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DADEX

Annual Report 2006



DADEX

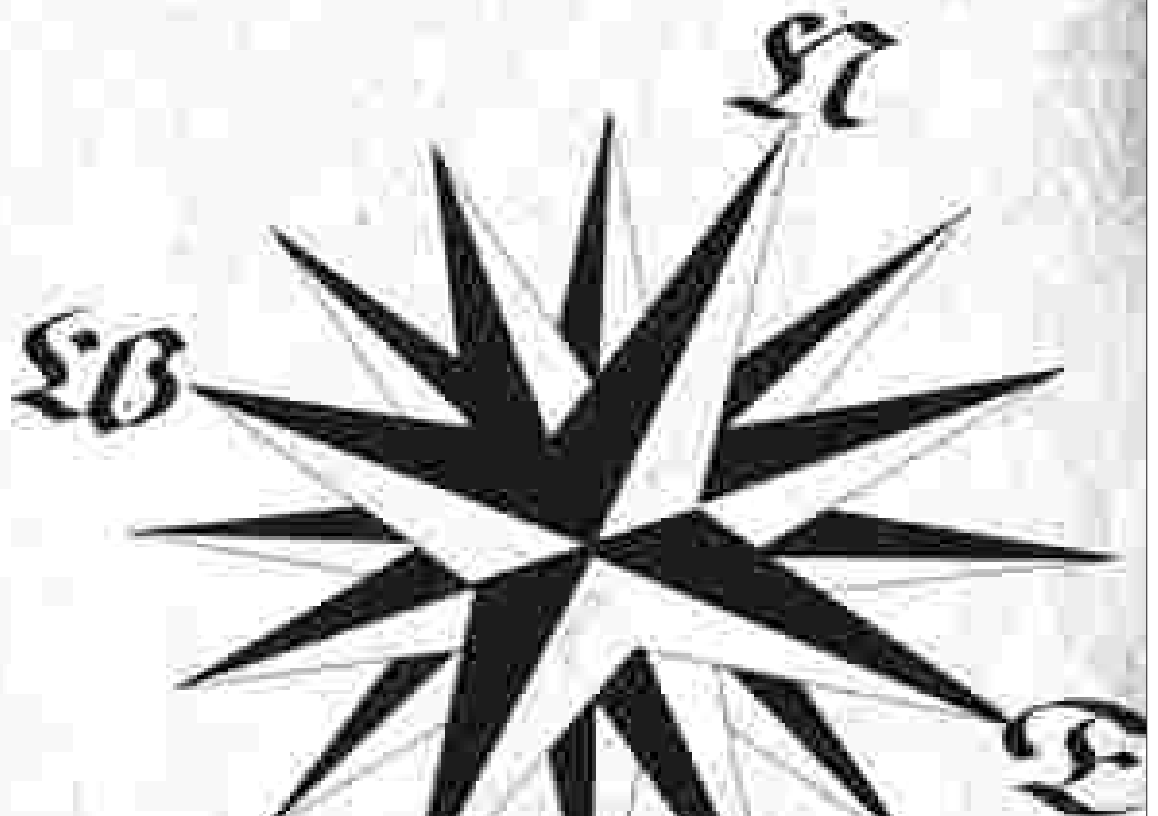
47th Annual Report

for the year ended June 30, 2006

Transform

We're evolving into a diversified group. We're strengthening our forces and we're transforming into an entity that's exploring, that's inventing, that's growing.

And with the same cumulative energy, we remain unchanged on one front - committed to being consistent on delivering on every promise to ensure quality, reliability, ethical practices and sound customer services.





Mission Statement

- We shall provide unparalleled service and best value to our customers through dedicated, responsive and cost effective supply chain.
- We are committed to provide quality products by strict adherence to international standards and best practices through technical collaboration with leading global companies in markets we serve.
- We are committed to follow business ethics, comply with HSE standards and enhance our contribution to society.
- We shall strive to maximize our shareholders value through sustained profitable growth.
- We shall enhance existing employee productivity, hire, retain and develop best talent and provide them a competitive environment to excel and grow.
- We will aggressively focus on increasing our market penetration by exploring new channels.
- We shall continue to set new trends through innovative marketing and manufacturing.

Company Information

Board of Directors

Sikander Dada - Chairman
Abdur Razzak Dada
(Alternate: Muhammad Hanif Idrees)
Abu Talib H.K. Dada
Maqbool H.H. Rahimtoola
Qazi Sajid Ali
Shahzad M. Husain
Rasheed Y. Chinoy
Muhammad Najam Ali
Mohammad Ali Jameel
Saad S. Faruqui

Chief Executive Officer

Imtiaz H. Zaidi

Chief Financial Officer & Company Secretary

Muhammad Hanif Idrees

Board Audit Committee

Qazi Sajid Ali - Chairman
Abu Talib H.K. Dada
Muhammad Najam Ali
Imtiaz H. Zaidi

Management Team

Imtiaz H. Zaidi - Chairman
Anwar-ul-Hasan
Muhammad Hanif Idrees
S. Sajid Nazar Ali
Rizwan Amjed
Suhail Nadeem
Tanveer Saleem
Awais Bin Nasim
Asim Muhammad Khan

Auditors

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Bankers

Citibank N.A.
Habib Bank Limited
KASB Bank Limited
Metropolitan Bank Limited
MCB Bank Ltd
National Bank Of Pakistan
Oman International Bank S.A.O.G.
PICIC Commercial Bank Limited
Prime Commercial Bank Limited
Standard Chartered Bank
The Hong Kong & Shanghai Banking Corporation Limited
Union Bank Limited
United Bank Limited

Registered Office

Dadex House, 34-A/1, Block 6, P.E.C.H.S.,
Shahrah-e-Faisal, Karachi-75400

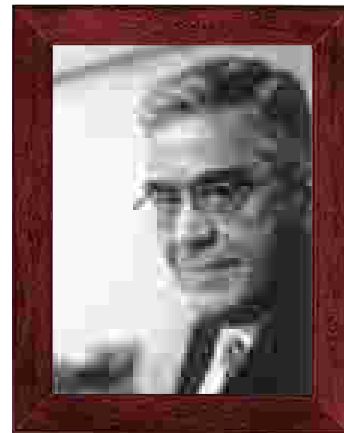
Website

www.dadex.com

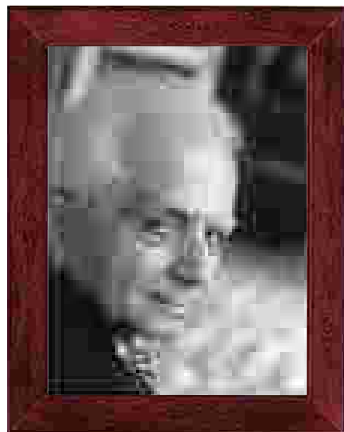
Board of Directors



SIKANDER DADA
CHAIRMAN



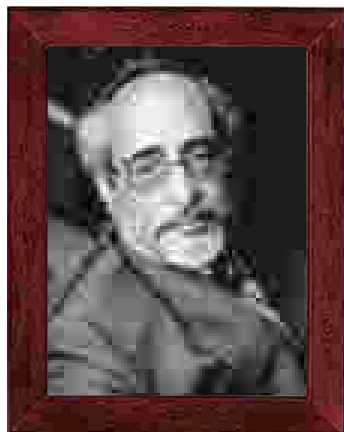
IMTIAZ H. ZAIDI
CHIEF EXECUTIVE OFFICER



ABDUR RAZZAK DADA
DIRECTOR



ABU TALIB H.K. DADA
DIRECTOR



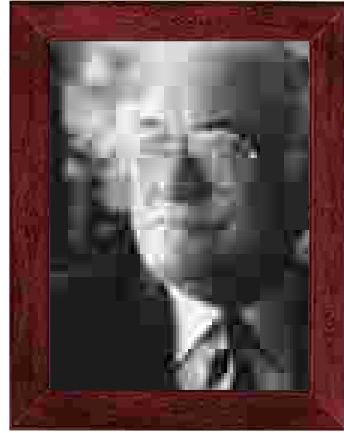
MAQBOOL H.H. RAHIMTOOLA
DIRECTOR



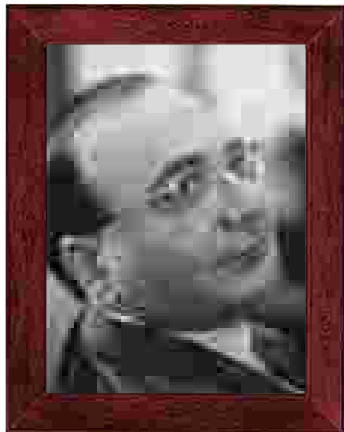
QAZI SAJID ALI
DIRECTOR



SHAHZAD M. HUSAIN
DIRECTOR



RASHEED Y. CHINOY
DIRECTOR



MUHAMMAD NAJAM ALI
DIRECTOR



MOHAMMAD ALI JAMEEL
DIRECTOR



SAAD S. FARUQUI
DIRECTOR



MUHAMMAD HANIF IDREES
ALTERNATE DIRECTOR

Management Team



Awais Bin Nasim

Rizwan Amjed

Tanveer
Saleem

Suhail
Nadeem

Imtiaz H. Zaidi

Muhammad
Hanif Idrees

Asim Muhammad Khan



Our Business

We continue to uphold our commitment to innovation, quality, reliability and customer support. In the past year, we have worked towards maximising on our efficiencies that will, in turn, serve our customers better.

Our range of pipe systems caters to a broad market segment. These include water supply and distribution, sewer, cable ducting, gas distribution, mining and dredging, internal plumbing in addition to multiple industrial applications. We are the exclusive licensees of Wavin Overseas b.v. of the Netherlands in Pakistan. Wavin, today, stands as the unrivalled European thermoplastic pipes manufacturer in the world.

We continue to aspire towards innovative products and services. We have entered in to a technical collaboration with Netafim Irrigation Pvt. Ltd, which has a presence in 112 countries and is world's leader in irrigation solutions including green houses. As exclusive licensees of Netafim, we offer a range of contemporary solutions for agro-based problems that result in increasing crop yield.

We have included Aluminum Composite Panel (ACP) in our building products portfolio. This is just a glimpse of our commitment to provide our customers with modern solutions that are backed with strong customer support.

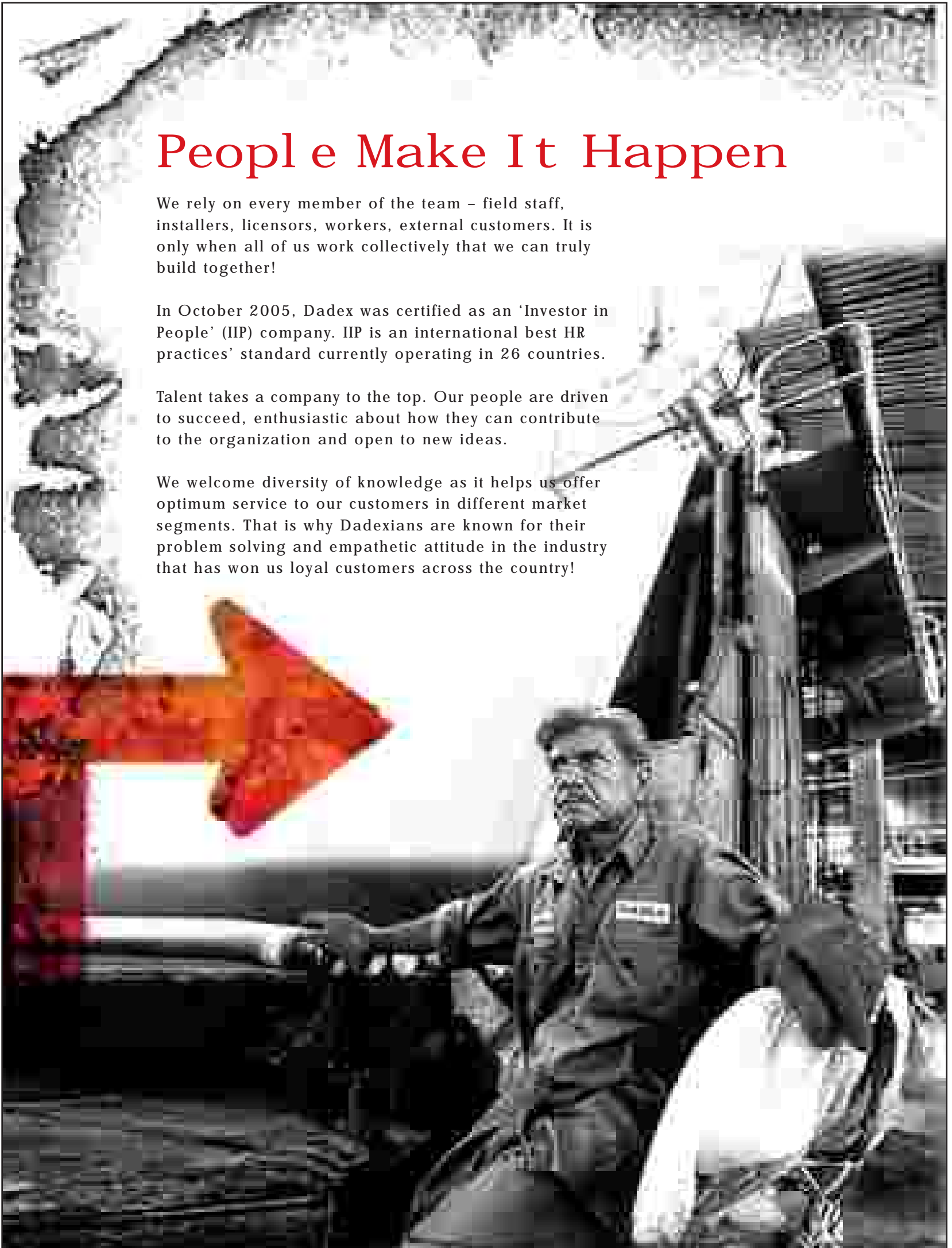
People Make It Happen

We rely on every member of the team – field staff, installers, licensors, workers, external customers. It is only when all of us work collectively that we can truly build together!

In October 2005, Dadex was certified as an 'Investor in People' (IIP) company. IIP is an international best HR practices' standard currently operating in 26 countries.

Talent takes a company to the top. Our people are driven to succeed, enthusiastic about how they can contribute to the organization and open to new ideas.

We welcome diversity of knowledge as it helps us offer optimum service to our customers in different market segments. That is why Dadexians are known for their problem solving and empathetic attitude in the industry that has won us loyal customers across the country!





Health, Safety & Environment (HSE)

The Company places tremendous importance towards health of its employees, safety and environment as a whole. The salient features of HSE are:

- Maintaining facilities in a manner that protect the environment
- Training employees and installers to recognize and reduce environmentally harmful practices.
- Waste Recycling, Dust Control and Monitoring Systems operational at all our production facilities.



Environmental Policy

- Strictly comply with local and international environmental laws and regulations.
- Minimize the environmental impacts of our operations and products by continuous innovation.
- Safety and health protection of workers throughout the business operations and the end users.
- Minimize waste and recycle unavoidable rejects.
- Training needs for safety of people and the environment should be identified and imparted at every level.

Achievement:

In acknowledgement of the track record of services in the field of environment, National Forum for Environment and Health honoured Dadex with the 3rd Environment Award (AEEA - 2006) for the third consecutive year.



Corporate Social Responsibility

We successfully completed another financial year contributing towards the community by creating awareness on environmental issues, particularly water conservation, through various activities.

WaterWise Art Contest Goes to Lahore

Dadex conducted the WaterWise Art Contest in Lahore during February and March 2006. World Wide Fund for Nature (WWF-P) was our activity partner. There teams conveyed our message on water conservation among children by visiting over 50 schools in Lahore.

Dadex Sponsors SPELLATHON Contest in Lahore

Dadex sponsored WWF-P's initiative titled SPELLATHON for school children in Lahore. 25,000 school children benefited from the activity as they enthusiastically participated in spelling contests that enhanced their learning abilities and competitive skills.

Realizing the Vision

Dadex also contributed to the President's Relief Fund for Earthquake Victims to help those affected by the devastating earthquake in October 2005 in Pakistan's Northern areas.

We remain committed to serving our people and our community for a better tomorrow.

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47th Annual Report

for the year ended June 30, 2006

Notice is hereby given that the forty-seventh Annual General Meeting of the Dadex Eternit Ltd. will be held on Monday, 30 October, 2006 at 11.00 a.m. at Dadex House, 34-A/1, Block-6, P.E.C.H.S., Shahrah-e-Faisal, Karachi to transact the following business:

A. ORDINARY BUSINESS

1. To receive, consider and adopt the following:
 - a) Financial statements for the year ended 30 June, 2006 and the Auditors' Report thereon; and
 - b) The Report of the Board of Directors for the year ended 30 June, 2006.
2. To consider and approve payment of 17.5% dividend in cash for the year ended 30 June, 2006 as recommended by the Board of Directors.
3. To appoint auditors for the year ending 30 June, 2007, and authorise the Directors to fix their remuneration.

B. SPECIAL BUSINESS

1. To consider and, if thought fit, approve not subscribing for the whole of shares offered under section 86 (1) of the Companies Ordinance, 1984, by its associated company, Berdex Construction Chemicals (Private) Limited, by passing the following Resolution with or without modification, as a Special Resolution:

“RESOLVED that the offer for the whole of the shares, under section 86(1) of the Companies Ordinance, 1984, by its associated company, Berdex Construction Chemicals (Private) Limited be declined by the Company by not subscribing for the offered shares, whereby maintaining the existing holding in terms of absolute number of shares held by the Company in Berdex Construction Chemicals (Private) Limited unchanged.”

A Statement under section 160 of the Companies Ordinance, 1984 setting forth all material facts concerning the Special Business is annexed to this Notice of Meeting being sent to Members.

By Order of the Board

(MUHAMMAD HANIF IDREES)
Company Secretary

Karachi: September 21, 2006

C. NOTES

1. The Register of Members and the Share Transfer Books of the Company shall remain closed from 23 October, 2006 to 30 October, 2006 (both days inclusive). Transfers received in order at the Registered Office of the Company by the close of business hours on 21 October, 2006 will be treated in time for incorporating the change in the Register of Members as at 23 October, 2006.
2. Entitlement to dividend and to attend, participate and vote at the forty-seventh Annual General Meeting will be according to the Register of Members as at 23 October, 2006.
3. A member of the Company entitled to attend and vote may appoint another member as his/her proxy to attend, speak and vote for him/her. An instrument of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must, to be valid, be deposited at the Registered Office of the Company not less than 48 hours before the time of the Meeting.
4. An instrument of proxy applicable for the Meeting in which a Member can direct the proxy how he / she wishes the proxy to vote, is being provided with the notice sent to Members. Further copies of the instrument of proxy may be obtained from the Registered Office of the Company during normal office hours.
5. Members are requested to submit declaration for Zakat on the required format and to notify immediately changes, if any, in their registered address.
6. Members who have not yet submitted photocopy of their Computerized National Identity Cards to the company are requested to send the same at the earliest.
7. CDC Account Holders will further have to follow the under-mentioned guidelines as laid down in Circular 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

a) For Attending the Meeting:

- i. In case of individuals, the account holder or sub-account holder whose securities and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting.
- ii. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

b) For Appointing Proxies:

- i. In case of individuals, the account holder or sub-account holder whose securities and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.
- ii. The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- iii. Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iv. The proxy shall produce his original CNIC or original passport at the time of the meeting.
- v. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

8. Transport will be available for members at 10:00 a.m. sharp outside the premises of the Karachi Stock Exchange Building to take them to the venue of the meeting.

D. STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

This statement is annexed to the Notice of the forty-seventh Annual General Meeting of Dadex Eternit Limited to be held on 30 October 2006 at which certain Special Business is to be transacted. The purpose of this Statement is to set forth the material facts concerning such Special Business.

The approval of the Members will be sought for the following Special Business mentioned in Section B.

The Company currently holds 50% shares in Berdex Construction Chemicals (Private) Limited ("Berdex"). The Board of Directors of Berdex has decided to increase the capital of the company by the issue of further 51,020 shares at their par value of Rs.10/= . The Company's entitlement in proportion of its existing shares held comes to 25,510 shares. The similar offer has also been made to the only other shareholder in Berdex, Berger Paints Limited ("Berger").

The break-up value per share of Berdex as stated in its latest audited financial statements for the year ended 30 June, 2006 is Rs.7.33 while earning per share of Berdex for the last three years is Rs.0.44 for 2003-2004, Rs.2.48 for 2004-2005 and Rs. (2.67) for Rs. 2005-2006.

In line with the Company's long-term strategic objectives and its business plan, the Board of Directors of the Company does not consider it desirable to accept the said offer and it is proposed that the offer be declined by not subscribing to the whole of 25,510 shares offered.

With the Company not taking up the shares on offer, its overall shareholding in Berdex will be reduced from the existing 50% to 49%, though the original number of 625,000 shares held by the Company in Berdex will remain unchanged.

No director is personally interested in this business.

The Directors of the Company are pleased to present the forty-seventh Annual Report along with the Audited Financial Statements for the year ended 30 June, 2006.

I. THE ECONOMY

During the year the country registered a GDP growth at 6.6%, as against the target of 7%, in spite of surging oil prices and devastating earthquake in the northern regions in October, 2005. Contribution of the Construction sector in GDP increased over last year and Telecommunication sector also showed a robust growth over last year.

However the sustained growth momentum has led to credit expansion and robust consumer spending leading to inflationary pressures. Therefore, the year under review witnessed tightening of monetary policies, declining foreign exchange reserves and increasing rates of borrowing.

II. THE BUSINESS

New Initiatives

Anticipating the intense competition in the piping business, during the year the Company started providing Agri solutions by focussing application of its products to "Agriculture and Irrigation" sector besides services related to Telecommunication sector referred in note 3.3 to the financial statements and introduction of Aluminium Cladding under its building products portfolio. The Company has become the exclusive distributor of Netafim, a leading irrigation company in the world.

Operations

During the year, a new extrusion line was installed for manufacturing smaller diameter u-PVC pipes being also used as electrical conduits and ducts in the Telecommunication sector.

As informed earlier in our previous review to the shareholders, the Company plans to achieve the geographical diversification of its operations. In pursuance of this objective, the Company, during the year launched the project of setting up the manufacturing facility of over Rs.200 million on the land acquired last year in the province of Punjab. The new facility is planned to be operational before 30 June, 2007.

In view of heavy Capital Expenditure in last few years and the planned further expansion, the Company reassessed the expected pattern of consumption of future economic benefits associated with the Plant and Machinery. Consequently during the year, the Company revised the expected useful economic life of Plant and Machinery and rationalised the rates of depreciation for the same, keeping in view the industry practices and international norms.

Sales and profitability

Competition from low quality manufacturers, cheap imports and substandard substitutes continued to become more intense. Weaker-than-expected growth of the manufacturing sector at 8.6% against a target of 12% and last year's growth of 12.6% is an evidence of the opportunities arising from the economic growth in the country being grabbed away by the traders' community at the cost of the manufacturing sector.

Therefore we strongly feel that Government needs to take measures for lowering the cost of doing business, ensuring adherence to standards by setting specifications for use of quality materials according to the international practices, avoiding allowing concessions in tariff on the locally manufactured products under any FTAs or PTAs with other countries and widening or at least maintaining the gap between the rates of custom duty on raw materials and imports of finished products being locally manufactured from such raw materials to ensure the growth of the local industry.

In the wake of the above background the Company achieved a growth of 3.4% in its turnover. The sales expansion is mainly on account of the volume growth and new initiatives, because selling prices remained under pressure. Inflationary trend, especially sharp increase in prices of cement and petroleum based raw materials, transportation cost, and increased rates and levels of borrowing coupled with technical problems in operations and power fluctuations have led to serious erosion of profitability. Lower contributions during the gestation period of new initiatives and set up expenses of such initiatives have also put pressure on the profitability. All these factors have resulted in reduced earning per share of Rs. 1.35 (Restated for 30 June, 2005: Rs.5.06).

III. DIVIDENDS AND APROPRIATIONS

Summary of profits available for appropriations is as follows:

	(Rupees '000)
Unappropriated profit as at 01 July, 2005 (restated)	59,649
Final dividend per share of Rs.3.5 (2005: Rs.3.00) for the year ended 30 June, 2005	(37,674)
Transfer to General Reserves for the year ended 30 June, 2005	(15,572)
Profit after taxation for the year ended 30 June, 2006	14,548
Unappropriated profit as at 30 June, 2006	<u>20,951</u>
Subsequent Effects	
Proposed final dividend per share of Rs.1.75	18,837
Unappropriated profit as at 01 July, 2006	2,114
	<u>20,951</u>

Break-up value per share as at 30 June, 2006 is Rs.43.56 (Rs.45.68 - restated)

IV. BOARD OF DIRECTORS AND THEIR COMMITTEES, CHIEF EXECUTIVE AND CHAIRMAN

Since the last report, Mr. Tariq Ali Jafri and Mr. Zahid Zaheer have resigned from the Board. Mr. Maqbool H. H. Rahimtoola relinquished the position of Chairman of the Board with effect from 30 June, 2006 and Mr. Sikander Dada relinquished the position of Chief Executive with effect from 31 August, 2006.

The Board of Directors would like to place on record the valuable contribution of the outgoing Directors, while on the Board of Directors of the Company and outgoing Chief Executive and Chairman while serving in their respective capacities.

We welcome to the Board Mr. Shahzad M. Husain who joined the Board in place of a resigning Director with effect from 27 December, 2005 for the remainder of the term. The Board also welcomed Mr. Sikander Dada as the new Chairman with effect from 01 July 2006 and as the Director of the Company in place of a resigning Director with effect from 01 September 2006 for the remainder of the term. The term of office of the present Directors will expire on 12 July, 2008. We also welcome Mr. Imtiaz Zaidi as the new Chief Executive with effect from 1 September, 2006 for a term of two years, which is extendable for another year.

Consequent to the above changes, new Chief Executive, Mr. Imtiaz Zaidi and Director Mr. Muhammad Najam Ali have been nominated on the Audit Committee of the Board in place of Mr. Sikander Dada and Mr. Zahid Zaheer, with Mr. Qazi Sajid Ali as the Chairman of the Audit Committee.

During the year under review, six meetings of the Board of Directors were held. Attendance by Chief Executive and each Director is annexed with this report.

V. INFORMATION COMMUNICATION TECHNOLOGY

The Company recognises the "Information" as the most important resource in the current era for meeting the business challenges ahead. Therefore in May, 2006 your Company entered into an agreement for acquiring licenses of SAP, which is the state of the art Enterprise Resource Planning (ERP) solution. Further in September, 2006 the Company also entered into the agreement for implementation of SAP. The total project is estimated to cost Rs.22 million. Therefore, in the medium term, the major focus of the Company would be towards the gigantic task of implementing SAP, introducing server centric environment for efficiencies and enhancing the effectiveness of the connectivity.

VI. CONTRIBUTION TO THE NATIONAL ECONOMY

During the year under review, the Company has contributed over Rs.339 million (2005: Rs.316 million) in shape of duties, taxes and levies to the Government exchequer. We believe that such contribution has a room for substantial increase provided the Government initiates further measures to encourage the quality manufacturing activity in the country and help in curbing the influx of cheap imports and substandard manufactured products.

VII. HEALTH, SAFETY, ENVIRONMENT (HSE) AND QUALITY

Your Company is committed to ensure environment friendly operations, products and services for the well being of the community in which it operates by striving hard to keep achieving our Quality, Environment and Safety objectives. In acknowledgement of the track record of achievements and services in the field of environment, "National Forum for Environment and Health" has honoured your Company with Certificate of Appreciation at the 3rd Annual Environment Excellence Awards (AEEA-2006) for the third consecutive year

The process of implementing Environment Management System (EMS) ISO 14001:2004 has commenced and work on implementation of Good Laboratory Practices on the basis of ISO / IEC 17025 for Accreditation of Laboratory is also progressing fast.

VIII. HUMAN RESOURCES

Human Capital is the most valuable intangible asset of the Company which has played its role for the growth of the business. Your company is committed to nurture this capital by investing on appropriate selection of human resource and then retention and training of such resource. Dearth of skilled resource is a challenge of the future.

During the year, the Company was recognised as an Investor in People (IiP) in recognition of meeting the requirements of the IiP Standards as a result of successful assessment process in accordance with the guidelines provided for assessors by IiP UK.

IX. COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE AND BEST PRACTICES OF TRANSFER PRICING

A) Your Board of Directors is pleased to confirm:

- 1) That your company has applied the principles contained in the Code of Corporate Governance and relevant listing regulations, as narrated in the "Statement of Compliance with Code of Corporate Governance" for the year ended 30 June 2006 annexed with this report.
- 2) That your company while complying with the applicable regulations has applied the principles contained in the Code of Corporate Governance and relevant schedule of the Companies Ordinance, 1984 regarding Transfer Pricing. In pursuance of Securities & Exchange Commission's letter no SMD / SE /2(85)/2003 dated 27 June 2006 implementation / applicability of listing regulation no 38 relating to "Transfer Pricing" has been deferred till 30 September, 2006.
- 3) That the Board has adopted the "Statement of Business Ethics and Practices" and measures have been taken to ensure that all employees within the organisation effectively observe these rules of conduct.
- 4) The following statements which External Auditors have also certified in their report to the members :
 - a. The financial statements, prepared by the management of the company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
 - b. Proper books of account of the company have been maintained.
 - c. Appropriate accounting policies have been consistently applied in preparation of financial statements, except for the change as stated in note 2.5.1 to the financial statements which has concurrence of external auditors and accounting estimates are based on reasonable and prudent judgment.
 - d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- 5) The system of internal control and other such procedures, which are in place, are being continuously reviewed by the Board's Audit Committee assisted by the internal audit staff of the Company and a Chartered Accountant firm appointed for carrying out the Internal Audit. The process of review will continue and any weaknesses in controls identified in the process will be removed.
- 6) There are no significant doubts upon the company's ability to continue as a going concern.
- 7) There has been no material departure from the best practices of corporate governance, as detailed in the applicable listing regulations.

B) Following is the further information in accordance with Corporate and Financial Reporting Framework laid down in Code of Corporate Governance:

- 1) The summary of key operating and financial data of the Company of last eight years is annexed with this report.
- 2) Taxes and levies are as disclosed in the notes to the accounts.
- 3) The following is the value of investments held by Provident Fund based on the latest audited accounts as at June 30:

2006	2005
----- (Rupees in '000)-----	
130,354	114,732

- 4) The statement, showing pattern of shareholding of the Company as at 30 June 2006 is annexed with this report.
- 5) The directors, CFO & Company Secretary and their spouses and minor children did not carry out any trade in the shares of the Company during the year.

X. AUDITORS

The present auditors M/s Ford Rhodes Sidat Hyder & Co., Chartered Accountants retire at the conclusion of the forty-seventh Annual General Meeting. Being eligible, they have offered themselves for reappointment. As required by the Code of Corporate Governance,

Board Audit Committee has recommended their reappointment, by the Company's shareholders, as auditors of the Company for the financial year ending 30 June 2007, and the Board agrees to the recommendation of the Board Audit Committee.

Auditors recommended for appointment hold satisfactory rating under the "Quality Control Review Programme" of the Institute of Chartered Accountants of Pakistan.

XI. MATERIAL CHANGES AND COMMITMENTS

No material changes and commitments affecting the financial position of the Company have occurred between the end of the financial year of the Company to which the balance sheet relates and the date of this Report.

The Directors have proposed not subscribing for the whole of shares offered under section 86(1) of the Companies ordinance, 1984, by its associated company, Berdex Construction Chemicals, subsequent to the Balance Sheet date.

XII. FUTURE PROSPECTS AND CHALLENGES

In view of the allocation of approximately Rs.155 billion for the infrastructure development in the Federal Public Sector Development Programme (PSDP), interest being shown by large international investors in mega projects in the offing in the country and expected continued growth of the Telecommunication sector, we foresee huge business potential for the Company.

However rising costs of petroleum based raw materials, efficiencies of our operations, controlling the financial costs, stability in domestic and global business environment and rising inflation pose the challenges.

Your Company is focussing on setting up of the manufacturing facilities in the North which is the most important aspect of strategy for becoming competitive by proximity to a major market segment and increasing the market share by capturing the opportunities. Appropriate alignment in the business model is also a part of our business plans to increase the turnover as well as profitability. Measures to shorten the gestation period of new activities to become profitable are also planned.

XIII. ACKNOWLEDGEMENTS

Our customers are the key element behind our existence and growth. We wish to offer our sincere thanks and appreciation for their support and patronage.

We would also like to thank all other stakeholders including our vendors, bankers and financial institutions, insurers, Government and our shareholders for their cooperation, support and reposing confidence on us.

We would also like to thank all our employees for their zeal, enthusiasm, commitment, dedication, hard work and team spirit without which our journey towards making our vision of becoming the most valued company a reality will remain incomplete.

On behalf of the Board of Directors

(SIKANDER DADA)
Chairman

Karachi: 21 September, 2006

Name of Director	Total No. of Board Meetings	No. of Meetings Attended
MAQBOOL H.H. RAHIMTOOLA	6	6
ABDUR RAZZAK DADA (Alternate: MUHAMMAD HANIF IDREES)	6	0 6 6
ABU TALIB H.K. DADA	6	6
ZAHID ZAHEER	6	6
QAZI SAJID ALI	6	5
SHAHZAD M. HUSAIN (Incoming)	4	4
TARIQ ALI JAFRI (Outgoing)	2	2
	6	6
RASHEED Y. CHINOY	6	5
MUHAMMAD NAJAM ALI	6	5
MOHAMMAD ALI JAMEEL	6	1
SAAD S. FARUQUI	6	3
SIKANDER DADA - CHIEF EXECUTIVE	6	5

Leave of absence was granted to Directors who could not attend some of the Board meetings.

This statement is being presented to comply with the Code of Corporate Governance contained in Listing Regulation No. 37 of listing regulations of Karachi Stock Exchange 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 Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present there is no executive director in the Company's Board of Directors, other than the CEO.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company have confirmed that they are registered taxpayers.
4. All the resident directors have confirmed that none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI and none of them is a member of a stock exchange in Pakistan.
5. All casual vacancies occurring in the Board were filled up by the directors within 30 days, thereof.
6. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and senior management employees of the Company.
7. The Board of Directors has developed a vision/mission statement, overall corporate strategy and significant policies of the company. Any amendments in significant policies are approved by the Board and a complete record of amendments in significant policies along with the dates on which they were approved has been maintained.
8. All the 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 have been taken by the Board.
9. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda were circulated at least seven days before the meeting. The minutes of the meeting were appropriately recorded and circulated.
10. Directors are well conversant with the listing regulations and legal requirements and as such are fully aware of their duties and responsibilities.
11. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
12. The CFO (who is also the Company Secretary) is a fellow member of the Institute of Chartered Accountants of Pakistan and the Institute of Cost & Management Accountants of Pakistan.
13. The Company Secretary (who is also the CFO) attends Board Meetings of the Company.
14. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
15. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
16. 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.
17. The Company has complied with all the corporate and financial reporting requirements of the Code.
18. The Board has formed an audit committee. It comprises four members, of whom three are non-executive directors including the chairman of the committee.
19. 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 Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

20. The Board has set-up an effective internal audit function.
21. The statutory auditors of the Company have confirmed that:
 - a. they have been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan;
 - b. they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company; and
 - c. the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
22. 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.
23. We confirm that all other material principles contained in the Code have been complied with.

Karachi: 21 September, 2006

IMTIAZ H. ZAIDI
Chief Executive

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) for the year ended June 30, 2006 prepared by the Board of Directors of Dadex Eternit Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited where the Company is listed.

The responsibility for compliance with the Code 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 and report if it does not. A review is limited primarily to inquiries of the Company 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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, effective for the year ended June 30, 2006.

Karachi: 21 September, 2006

FORD RHODES SIDAT HYDER & CO.
CHARTERED ACCOUNTANTS

We have audited the annexed balance sheet of Dadex Eternit Limited as at June 30, 2006 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 account and are further in accordance with accounting policies consistently applied except for the change as stated in note 2.5.1 to the financial statements with which we concur;
 - 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 explanations given 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 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, 2006 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Karachi: 21 September, 2006

FORD RHODES SIDAT HYDER & CO.
CHARTERED ACCOUNTANTS

DADEX

	Note	2006	2005 (Restated)
----- (Rupees in '000) -----			
ASSETS			
NON-CURRENT ASSETS			
Fixed Assets - Property, plant and equipment	3	343,998	298,024
Long-term investments	4	5,215	8,154
Long-term loans	5	4,500	1,488
Long-term deposits	6	8,251	15,305
		361,964	322,971
CURRENT ASSETS			
Stores and spares	7	81,264	58,061
Stocks-in-trade	8	815,806	586,826
Trade debts	9	178,949	176,328
Loans and advances	10	25,380	25,353
Trade deposits and short-term prepayments	11	15,202	4,357
Accrued mark-up		-	275
Other receivables		595	147
Current portion of long-term investment	4	70	492
Taxation refundable		10,654	-
Cash and bank balances	12	2,312	59,800
		1,130,232	911,639
TOTAL ASSETS		1,492,196	1,234,610
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital 20,000,000 (2005: 20,000,000) ordinary shares of Rs. 10/- each	13	200,000	200,000
Issued, subscribed and paid-up capital	14	107,640	107,640
Reserves	15	361,189	384,077
Shareholders' equity		468,829	491,717
NON CURRENT LIABILITIES			
Liabilities against assets subject to finance lease	16	17,104	40,901
Deferred taxation	17	24,736	14,588
Deferred income	18	2,053	4,107
		43,893	59,596
CURRENT LIABILITIES			
Trade and other payables	19	356,284	275,090
Accrued interest / mark-up		10,129	4,553
Current portion of liabilities against assets subject to finance leases	16	23,592	49,733
Short-term borrowings	20	582,711	329,697
Sales tax payable		6,758	16,272
Taxation payable		-	7,952
		979,474	683,297
CONTINGENCIES AND COMMITMENTS	21	-	-
TOTAL EQUITY AND LIABILITIES		1,492,196	1,234,610

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

MUHAMMAD HANIF IDREES
Chief Financial Officer

IMTIAZ H. ZAIDI
Chief Executive

SIKANDER DADA
Chairman

	Note	2006	2005 (Restated)
----- (Rupees in '000) -----			
Turnover – net	22	1,335,387	1,290,858
Cost of sales	23	(1,040,564)	(987,236)
Gross profit		<u>294,823</u>	<u>303,622</u>
Selling expenses	24	(169,173)	(116,485)
Administrative expenses	25	(72,165)	(87,770)
Other operating expenses	26	(18,809)	(9,345)
Other operating income	27	28,069	14,502
Operating profit		<u>62,745</u>	<u>104,524</u>
Finance costs	28	(48,118)	(18,160)
Share of (loss) / profit of an associate	4.1	(3,215)	1,271
Profit before taxation		<u>11,412</u>	<u>87,635</u>
Taxation	29	3,136	(33,130)
Profit after taxation		<u>14,548</u>	<u>54,505</u>
(Rupees)			
Earnings per share – Basic and diluted	30	<u>1.35</u>	<u>(Restated) 5.06</u>

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

MUHAMMAD HANIF IDREES
Chief Financial Officer

IMTIAZ H. ZAIDI
Chief Executive

SIKANDER DADA
Chairman

	Note	2006	2005
----- (Rupees in '000) -----			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34	(69,017)	(96,894)
Finance costs paid		(47,869)	(22,020)
Income tax paid		(5,325)	(3,763)
Long-term loans and advances - net		(2,908)	(815)
Long-term deposits - net		(552)	(9,174)
Net cash outflow from operating activities		(125,671)	(132,666)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(108,627)	(114,399)
Proceed from sale of investments		628	25
Proceeds from disposal of fixed assets		2,529	2,295
Mark-up received		7,854	10,861
Net cash outflow from investing activities		(97,616)	(101,218)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowing against assets subject to finance lease - net		(49,938)	47,144
Short-term borrowings obtained / (repaid)		253,013	(90,302)
Dividend paid		(37,276)	(31,892)
Net cash inflow / (outflow) from financing activities		165,799	(75,050)
Net decrease in cash and cash equivalents		(57,488)	(308,934)
Cash and cash equivalents at the beginning of the year		59,800	368,734
Cash and cash equivalents at the end of the year	12	2,312	59,800

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

MUHAMMAD HANIF IDREES
Chief Financial Officer

IMTIAZ H. ZAIDI
Chief Executive

SIKANDER DADA
Chairman

	Reserves						Total
	Share Capital	Capital Reserve - Share Premium	Net Unrealised gain/(loss) on Hedging Instruments	Revenue Reserves		Sub Total	
General Reserves				Unappropriated Profit			
----- (Rupees in '000) -----							
Balance as at July 01, 2004 (as previously reported)	107,640	5,655	334	313,345	41,575	360,909	468,549
Effect of change in accounting policy (note 2.5)							
Share of accumulated profit in respect of Investment in an associated company	-	-	-	-	1,527	1,527	1,527
Balance as at July 1, 2004 (restated)	107,640	5,655	334	313,345	43,102	362,436	470,076
Final dividend for the year ended June 30, 2004 @ 30%	-	-	-	-	(32,292)	(32,292)	(32,292)
Transfer to general reserves for the year ended June 30, 2004	-	-	-	5,666	(5,666)	-	-
Net unrealised loss on hedging instruments	-	-	(572)	-	-	(572)	(572)
Profit after taxation for the year ended June 30, 2005	-	-	-	-	54,505	54,505	54,505
Balance as at June 30, 2005 (restated)	107,640	5,655	(238)	319,011	59,649	384,077	491,717
Balance as at July 01, 2005 (as previously reported)	107,640	5,655	(238)	319,011	56,851	381,279	488,919
Effect of change in accounting policy (note 2.5)							
Share of accumulated profit in respect of Investment in an associated company	-	-	-	-	2,798	2,798	2,798
Balance as at July 01, 2005 (restated)	107,640	5,655	(238)	319,011	59,649	384,077	491,717
Final dividend for the year ended June 30, 2005 @ 35%	-	-	-	-	(37,674)	(37,674)	(37,674)
Transfer to general reserves for the year ended June 30, 2005	-	-	-	15,572	(15,572)	-	-
Net unrealised gain on hedging instruments	-	-	238	-	-	238	238
Profit after taxation for the year ended June 30, 2006	-	-	-	-	14,548	14,548	14,548
Balance as at June 30, 2006	107,640	5,655	-	334,583	20,951	361,189	468,829

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

MUHAMMAD HANIF IDREES
Chief Financial Officer

IMTIAZ H. ZAIDI
Chief Executive

SIKANDER DADA
Chairman

DADEX

1. NATURE AND STATUS OF BUSINESS

- 1.1 The Company is a limited liability company incorporated in Pakistan on April 13, 1959 as a public limited company under the Companies Ordinance, 1984 (the Ordinance) and is quoted on Karachi Stock Exchange. The registered office of the Company is situated at Dadex House, 34-A/1, Block 6, P.E.C.H.S, Sharah-e-Faisal, Karachi. The principal business of the Company is manufacture and sale of construction material which mainly includes piping system and other allied products manufactured from chrysotile cement, rubber and plastics, and merchandising of imported fittings, accessories and other building products.
- 1.2 During the year the company has started focusing on application of its products to "Agriculture and Irrigation" sector besides attempting to provide services related to telecommunication sector as referred in note 3.3 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Basis of Preparation

These financial statements have been prepared under the historical cost convention except that certain exchange elements referred to in note 2.16 have been incorporated in the cost of the relevant fixed assets and for financial assets and liabilities, if any, in accordance with recognition and measurement criteria as laid down in IAS-39 "Financial Instruments: Recognition and Measurement".

2.3 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 judgments in the process of applying the company's accounting policies. Estimate 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. In the process of applying the company's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

Property, plant and equipment

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits are based on the analysis by the management of the Company. Further, the company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipments with a corresponding affect on the depreciation charge and impairment.

Other areas where estimates and judgments involved are disclosed in respective notes to the financial statements.

2.4 Fixed assets and depreciation

2.4.1 Property, plant and equipment

Owned

Operating property, plant and equipment are stated at cost less accumulated depreciation or impairment, if any, except freehold land and capital work-in-progress which are stated at cost. Cost in relation to certain fixed assets signifies historical cost and exchange differences capitalized as referred to in note 2.16.

Depreciation is charged to profit and loss account using the straight-line method, whereby the cost of an asset less residual value is written-off over its estimated useful life. A full month's depreciation is charged for assets purchased and no depreciation is charged in the month of disposal. Previously, a full year's depreciation charged was made for assets purchased during the year and no charge was made in the year of disposal.

The carrying values of property, plant and equipment are reviewed at each reporting date for indication that an asset may be impaired and carrying values may not be recovered. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements, if any, are capitalized.

Gains and losses on disposals of property, plant and equipments are determined by comparing proceeds with the carrying amount of the relevant assets. These are included in the profit and loss account.

Changes in accounting estimate

During the current year, as required by International Accounting Standard (IAS) 16 "Property, Plant and Equipment" the management has reassessed the expected pattern of consumption of future economic benefits associated with the fixed assets. As a result of such exercise:

- a) due to the changes in expected useful economic life of plant and machinery to the Company, the rate of depreciation for the same has been revised from 20% to 10% effective from July 01, 2005; and
- b) effective current year, the charge for depreciation is calculated on monthly basis whereby, a full month's charge is made for assets purchased during the year and no charge is made in the month of disposal. Previously, a full year's charge was made for assets purchased during the year and no charge was made in the year of disposal.

The effects of above changes have been accounted for prospectively i.e. with effect from July 01, 2005. Had the estimates not been revised, the depreciation charge for the period would have been higher and the carrying value of fixed assets would have been lower by Rs. 36.771 million and consequently there would have been a loss before taxation for the year of Rs. 19.633 million, whereas stock-in-trade would have been higher by Rs. 5.726 million.

Leased

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of leased items are capitalised at the inception of lease. Assets subject to finance lease are stated at the lower of the present value of minimum lease payments under the lease agreements and their fair value. Depreciation is charged using the same basis and rates used for similar owned assets whereby the cost of assets less residual value is written off over their estimated useful lives. Income arising from sale and lease back transactions, if any, is deferred and is amortised equally over the lease period.

2.5 Investments

2.5.1 Investment in an associated company

Investment in an associated company is accounted for using equity method of accounting. Investments over which investor has "significant influence" are accounted for under this method i.e., investments to be carried in the balance sheet at cost plus post-acquisition changes in the share of net assets of the associate, less any impairment in value. The profit and loss account reflects the share of the results of operations of the associate.

Change in accounting policy

Effective from current year the revised IAS 28, "Investments in Associates" has become applicable to the Company. This has resulted in the change in accounting policy for investment in associates. The revised standard requires that such investments over which investor has "significant influence" must be accounted for using the equity method i.e., investments to be carried in the balance sheet at cost plus post-acquisition changes in the share of net assets of the associate, less any impairment in value. The profit and loss account reflects the share of the results of operations of the associates. Previously, it was accounted for under the cost method.

The change in accounting policy has been accounted for retrospectively and comparative information has been restated in accordance with benchmark treatment specified in IAS - 8 (Net Profit or Loss for the period and change in accounting policies). Had there been no change in accounting policy, the profit before tax would have been higher by Rs. 3.214 million (June 30, 2005: would have been lower Rs. 1.271 million) and the value of Investment would have been higher by Rs. 0.417 million (June 30, 2005: would have been lower by Rs. 2.789 million). The effect of change in accounting policy is reflected in the Balance sheet, Profit and loss account and Statement of changes in equity.

2.6 Stores and spares

These are valued at moving average cost less provision for obsolete and slow moving items except for items in transit which are stated at invoice values plus other charges incurred thereon.

2.7 Stock-in-trade

2.7.1 Raw materials

Raw materials are valued at the lower of moving average cost and net realisable value.

Items in transit are valued at cost comprising invoice values plus other charges incurred thereon.

2.7.2 Work-in-process

Work-in-process is valued at prime cost and an appropriate portion of manufacturing overheads.

2.7.3 Finished goods

Finished goods are valued at lower of moving average cost and net realisable value. Cost in case of manufactured finished goods includes prime cost and an appropriate portion of manufacturing overheads. Items in transit are valued at cost comprising invoice values plus other charges incurred thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less estimated cost of completion and estimated costs necessarily to be incurred to make the sale.

2.8 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified.

2.9 Provisions

Provisions are recognized when:

- a) the Company has a present obligation (legal or constructive) as a result of past events;
- b) it is probable that an outflow of resources will be required to settle the obligation; and
- c) A reliable estimate of the amount can be made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2.10 Liabilities and finance charge against assets subject to finance lease

Liabilities against assets subject to finance lease are accounted for at net present value of minimum payments under the lease arrangements. Lease payments are apportioned between the finance charges and reduction of lease liability so as to achieve a constant rate of financial cost on the remaining balance of the liability. Financial costs are charged directly against income.

2.11 Revenue recognition

- a) Sales are recorded on dispatch of goods to customers.
- b) Dividend income is recognized when the right to receive the dividend is established.
- c) Rental and interest income is recorded on accrual basis.

2.12 Turnkey projects

Revenue is recognized on the basis of approved quantities of pipes supplied. The value of pipes supplied to date and the related costs incurred in respect thereof are recognized as an expense. Any anticipated losses on these contracts are recognized immediately by transferring the related revenue to contingency account. Revenue arising from work variations and claims is not accounted for unless it is probable that the customer will approve the variation / claim and the amount of revenue arising from variation / claim can be measured reliably.

2.13 Retirement benefits

The Company operates an approved contributory provident fund for all permanent employees for which contributions are charged to income for the year.

2.14 Compensated absences

The Company provides for its estimated liability towards leaves accumulated by employees on an accrual basis using current salary levels.

2.15 Taxation

2.15.1 Current

Provision for current taxation is the higher of the amount computed on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, and minimum tax computed at the prescribed rate on sales net of sales tax.

2.15.2 Deferred

Deferred tax is provided in full using the liability method on all temporary differences arising at the Balance Sheet date between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, while deferred tax assets are recognized 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 unused tax assets and unused tax losses can be recognized.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recognized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset is recognized or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

2.16 Foreign currency translation

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year end exchange rates of monetary assets and liabilities (except for foreign currency loans obtained for acquisition of fixed assets) denominated in foreign currencies are recognized in the profit and loss account. Exchange differences in respect of foreign currency loans obtained for acquisition of fixed assets are incorporated in the cost of the relevant assets.

2.17 Financial instruments

Financial instruments carried on the balance sheet include investments, loan, deposits, receivables, cash and bank balances and trade creditors.

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument and are derecognised in case of assets, when the contractual rights under the instrument are realised, expire or surrendered and in case of liability, when the obligation is discharged, cancelled or expired.

A financial asset and financial liability is off set and the net amount is reported in the balance sheet if the Company has legally enforceable right to setoff the recognized amount and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.18 Derivative financial instruments

When considered appropriate, the Company uses forward foreign exchange contracts to hedge its risk associated primarily with foreign currency fluctuations relating to purchases of raw materials and fixed assets from overseas suppliers. These contracts, except those having immaterial financial impact, are included in the balance sheet at fair value and any resulting gain or loss is recognized in the statement of changes in equity. The fair value of forward foreign exchange contracts is included in 'other receivables' in case of favorable contracts and 'other liabilities' in case of unfavorable contracts. The fair values of these contracts are calculated by reference to current forward exchange rates with similar maturity profiles.

2.19 Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred.

2.20 Cash and cash equivalents

Cash and bank balances are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents are cash and bank balances and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

2.21 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognised in the financial statements in the period in which these are approved.

2.22 Transaction with related parties

Transactions with related parties are based on the policy that all transactions between the Company and the related parties are carried out at arm's length.

3. FIXED ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Note	2006	2005
----- (Rupees in '000) -----			
Operating property, plant and equipment	3.1	298,492	284,808
Capital work-in-progress	3.2	45,506	11,355
Spares held for capitalization		-	1,861
		<u>343,998</u>	<u>298,024</u>

3.1 Operating property, plant and equipment

	Cost			Depreciation				
	At July 1, 2005	Additions / (Disposals)/ transfer**	At June 30, 2006	At July 1, 2005	For the Year / (on Disposals)/ transfer**	At June 30, 2006	Book Value At June 30, 2006	Depreciation Rate % Per Annum
----- (Rupees in '000) -----								
Freehold land	27,890	4	27,894	-	-	-	27,894	-
Leasehold land	5,292	-	5,292	1,630	66	1,696	3,596	1-2.5 %
Buildings on freehold land	2,056	245	2,301	1,189	127	1,316	985	5%
Factory buildings on leasehold land	46,356	3,894	50,250	32,691	2,223	34,914	15,336	10%
Buildings on leasehold land other than factory	66,764	6,876	73,640	24,997	3,244	28,241	45,399	5%
Plant and machinery	115,336	39,847	138,840	100,027	3,756	103,647	35,193	10%
	Note 3.3	-(16,343)			-(136)			
Furniture and fixtures	3,395	2,034	5,429	2,037	337	2,374	3,055	10%
Vehicles and transportation equipment	19,681	15,078 (1,239)	32,770	10,026	3,859 (823)	13,045	19,725	20%
	Note 3.3	-(750)			-(17)			
Office and factory equipment	8,822	6,968	15,790	5,987	1,829	7,816	7,974	10 - 33.3%
	Note 7	74,946 (1,239)	352,206	178,584	15,441 (823)	193,049	159,157	
		-(17,093)			-(153)			
ASSETS UNDER FINANCE LEASE								
Plant and machinery	494,402	-	494,402	334,705	25,655	360,360	134,042	10%
Office and factory equipment	613	-	613	248	95	343	270	10 & 33.33%
Vehicle and Transportation equipment	13,576	-	13,576	5,838	2,715	8,553	5,023	20%
	2006	-	508,591	340,791	28,465	369,256	139,335	
		74,946 (1,239)	860,797	519,375	43,906 (823)	562,305	298,492	
		-(17,093)			-(153)			
	2005	109,028 (444,282)	804,183	424,995	81,987 (256,699)	519,375	284,808	
		*442,839			*249,742			

* Represents sale and leaseback transaction.

Details of property, plant and equipment sold are given in note 3.4.

3.1.1 The depreciation charge for the year has been allocated as follows:

	Note	2006	2005
----- (Rupees in '000) -----			
Cost of sales	23	32,757	65,130
Selling expenses	24	3,126	3,124
Administrative expenses	25	6,950	12,660
Net rental income	27.1	1,073	1,073
		<u>43,906</u>	<u>81,987</u>

3.1.2 Fixed assets includes various items of factory equipment having net book value of Rs. 1.001 million as at June 30, 2006 (2005: 0.573 million) which are given to customers for use on a temporary basis. No rent is charged by the Company from these customers.

3.1.3 Building on leasehold land other than factory includes property given on rent having net book value of Rs. 18.265 million (2005: 15.044 million).

3.2 Capital work-in-progress

	2006	2005
----- (Rupees in '000) -----		
Advances against purchases of fixed assets:		
- Plant and machinery	18,053	6,649
- Vehicles	-	1,840
- Other	-	12
Cost of acquiring SAP license	9,286	-
Civil works	18,167	2,854
	<u>45,506</u>	<u>11,355</u>

3.3 During the year, the company acquired assets for providing drilling services to the telecommunication sector. Due to technical reasons the contract for services has been transferred to another service provider which has accepted to purchase these assets. As of the balance sheet date an amount of Rs. 16.940 million has been transferred from the fixed assets to assets held for disposal included in the stores and spares. (Also refer note 21.2 to the financial statements.)

3.4 The following fixed assets were disposed off during the year:

	Cost	Accumulated Depreciation	Book Value	Sale Proceeds/ Insurance Claim	Mode of Disposal	Particulars of Buyers
----- (Rupees in '000) -----						
Vehicle and transportation	939	563	376	512	Buy Back Scheme	Mr. Afaq Ahmed Kazi Ex-Employee
Aggregate of assets disposed-off having book value below Rs. 50,000 each	300	260	40	2,017	Negotiation	Various
	<u>1,239</u>	<u>823</u>	<u>416</u>	<u>2,529</u>		

4. LONG-TERM INVESTMENTS

	Note	2006	2005
----- (Rupees in '000) -----			
- In an associate			
625,000 (2005: 625,000) ordinary shares of Rs. 10/- each		5,000	5,000
Share of (loss) / profit in an associated company	4.1	(417)	2,798
		<u>4,583</u>	<u>7,798</u>
- Others – held to maturity			
Defence Saving Certificates	4.2	220	270
Accrued interest	4.2	482	578
		<u>702</u>	<u>848</u>
Less: Maturity within next twelve month shown in current assets		70	492
		<u>632</u>	<u>356</u>
		<u>5,215</u>	<u>8,154</u>

4.1 Investment in an associate

The Company holds 50 percent shareholding i.e., 625,000 (2005: 625,000) ordinary shares of Rs. 10/- each in Berdex Construction Chemicals (Private) Limited (Berdex). Berdex is engaged in marketing and distribution of construction chemicals in Pakistan. The following table illustrates summarized financial information of the Company in Berdex.

	2006	2005
----- (Rupees in '000) -----		
Amounts incorporated in respect of investment in an associate are set out below:		
Company's share at beginning of the year	7,798	6,527
Share of (loss) / profit	(3,215)	1,271
	<u>4,583</u>	<u>7,798</u>
Share of the associate's balance sheet		
Current assets	6,110	11,596
Non-current assets	169	88
Current liabilities	(1,696)	(3,886)
Net assets	<u>4,583</u>	<u>7,798</u>
Share of revenue for the year	<u>1,414</u>	<u>11,532</u>

4.2 The effective rate of profit on Defence Saving Certificates ranges from 16% to 18.04% (2005: 16% to 18.04%) per annum. These certificates are pledged with various Government Departments as a security against supply of goods to them.

5. LONG-TERM LOANS – considered good

	Note	2006	2005
----- (Rupees in '000) -----			
Loans to employees other than executives	5.1	5,910	1,990
Less: Receivable within one year shown in current assets		1,410	502
		<u>4,500</u>	<u>1,488</u>

5.1 Loans to employees represent loans given for purchase of vehicle, equipments, residential quarters and festival advances. These loans are repayable over periods ranging between four months to five years. All loans are granted in accordance with the terms of employment.

6. LONG-TERM DEPOSITS

	Note	2006	2005
----- (Rupees in '000) -----			
Deposits with leasing companies		11,854	11,854
Less: Current portion of deposits with leasing companies	11	7,607	-
		<u>4,247</u>	<u>11,854</u>
Other deposits	6.1	4,004	3,451
		<u>8,251</u>	<u>15,305</u>

6.1 This includes due from Sikander (Private) Limited - an associated company amounting to Rs. 0.100 million (2005: Rs. 0.100 million).

7. STORES AND SPARES

	Note	2006	2005
----- (Rupees in '000) -----			
Held for consumption			
Stores		5,236	5,825
Spares		63,400	52,160
Consumable accessories		7,760	3,298
Loose tools		774	1,084
Items in transit		3,393	11,933
		<u>80,563</u>	<u>74,300</u>
Provision for slow moving and obsolete stores and spares		(16,239)	(16,239)
		<u>64,324</u>	<u>58,061</u>
Property, plant and equipment held for disposal	3.3	16,940	-
		<u>81,264</u>	<u>58,061</u>

8. STOCK-IN-TRADE

	Note	2006	2005
----- (Rupees in '000) -----			
Raw materials			
- in hand	8.1	451,568	252,325
- in transit		52,380	98,881
		<u>503,948</u>	<u>351,206</u>
Work-in-process		36,242	26,628
Finished goods			
- Manufactured	8.2	142,974	130,736
- Trading including in transit Rs. 22.146 million (2005: Rs. 8.652 million)		132,642	78,256
		<u>275,616</u>	<u>208,992</u>
		<u>815,806</u>	<u>586,826</u>

8.1 Raw material include recyclable production having a cost of Rs. 50.517 million (2005: Rs. Nil million) which have been written down to its net realisable value amounting to Rs. 37.255 million (2005: Rs. Nil million).

8.2 Finished goods include certain items having a cost of Rs. 7.416 million (2005: Rs. 37.854 million) which have been written down to their net realisable value amounting to Rs. 2.219 million (2005: Rs. 33.459 million).

9. TRADE DEBTS - unsecured

Note	2006			2005		
	Turnkey	Other than Turnkey	Total	Turnkey	Other than Turnkey	Total
----- (Rupees in '000) -----						
Considered good	-	178,949	178,949	10,752	165,576	176,328
Considered doubtful	21,041	50,194	71,235	10,336	44,348	54,684
	21,041	229,143	250,184	21,088	209,924	231,012
Less: Provision for doubtful debts 9.1	21,041	50,194	71,235	10,336	44,348	54,684
	-	178,949	178,949	10,752	165,576	176,328

9.1 Provision for doubtful debts

Opening balance	10,336	44,348	54,684	11,538	41,294	52,832
Provision for the year	13,023	9,559	22,582	134	9,874	10,008
Provision no longer required written back	(2,318)	(3,479)	(5,797)	(1,336)	(6,820)	(8,156)
Write off during the year	-	(234)	(234)	-	-	-
Net charge / (reversal) for the year	10,705	5,846	16,551	(1,202)	3,054	1,852
Closing balance	21,041	50,194	71,235	10,336	44,348	54,684

9.2 Provision for doubtful debts against turnkey projects represents estimate of the loss expected to be incurred on pipes supplied but not installed / certified to date on various projects.

9.3 Amounts due from related parties at the year end comprise of:

	2006	2005
----- (Rupees in '000) -----		
Berger Paints Pakistan Limited	-	189
Berdex Construction Chemicals (Private) Limited	-	91
International Industries Limited	7	-
	7	280

9.4 The maximum aggregate amount due from related parties at the end of any month during the year was Rs. 0.007 million (2005: Rs. 0.488 million).

10. LONG-TERM ADVANCES

Note	2006	2005
----- (Rupees in '000) -----		
Considered good		
Loans to:		
- employees [including current portion of long-term loans and advances Rs. 1.41 million (2005: Rs. 0.502 million)]	5	1,794
Advances to:		
- executive	10.1	-
- employees		303
- suppliers / contractors		1,144
- contractors for turnkey projects		17,430
- others		5,529
		140
	25,380	25,353
Considered doubtful		
Advances to suppliers / contractors	500	500
Less: Provision for doubtful advances	500	500
	-	-
	25,380	25,353

10.1 Reconciliation of carrying amount of advances to Executive

	Opening balance as at July 01, 2005	Disbursement	Repayment	Closing balance as at June 30, 2006
	----- (Rupees in '000) -----			
Executive	303	267	570	-

10.2 The maximum aggregate amount of advances due from executive at the end of any month during the year was Rs. 0.449 million (2005: Rs. 0.411 million).

11. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS

	Note	2006	2005
		----- (Rupees in '000) -----	
Trade deposits		9,499	7,316
Provision against doubtful trade deposits		(4,000)	(4,000)
		<u>5,499</u>	<u>3,316</u>
Other deposits		240	114
Current portion of deposits with leasing companies	6	7,607	-
Short-term prepayments		1,856	927
		<u>15,202</u>	<u>4,357</u>

12. CASH AND BANK BALANCES

	Note	2006	2005
		----- (Rupees in '000) -----	
Deposit accounts	12.1	-	55,000
Saving accounts	12.2	834	754
Current accounts			
- Foreign currency		10	15
- Local currency		732	3,704
		<u>742</u>	<u>3,719</u>
Cash in hand		736	327
		<u>2,312</u>	<u>59,800</u>

12.1 These represent short term deposits of fixed maturities maintained with banks and non-banking finance companies. The rate of profit on these deposits ranging from 9.5% per annum to 13% per annum (2005: 10% per annum to 12.5% per annum) at year end.

12.2 The mark-up rates on PLS Savings accounts range from 3.75% to 6.5% per annum (2005: 3.75% to 5.5% per annum) at year end.

13. AUTHORISED CAPITAL

2006	2005		2006	2005
----- (Number of shares) -----			----- (Rupees in '000) -----	
12,000,000	12,000,000	Ordinary shares of Rs.10/- each	120,000	120,000
8,000,000	8,000,000	'B' class ordinary shares of Rs.10/- each	80,000	80,000
<u>20,000,000</u>	<u>20,000,000</u>		<u>200,000</u>	<u>200,000</u>

14. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2006		2005		2006		2005	
----- (Number of shares)-----				----- (Rupees in '000)-----			
914,264	914,264	Ordinary shares of Rs. 10/- each fully paid in cash		9,143	9,143		
476,386	476,386	Ordinary shares of Rs. 10/- each issued as fully paid for consideration other than cash		4,764	4,764		
5,282,773	5,282,773	Ordinary shares of Rs. 10/- each issued as fully paid bonus shares		52,828	52,828		
800,000	800,000	`B' class ordinary shares of Rs. 10/- each fully paid in cash		8,000	8,000		
3,290,536	3,290,536	`B' class ordinary shares of Rs. 10/- each issued as fully paid bonus shares		32,905	32,905		
<u>10,763,959</u>	<u>10,763,959</u>			<u>107,640</u>	<u>107,640</u>		

14.1 Out of the total share capital of the Company, associated companies held 3,665,258 (2005: 3,655,794) ordinary shares of Rs. 10 each as at June 30, 2006.

15. RESERVES

	2006	2005 (Restated)
	----- (Rupees in '000)-----	
Capital reserve – share premium	5,655	5,655
Revenue reserve		
- General reserve	334,583	319,011
- Unappropriated profit	20,951	59,649
	355,534	378,660
Net unrealized loss on hedging instruments	-	(238)
	<u>361,189</u>	<u>384,077</u>

16. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

16.1 The liabilities under these agreements are payable by the year 2008 and are subject to finance charge at compounded rates ranging from 4.65% to 6.90% (2005: 4.65% to 6.90%).

16.2 The amount of future payments includes the amounts at which the Company has the option to purchase the assets. The periods in which these payments will become due are as follows:

	2006	2005
	----- (Rupees in '000)-----	
Year to June 30, 2006	-	52,892
Year to June 30, 2007	32,245	32,454
Year to June 30, 2008	9,727	9,727
	<u>41,972</u>	<u>95,073</u>
Less: Finance charges not yet due	(1,276)	(4,439)
	<u>40,696</u>	<u>90,634</u>
Less: Current portion shown under current liabilities	(23,592)	(49,733)
	<u>17,104</u>	<u>40,901</u>

16.3 The Company intends to exercise its option to purchase the leased assets at their residual value upon completion of the lease periods.

17. DEFERRED TAXATION

	2006	2005
----- (Rupees in '000) -----		
Deferred tax assets on deductible temporary difference:		
- Provision for slow moving and obsolete stores and spares	5,143	5,269
- Accelerated tax depreciation on owned assets	-	3,459
- Tax loss for the year	12,194	-
- Deferred Income	650	-
- Other deductible temporary differences	1,991	282
	<u>19,978</u>	<u>9,010</u>
Deferred tax liabilities on taxable temporary difference:		
- Accelerated tax depreciation on owned assets	(13,472)	-
- Assets subject to finance lease	(31,242)	(23,598)
	<u>(44,714)</u>	<u>(23,598)</u>
	<u>(24,736)</u>	<u>(14,588)</u>

18. DEFERRED INCOME

	Note	2006	2005
----- (Rupees in '000) -----			
Balance as at July 01		4,107	-
Deferred during the year		-	6,160
		<u>4,107</u>	<u>6,160</u>
Less: Amortized during the year	27	2,054	2,053
		<u>2,053</u>	<u>4,107</u>

18.1 This represents gain on sale and leaseback transactions. The income is deferred and amortized over a period of lease term.

19. TRADE AND OTHER PAYABLES

	Note	2006	2005
----- (Rupees in '000) -----			
Creditors	19.1	5,109	16,147
Bills payable		130,793	83,269
Accrued liabilities		117,731	85,641
Liability for capital expenditure		1,523	2,914
Contingency – turnkey projects		-	9,808
Payable to contractors against turnkey projects		3	4,875
Distributors security deposits		10,000	10,300
Advances from customers		58,956	23,124
Workers' Profit Participation Fund	19.2	703	4,746
Workers' Welfare Fund		-	1,285
Advance from tenant		1,044	1,274
Provision for compensated absences		17,587	14,466
Dividend payable		7,942	7,544
Others		4,893	9,697
		<u>356,284</u>	<u>275,090</u>

19.1 This includes amount due to Berger Paints Pakistan Limited - a related party Rs. 0.679 million (2005: Rs. 0.521 million) at the year end.

19.2 Workers' Profit Participation Fund

	Note	2006	2005
----- (Rupees in '000) -----			
Balance at July 01		4,746	3,834
Allocation for the year	26	617	4,629
		5,363	8,463
Interest on funds utilized in the Company's business	28	306	300
Less: Amounts paid on behalf of the fund		3,654	2,585
Deposited with the Government		1,312	1,432
		4,966	4,017
Balance at June 30		703	4,746

20. SHORT-TERM BORROWING- secured

	Note	2006	2005
----- (Rupees in '000) -----			
Running finances utilized under mark-up arrangements	20.1	35,713	149,084
Term finances	20.1	546,998	180,613
		582,711	329,697

20.1 The aggregate facilities for short-term running finances and term finance under mark-up arrangements available from various banks amounting to Rs. 1,080 million (2005: Rs. 645 million) and carries mark-up at the rate 9.6% to 10.54% (2005: 7.05% to 9%) per annum and 9.83% to 10.4% (2005: 4.25 % to 8.86%) per annum respectively at year end. The facilities will be expired on various dates latest by December 31, 2006. These arrangements are secured by pari-passu charge against hypothecation of the Company's stock-in-trade and trade debts.

20.2 As of the balance sheet date, the company has unavailed short-term borrowings under mark-up arrangements aggregating to Rs. 497.289 million (2005: Rs. 315.303 million) from various banks

21. CONTINGENCIES AND COMMITMENTS

	Capital expenditure	Others	Total 2006	Total 2005
----- (Rupees in '000) -----				
Letters of guarantee	-	50,269	50,269	48,548
Letters of credit	920	20,425	21,345	1,968
Import contracts	-	5,154	5,154	1,863
Local purchase contracts	90,329	10,084	100,413	16,224
	91,249	85,932	177,181	68,603

21.1 In addition to above the revenues expected from the remaining work committed to be performed under the turnkey projects in process amounts to Rs. 16 million. The estimated cost of such remaining works to be performed without accounting for the rate escalation, which may be negotiated amounts to Rs. 16.3 million. Thus the difference between the expected revenues and estimated costs amounting to Rs. 0.3 million represents the contingent loss on the projects in process.

21.2 Consideration of Rs.16.126 million has been agreed for assets held for disposal referred to in note 3.3 having carrying value of Rs.16.207 million. Agreed consideration is secured by an advance of Rs.12.8 million from the customer and a commitment to pay the balance before September, 2006. Subsequent to the year end the assets to the extent secured by the advance less Rs.0.5 million held as security deposit have been delivered to the customer. Assets representing the unpaid portion of the agreed consideration having carrying value of Rs.6.68 million are in physical custody of the company. In case of default by the party, the company would have to find alternate customer for the unpaid assets. Therefore the assets held for disposal having carrying value of Rs.7.413 million reduced by the security deposit of Rs.0.5 million and net realizable value of such assets are subject to contingent loss.

22. TURNOVER - net

	2006	2005
	----- (Rupees in '000) -----	
Local - manufactured	1,405,438	1,421,309
Local - trading	120,789	79,017
	<u>1,526,227</u>	<u>1,500,326</u>
Export	24,286	27,103
	<u>1,550,513</u>	<u>1,527,429</u>
Less:		
Returns	4,737	4,348
Rebates and allowances	11,174	35,794
Sales tax	199,215	196,429
	<u>215,126</u>	<u>236,571</u>
Net sales	<u>1,335,387</u>	<u>1,290,858</u>

23. COST OF SALES

	Note	2006	2005
		----- (Rupees in '000) -----	
Manufactured			
Raw materials consumed			
Opening stock		351,207	208,714
Purchases		885,509	844,371
Closing stock		(503,948)	(351,207)
		<u>732,768</u>	<u>701,878</u>
Export Rebate			
- Duties		(1,266)	(1,709)
- CED		(2,140)	-
		<u>(3,406)</u>	<u>(1,709)</u>
Stores and spares consumed	23.1	729,362	700,169
Provision for slow moving stores and spares		57,429	61,153
Reversal of provision for slow moving stores and spares		-	1,270
		<u>-</u>	<u>(924)</u>
Salaries, wages and benefits [including Rs. 2.7 million (2005: Rs. 4.545 million) in respect of bonus to workers]	23.2	97,362	80,891
Procured services		14,111	13,351
Fuel, water and power		42,873	41,461
Insurance		4,005	5,718
Traveling		567	434
Communication		557	463
Depreciation	3.1.1	32,757	65,130
Rent, rates and taxes		1,290	81
Repairs and maintenance		8,032	7,859
Technical assistance fee		6,988	6,836
Printing and stationery		880	946
Sundry expenses		2,009	2,293
Opening stock of work-in-process		26,628	25,120
Closing stock of work-in-process		(36,242)	(26,628)
Cost of goods manufactured		<u>988,608</u>	<u>985,623</u>
Opening stock of finished goods		130,736	92,138
Closing stock of finished goods		(142,974)	(130,736)
		<u>976,370</u>	<u>947,025</u>
Trading			
Opening stock		78,256	35,246
Purchases		118,580	83,221
		<u>196,836</u>	<u>118,467</u>
Closing stock		(132,642)	(78,256)
		<u>64,194</u>	<u>40,211</u>
		<u>1,040,564</u>	<u>987,236</u>

23.1 Stores and spares consumed

	2006	2005
	----- (Rupees in '000) -----	
Opening stock	74,300	62,321
Purchases	64,035	77,782
Capitalised during the year	(343)	(4,650)
Closing stock	(80,563)	(74,300)
	<u>57,429</u>	<u>61,153</u>

23.2 Staff Retirement Benefits

Salaries, wages and other benefits include Rs. 3.088 million (2005: Rs. 2.779 million) in respect of staff retirement benefits.

24. SELLING EXPENSES

	Note	2006	2005
		----- (Rupees in '000) -----	
Salaries and benefits	24.1	51,257	18,807
Repairs and maintenance		3,879	1,724
Depreciation	3.1.1	3,126	3,124
Advertising and sales promotion		18,885	12,002
Communication		2,065	1,429
Traveling		6,652	2,941
Transportation and other charges on local sales		75,416	71,302
Transportation and other charges on export sales		4,254	7,054
Freight subsidy on exports		(117)	(2,233)
		<u>4,137</u>	<u>4,821</u>
Fuel, water and power		440	335
Insurance		872	-
Fees and subscription		1,770	-
Sundry expenses		674	-
		<u>169,173</u>	<u>116,485</u>

24.1 Staff Retirement Benefits

Salaries and benefits include Rs. 2.363 million (2005: Rs. 0.692 million) in respect of staff retirement benefits.

25. ADMINISTRATIVE EXPENSES

	Note	2006	2005
		----- (Rupees in '000) -----	
Salaries and benefits	25.1	22,118	35,362
Rent, rates and taxes [including Rs. 0.150 million (2005: Rs. 0.339 million) to related parties]		3,155	4,521
Procured services		3,525	2,750
Insurance		1,064	1,718
Depreciation	3.1.1	6,950	12,660
Repairs and maintenance		7,832	6,450
Printing, stationery and subscription		5,856	4,658
Communication		3,346	2,996
Traveling		6,753	5,679
Fuel, water and power		3,746	3,113
Legal and professional		5,670	5,389
Sundry expenses		2,150	2,474
		<u>72,165</u>	<u>87,770</u>

25.1 Staff Retirement Benefits

Salaries and benefits include Rs. 0.793 million (2005: Rs. 1.754 million) in respect of staff retirement benefits.

26. OTHER OPERATING EXPENSES

	Note	2006	2005
----- (Rupees in '000) -----			
Auditors' remuneration	26.1	378	264
Directors' fee		315	205
Audit Committee fee		65	75
Workers' Profit Participation Fund	19.2	617	4,629
Workers' Welfare Fund		-	1,285
Donations	26.2	649	38
Net provision for the year against doubtful debts and trade deposits		16,785	2,849
		<u>18,809</u>	<u>9,345</u>

26.1 Auditors' Remuneration

	2006	2005
----- (Rupees in '000) -----		
Audit fee	275	185
Special certifications and sundry advisory services	45	25
Out of pocket expenses	58	54
	<u>378</u>	<u>264</u>

26.2 Recipients of donations do not include any donee in which a director or his spouse had any interest.

27. OTHER OPERATING INCOME

	Note	2006	2005
----- (Rupees in '000) -----			
Income from - investments		108	189
- employee loans		5	66
		<u>113</u>	<u>255</u>
Profit on disposal of fixed assets		2,113	1,649
Sale of scrap and waste		953	555
Net rental income	27.1	10,156	9,634
Sundries [including Rs. 0.004 million (2005: Rs. 0.091 million) Received from a related party]		4	181
Deferred income amortized on sale and leaseback	16	2,054	2,053
Net income recognized on completion of turnkey project		9,120	-
Net income from services	27.2	3,556	175
		<u>28,069</u>	<u>14,502</u>

27.1 Net Rental Income

	Note	2006	2005
----- (Rupees in '000) -----			
Rental income		11,419	10,897
Recoveries from tenants on account of utilities		2,606	2,909
Utility expense of rented property		(2,606)	(2,909)
Depreciation of rented property	3.1.1	(1,073)	(1,073)
Rent, rates and taxes of rented property		(190)	(190)
		<u>10,156</u>	<u>9,634</u>

27.2 Net income from services

Nature os Services	2006			2005		
	Revenue	Expenses	Income	Revenue	Expenses	Income
----- (Rupees in '000) -----						
Jointing	1,157	603	554	557	382	175
Drilling / boring	3,482	2,264	1,218	-	-	-
Aluminum cladding	2,318	534	1,784	-	-	-
	<u>6,957</u>	<u>3,401</u>	<u>3,556</u>	<u>557</u>	<u>382</u>	<u>175</u>

28 FINANCE COSTS

	Note	2006	2005
----- (Rupees in '000) -----			
Mark-up on short-term borrowings		49,934	19,674
Income from bank deposits		(7,948)	(8,672)
		<u>41,986</u>	<u>11,002</u>
Interest on Workers' Profit Participation Fund	19.2	306	300
Finance charge on liabilities against assets subject to finance leases		3,204	4,785
Bank charges		2,622	2,073
		<u>48,118</u>	<u>18,160</u>

29. TAXATION

	Note	2006	2005
----- (Rupees in '000) -----			
Current - for the year		13,000	26,183
- prior year	29.2	(26,284)	(15,383)
Deferred		10,148	22,330
		<u>(3,136)</u>	<u>33,130</u>

29.1 Relationship between Tax Expense and Accounting Profit

	2006	2005
	(Rupees in '000)	
Accounting profit before tax	11,412	86,364
Tax rate	35%	35%
Tax on accounting profit	3,994	30,227
Tax effect of:		
- Expenses that are not deductible in determining taxable profits	7,404	17,330
- Income exempt from tax	(38)	(1,422)
- Lower rate on certain income / FTR	5,099	2,378
- Prior year adjustment	(26,284)	(15,383)
- Minimum tax	6,047	-
- Others	642	-
Tax expense for the current year	(3,136)	33,130

29.2 Represents adjustment of prior year refunds / reversal of excess provision.

30. EARNINGS PER SHARE – Basic and Diluted

	2006	2005
	(Restated)	
	(Rupees in '000)	
Net profit for the year after taxation	14,548	54,505
	(Number of shares)	
Weighted average ordinary shares in issue during the year	10,763,959	10,763,959
	(Rupees)	
Earnings per share - basic and diluted	1.35	(Restated) 5.06

There is no dilutive effect on basic earnings per share of the Company.

31. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the financial statements for the year for remuneration and benefits to the chief executive, director and executives of the Company were as follows:

	Chief Executive		Directors		Executives	
	2006	2005	2006	2005	2006	2005
	(Rupees in '000)					
Managerial remuneration	2,373	2,373	-	-	16,138	8,241
Housing						
- Rent	270	270	-	-	2,572	1,846
- Utilities	237	237	-	-	1,616	823
- Other items	236	200	-	-	72	33
Medical	-	-	-	-	30	-
Retirement benefits	261	261	-	-	1,344	87
Provision for compensated absences	280	1,419	-	-	2,181	907
Severance pay	-	-	-	-	1,295	-
Provision for bonus	-	286	-	-	618	1,183
Others	481	206	213	248	1,016	2,790
	4,138	5,252	213	248	26,882	15,910
Number of persons	1	1	1	1	11	7

In addition to above, the chief executive and executives are provided with Company maintained cars.

Aggregate amount charged in the financial statements with respect to directors' fee for the year was Rs. 0.315 million (2005: Rs. 0.205 million).

32. CAPACITY AND PRODUCTION

The production capacities of the plants depend on product mix. The name plate capacities are determined on a certain product mix whereas actual product mix is different and varies from year to year depending upon the orders from customers. Capacity is also influenced by the timing of the orders. Therefore production is subject to annual variations and actual capacity of the plant is undeterminable.

33. TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings comprise of local associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel as disclosed in note 31, which are under the terms of their employment, are as follows:

	2006	2005
----- (Rupees in '000) -----		
Relationships with Nature of transactions		
Associated companies		
Income from services rendered from Berdex Constructions Chemicals (Private) Limited	-	91
Rent paid to Sikander (Private) Limited	150	99
Berger Paints Pakistan Limited	628	240
Other related parties		
Purchase of goods	4,199	2,608
Sale of goods	7	404
Expenditure for services	131	213
Mark-up income on bank deposits	1,859	1,360
Contribution to provident fund	6,244	5,225
Bank deposits made and encashed	70,000	90,000

34. CASH GENERATED FROM OPERATIONS

	Note	2006	2005 (Restated)
----- (Rupees in '000) -----			
Profit before taxation		11,412	87,635
Adjustments for non cash charges and other items:			
Depreciation		43,906	81,987
Profit on disposal of fixed assets		(2,113)	(1,649)
Interest income		(8,061)	(8,927)
Loss / (profit) of an associated company	4.1	3,215	(1,271)
Interest / mark-up expense		53,444	24,759
Deferred income recognized		(2,053)	(2,053)
Working capital changes	34.1	(168,767)	(277,375)
		<u>(69,017)</u>	<u>(96,894)</u>

34.1 Working capital changes

	2006	2005
----- (Rupees in '000) -----		
(Increase) / decrease in current assets		
Stores and spares	(6,263)	(11,634)
Stock-in-trade	(228,980)	(225,609)
Trade debts	(2,621)	(89,055)
Loans and advances	(132)	(6,525)
Trade deposits and short-term prepayments	(3,238)	5,287
Other receivables	(444)	157
	<u>(241,678)</u>	<u>(327,379)</u>
Increase in current liabilities		
Trade and other payables	72,911	50,004
	<u>(168,767)</u>	<u>(277,375)</u>

35. FINANCIAL ASSETS AND LIABILITIES

35.1 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company manages this risk through risk management strategies. Interest rate risk of the Company's financial assets and liabilities can be evaluated related from the following schedule:

	Effective yield / Markup rate %	Interest/Mark-up Bearing			Non-interest Bearing			Total
		Maturity Upto One year	Maturity After One year	Sub-total	Maturity Upto One year	Maturity After One year	Sub-total	
----- (Rupees in '000) -----								
Financial Assets								
Investments – held to maturity	16 - 18.04	70	632	702	-	-	-	702
Long-term loans	-	-	-	-	1,410	4,500	5,910	5,910
Long-term deposits	-	-	-	-	7,607	8,251	15,858	15,858
Trade debts	-	-	-	-	178,949	-	178,949	178,949
Loans and advances	-	-	-	-	23,970	-	23,970	23,970
Trade deposits	-	-	-	-	13,346	-	13,346	13,346
Other receivables	-	-	-	-	595	-	595	595
Cash and bank balances	9.5 - 13	-	-	-	1,478	-	1,478	1,478
		<u>70</u>	<u>632</u>	<u>702</u>	<u>227,355</u>	<u>12,751</u>	<u>240,106</u>	<u>240,808</u>
2006								
2005		<u>56,246</u>	<u>356</u>	<u>56,602</u>	<u>209,579</u>	<u>21,793</u>	<u>231,372</u>	<u>287,974</u>
Financial Liabilities								
Liabilities against assets subject to finance leases	4.65 - 6.9	23,592	17,104	40,696	-	-	-	40,696
Trade and other payables	-	-	-	-	355,580	-	355,580	355,580
Accrued interest / mark-up	-	-	-	-	10,129	-	10,129	10,129
Short-term borrowings	9.6 - 10.54	582,711	-	582,711	-	-	-	582,711
		<u>606,303</u>	<u>17,104</u>	<u>623,407</u>	<u>365,709</u>	<u>-</u>	<u>365,709</u>	<u>989,116</u>
2006								
2005		<u>379,430</u>	<u>40,901</u>	<u>420,331</u>	<u>286,017</u>	<u>-</u>	<u>286,017</u>	<u>706,438</u>
Off balance sheet items								
Financial Liabilities								
Letters of credit	-	-	-	-	50,269	-	50,269	50,269
Letters of guarantee	-	-	-	-	21,345	-	21,345	21,345
Import contracts	-	-	-	-	5,154	-	5,154	5,154
Local purchase contracts	-	-	-	-	100,413	-	100,413	100,413
		<u>-</u>	<u>-</u>	<u>-</u>	<u>177,181</u>	<u>-</u>	<u>177,181</u>	<u>177,181</u>
2006								
2005		<u>-</u>	<u>-</u>	<u>-</u>	<u>68,603</u>	<u>-</u>	<u>68,603</u>	<u>68,603</u>

35.2 Concentration of credit risk

Credit risk is the risk which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties 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 is exposed to credit risk on trade debts, loans and deposits. The Company seeks to minimize the credit risk exposure through having exposures only to customers considered credit worthy and obtaining securities where applicable.

35.3 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. Significant exposures to foreign currency risks are covered through forward exchange contracts, where considered appropriate by the Company.

35.4 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The management of the Company believes that it is not exposed to significant level of liquidity risk.

35.5 Fair value of financial assets and liabilities

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

36. RECENT ACCOUNTING DEVELOPMENTS

Following amendments to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after January 01, 2006 or later periods:

IAS-19	(Amendments) - Employee Benefits	Effective from January 01, 2006
IAS-39	Financial Instruments: Recognition and Measurement - Fair Value Option, Accounting for Financial Guarantees and Cash Flow Hedge for Forecast Intra Group Transactions	Effective from January 01, 2006
IAS-1	Presentation of Financial Statements Capital Disclosures	Effective from January 01, 2006

Adoption of the above amendments may only impact the extent of disclosures presented in the financial statements.

In addition to above, a new series of standards called "International Financial Reporting Standards (IFRSs)" have been introduced and seven IFRSs have been issued by IASB. Out of these, following four IFRS have been adopted by Institute of Chartered Accountant of Pakistan (ICAP) however since these have not been adopted by SECP therefore, do not form part of the approved local financial reporting framework:

IFRS-2	(Share based Payments);
IFRS-3	(Business Combinations);
IFRS-5	(Non-current Assets held for Sale and Discontinued Operations); and
IFRS-6	(Exploration for and Evaluation of Mineral Resources).

The Company expects that the adoption of these pronouncements mentioned above will have no significant impact on the Company's financial statements in the period of initial application.

37. DATE OF AUTHORISATION FOR ISSUE

These financial statements have been authorised for issue on 21 September, 2006 by the Board of Directors of the Company.

38. DIVIDEND

Subsequent to the year ended June 30, 2006, the Board of Directors have proposed a final dividend of Rs.1.75 per share, amounting to a total dividend of Rs.18.837 million (2005: Rs. 3.5 per share amounting to a total dividend of Rs. 37.674 million). In addition, directors have also decided to transfer Rs. NIL million (2005: Rs. 15.572 million) from unappropriate profit to general reserve. These appropriations will be approved in the forth coming Annual General Meeting. The financial statements for the year ended June 30, 2006 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

39. CORRESPONDING FIGURES

Due to revision in IAS - 28 "Investment in associates" previous year's figures have been restated wherever necessary for the purposes of comparison. Consequently, corresponding figures in note 4, 15, 30 and 34 have been changed.

40. GENERAL

40.1 Amounts have been rounded off to the nearest rupee unless otherwise stated.

40.2 Corresponding figures have been rearranged / reclassified wherever necessary.

MUHAMMAD HANIF IDREES
Chief Financial Officer

IMTIAZ H. ZAIDI
Chief Executive

SIKANDER DADA
Chairman

Categories of Share Holders

Number of Shares Held

Percentage of Issued Capital

Associated Companies, Undertakings and Related Parties

	4,692,258	43.59
Bandenawaz Ltd	2,050	0.02
BSJS Balanced Fund Ltd	349,000	3.24
CDC Trustee Unit Trust of Pakistan	1,051,000	9.76
CDC Trustee UTP - Growth Fund	600,000	5.57
Jahangir Siddiqui Investment Bank	1,000,000	9.29
Jahangir Siddiqui Capital Markets Ltd	1,050,000	9.75
Jahangir Siddiqui & Co Ltd	44,100	0.41
Sikander Pvt Ltd	596,108	5.54

NIT and ICP

Investment Corporation of Pakistan

National Bank of Pakistan, Trustee Deptt

	11,881	0.11
	40	0.00
	11,841	0.11

Directors, CEO & their Spouse and Minor Children

	955,613	8.88
Abdur Razzak Dada (Director) & family	1	0.00
Abu Talib H. K. Dada (Director) & family	310,469	2.88
Mrs. Halima w/o Abu Talib H.K. Dada	29,847	0.28
Maqbool H.H. Rahimtoola (Chairman) & family	5,300	0.05
Mohammad Ali Jameel (Director) & family	100	0.00
Muhammad Najam Ali (Director) & family	100	0.00
Qazi Sajid Ali (Director) & family	1	0.00
Rasheed Y. Chinoy (Director) & family	100	0.00
Shahzad M. Husain (Director) & family	4	0.00
Saad S. Faruqi (Director) & family	100	0.00
Sikander Dada (CEO) & family	609,586	5.66
Zahid Zaheer (Director) & family	5	0.00

Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas

	65,876	0.61
Habib Bank Ltd.	1,994	0.02
Habib Insurance Co Ltd	22,000	0.20
Ideal Life Assurance Company Ltd.	25	-
Jahangir Siddiqui Securities Service Ltd	40,536	0.38
Muslim Commercial Bank Ltd.	440	-
Pakistan Insurance Corporation	533	-
United Bank Ltd.	348	-

Shareholders holding ten percent or more voting interest in the company

Province Ltd.	1,465,000	13.61
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Individuals

	3,523,975	32.74
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Others

	49,356	0.46
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TOTAL

	10,763,959	100.00
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Number of Share Holders	Share Holding		Total Shares Held
	From	To	
2,923	1	100	55,479
608	101	500	140,436
186	501	1,000	125,335
124	1,001	5,000	248,318
16	5,001	10,000	98,042
7	10,001	15,000	81,258
2	20,001	25,000	45,776
1	25,001	30,000	29,751
1	30,001	35,000	30,433
2	40,001	45,000	84,636
3	90,001	95,000	278,828
4	110,001	115,000	440,408
1	145,001	150,000	149,507
1	220,001	225,000	220,205
1	270,001	275,000	271,625
1	310,001	315,000	310,469
1	340,001	345,000	342,311
1	345,001	350,000	349,000
1	385,001	390,000	389,381
1	415,001	420,000	419,518
1	420,001	425,000	421,634
1	465,001	470,000	469,501
2	595,001	600,000	1,196,108
1	995,001	1,000,000	1,000,000
1	1,045,001	1,050,000	1,050,000
1	1,050,001	1,055,000	1,051,000
1	1,460,001	1,465,000	1,465,000
<u>3,893</u>			<u>10,763,959</u>

Categories of Share Holders	Number of Share Holders	Number of Shares Held	Percentage of Issued Capital
Individual	3,862	4,479,588	41.62
NIT & ICP	2	11,881	0.11
Associated Companies	8	4,692,258	43.59
Non-Banking Finance Institutions	1	40,536	0.38
Banks	3	2,782	0.03
Insurance companies	3	22,558	0.21
Foreign shareholding	1	1,465,000	13.61
Others	13	49,356	0.46
	<u>3,893</u>	<u>10,763,959</u>	<u>100.00</u>

Fiscal Years Ending June 30	Turnover	Profit After Taxation	Assets	Dividend		
				Amount	Percentage	
----- (Rupees in '000) -----						
2006	1,335,387	14,548	1,492,196	18,837	17.50%	
2005	Restated	1,290,858	54,505	1,234,610	37,674	35.00%
2004	Restated	946,854	37,577	1,183,292	32,292	30.00%
2003		710,644	28,414	711,040	21,528	20.00%
2002	Restated	562,226	8,498	651,401	13,455	12.50%
2001		634,297	21,912	747,121	21,528	20.00%
2000		652,955	66,071	770,321	343,056	40.00%
1999		615,784	59,774	638,973	43,056	40.00%

Corresponding figures have been re-arranged and re-classified wherever necessary for the purpose of comparison.



Form of Proxy

The Company Secretary
Dadex Eternit Limited
34-A/1, Block 6, P.E.C.H.S.
Shahrah-e-Faisal
Karachi-75400

47th Annual General Meeting

I / We _____ son / daughter / wife of _____
of _____ (full address)

being member(s) of DADEX ETERNIT LIMITED holding _____

Ordinary shares hereby appoint _____

of _____ (full address)

who is/are also member(s) of Dadex Eternit Limited as my/our proxy in my/our absence to attend and vote for me/us and on my/our behalf at the 47th Annual General Meeting of the Company to be held on October 30, 2006 and at any adjournment thereof.

As witness my/our hand/seal this _____ day of _____ 2006

Signed by the said _____
in the presence of

1. _____

2. _____

Folio/CDC Account No.

Signature on
Revenue Stamp
of Rs. 5/-

This signature should
agree with the
specimen registered
with the Company

Important:

1. This Proxy duly completed and signed, must be received at the Registered Office of the Company, Dadex House, 34-A/1, Block 6, P.E.C.H.S., Shahrah-e-Faisal, Karachi-75400, not less than 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he himself is a member of the Company, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

For CDC Account Holders/Corporate Entities:

In addition to the above the following requirements have to be met:

- i) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- ii) Attested copies of CNIC and of the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iii) The proxy shall produce his original CNIC or original passport at the time of meeting.
- iv) In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the company.

DADEX

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The Company Secretary
Dadex Eternit Limited
34-A/1, Block 6, P.E.C.H.S.
Shahrah-e-Faisal
Karachi - 75400

Dadex Eternit Limited

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Dadex Karachi Factory:

Deh-22, Manghopir
Karachi 75890 - Pakistan
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Dadex Hyderabad Factory:

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www.dadex.com