	4,852	3,315	2,428	1,968
Depreciation	95,285	61,969	47,953	38,486
Vehicle running expenses	2,821	2,724	1,384	1,654
Postage, printing and stationery	900	1,091	520	499
Other expenses	1,326	665	834	379
	838,583	708,479	442,059	351,505
Work in process				
Opening stock	3,322	2,710	3,322	2,710
Closing stock	(3,452)	(2,955)	(3,452)	(2,955)
	(130)	(245)	(130)	(245)
Cost of goods manufactured	980,854	827,406	510,909	413,356
Cost of stores traded	-	129	-	-
Finished goods				
Opening stock	31,600	14,371	43,293	10,719
Purchases	-	2,747	-	2,747
Closing stock	(57,046)	(19,146)	(57,046)	(19,146)
	(25,446)	(2,028)	(13,753)	(5,680)
	955,408	825,507	497,156	407,676

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED DECEMBER 31, 2006 (UN-AUDITED)

14 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise group companies, other associated companies, staff retirement funds, Directors and key management personnel. Transactions with related parties and associated undertakings are as follow:

		Half Year ended		Quarter ended	
		December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
		(Rupees in thousands)			
Relationship with the company	**Nature of transaction**				
Associated companies	Sales of goods and services	429	13,437	235	2,694
	Late payment charges	270	2,447	32	-
	Marketing services charges	12,408	10,494	6,334	5,238
	Investment made	63,400	-	46,940	-
	Loans and advances	2,560		2,560	-
	Markup on loans and advances	9	-	9	-
Retirement benefit plans	Contribution to staff retirement benefit plans	65	65	32	32
Directors and others	Loan paid back	-	11,000	-	11,000
Key management personnel	Remuneration and other benefits	4,574	5,950	1,836	4,300

15 EARNINGS PER SHARE - BASIC AND DILUTED

Net profit after taxation	37,989	47,529	19,371	24,198
Weighted average number of ordinary shares (in thousands)	36,000	36,000	36,000	36,000
Earnings per share (Rupees)	1.06	1.32	0.54	0.67

15.1 To comply with the requirements of International Accoutning Standard (IAS) 33, comparative figures of Earnings per share have been restated in view of Bonus issue of 6 million ordinary shares during the period as declared in the Annual General Meeting held on October 31, 2006.

16 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 26, 2007 by the Board of Directors of the Company.

17 GENERAL

i) Corresponding figures have been rearranged wherever necessary for the purpose of comparison the effect of which is not material.

ii) Figures have been rounded off to the nearest thousand rupees unless otherwise stated.

CHIEF EXECUTIVE **DIRECTOR**