



## Directors' Report

On behalf of the board of directors, I take pleasure to present Annual Report along with the Audited Accounts of the company pertaining to the financial year ending on June 30, 2011.

### Financial highlights

The financial results are summarized hereunder:

	2011 Rupees	2010 Rupees
Sales	2,072,440,887	1,358,437,228
Gross profit	156,492,920	210,565,904
Operating profit	107,030,346	157,501,283
Financial expenses	(74,185,131)	(49,359,957)
Provision for taxation	(21,575,461)	(8,264,346)
Profit after taxation	11,269,754	99,876,980
Earning per share	0.97	8.58

The financial results of current year are not satisfactory due to occurrence of abnormal market conditions in the forth quarter of current year, as prices of raw cotton and cotton yarn have registered sharp decline due to impact of market sentiment on information of expected rise in world cotton crop for year 2012. We have to keep producing yarn by using high inventory cost of cotton whereas prevailing market prices along with demand of yarn have fallen massively and pushing our bottom line to negative zone in the last quarter of the current year. Therefore, impairment charges amounting to Rs.64.943 million were adjusted to current profit and loss account due to decline in value of raw cotton and yarn stocks.

In current year sales shown phenomenal growth as local yarn sales grew by 35% and exports rose by 127%, compared to respective growth of 33% and 363% in last year. The cost of sales rose by 67% as compared to 44% last year. The main contributory to higher cost of sales is unchecked inflation in the country. This is a reason that costs of sales are 92% of current year sales which were 84% of sales in previous year. However, due to higher sales value, net operating expenses came down to 5.94% of sales as compared to 7.69% in last year.

The cotton consumption rate charged showing increase of 102%. at Rs.7,954 per maund in current year as compared to Rs. 3,929 per maund in last year.

The future outlook appears to be unpredictable due to high volatility in prices of cotton, continued energy crisis, high mark up rates and continued recession in international market.

### Compliance with the Code of Corporate Governance

The Board of Directors has taken necessary steps to comply with the provisions of code of corporate governance as incorporated in the listing regulations of stock exchanges. Statement of the compliance with the code of corporate governance is annexed.

### Statement on Corporate & Financial Reporting Framework

The Company complies with the Code in the following manner.

- The financial statements prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flows and change in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards as applicable in Pakistan have been followed in the preparation of financial statements and any departure if any there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- We have prepared and circulated a statement of ethics and business strategy among directors and employees.
- The board of directors has adopted a mission statement and a statement of overall corporate strategy.
- The strength of the Board Directors have been increase from seven to eight by inducting Mr. Fahad Elahi as new member, elected in the Extra Ordinary General Meeting held on August 10, 2011.



- k. During the year under review four meetings of the Board of Directors were held and attendance positions is hereunder:

Sr.	Name of Director	Number of Meetings attended
1.	Mr. Azher Elahi	4
2.	Mr. Asad Elahi	4
3.	Mr. Ather J. Elahi	4
4.	Mr. Mansoor Elahi	4
5.	Mrs. Naureen Asad	4
6.	Mrs. Shafqat Azher	4
7.	Mrs. Mehnaz Ather Elahi	4

- l. During 2010-2011, there was no reported trading during the year in the shares of the Company by its Directors, CEO, CFO, Company Secretary, and their spouses and minor children

#### Audit Committee

The Board of Directors in compliance of the code of corporate governance has established Audit Committee. The names of its members are given in the Company profile.

The terms of reference of the Audit Committee is based on the scope as defined by the Securities and Exchange Commission of Pakistan (SECP) and the guidelines given by the Board of Directors from time to time to improve the system and procedures.

With in the framework of terms of reference determined by the Board of Directors, the Audit Committee, among other things, will appointment of external auditors and review of periodic accounts.

#### Auditors

The present auditors Messrs Mushtaq & Company, Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

#### Pattern of shareholding

The pattern of shareholding as required by Section 236 of the Companies Ordinance 1984 and under Code of Corporate Governance is enclosed.

#### Key operating and financial data

Key operating and financial data for the preceding six years is annexed.

#### Dividend

Considering accumulated losses, no dividend is recommended for the year ended June 30, 2011.

#### Statutory payments

There are no statutory payments on account of taxes, duties, levies and charges that are outstanding as on June 30, 2011 except for those disclosed in the financial statements.

#### Corporate restructuring and business expansion


Company has currently no plans for corporate restructuring, business expansion and discontinuance of operations.

#### Acknowledgement

The Directors of the Company wish to thanks its bankers for their continued support and wish to place on record their appreciation towards the employees for their dedicated services and hard work without which all this would have not been possible.

Lahore,  
October 06, 2011

For & on behalf of the Board  
  
AZHER ELAHI,  
Chief Executive





## Key Operating and Financial Data From 2006 to 2011 (Six Years)

	YEARS ENDED JUNE 30,				NINE MONTH ENDED JUNE	YEAR ENDED SEPT. 30
	2011	2010	2009	2008	2007	2006
<b>Sales</b>						
Local (net of sales tax)	1,483,855,906	1,099,598,878	812,313,773	665,490,945	382,003,474	401,236,430
Export	588,584,981	258,838,350	55,889,306	67,641,729	384,594,310	312,381,676
<b>Net Sale</b>	<b>2,072,440,887</b>	<b>1,358,437,228</b>	<b>868,203,079</b>	<b>733,132,674</b>	<b>766,597,784</b>	<b>713,618,106</b>
<b>Profitability</b>						
Gross Profit/(Loss)	156,492,920	210,565,904	52,305,783	43,474,377	16,592,852	32,266,029
Profit/(Loss) before tax	32,845,215	108,141,326	(23,014,124)	(17,603,115)	(45,184,768)	(24,605,420)
Provision for income tax	21,575,461	8,264,346	(419,928)	3,665,663	5,718,795	4,713,090
<b>Profit/(Loss) after tax</b>	<b>11,269,754</b>	<b>99,876,980</b>	<b>(23,434,052)</b>	<b>(21,268,778)</b>	<b>(50,903,563)</b>	<b>(29,318,510)</b>
<b>Financial Position</b>						
Tangible fixed assets-net	630,398,026	571,125,775	540,820,601	568,031,688	531,012,541	519,673,065
Investment & Other assets	2,734,699	3,513,466	2,734,699	2,734,699	2,734,699	2,738,699
<b>Total Assets</b>	<b>633,132,725</b>	<b>574,639,241</b>	<b>543,555,300</b>	<b>570,766,387</b>	<b>533,747,240</b>	<b>522,411,764</b>
Current assets	430,194,819	264,917,339	247,769,564	313,341,170	215,058,209	187,540,299
liabilities	420,492,860	189,904,689	(300,945,644)	391,352,322	306,031,939	183,023,735
<b>Net working capital</b>	<b>9,701,959</b>	<b>75,012,650</b>	<b>(53,176,847)</b>	<b>(78,012,152)</b>	<b>(90,973,730)</b>	<b>4,516,564</b>
Capital employed	642,834,684	649,651,091	490,378,453	492,754,235	442,773,510	526,928,328
Less long term loan & Deferred liabilities	287,141,606	305,228,567	303,796,488	282,758,420	266,946,945	300,198,200
<b>Share holders Equity</b>	<b>355,693,078</b>	<b>344,423,324</b>	<b>186,581,965</b>	<b>209,995,815</b>	<b>175,826,565</b>	<b>226,730,128</b>
<b>Represented By:</b>						
Share capital	116,400,000	116,400,000	116,400,000	116,400,000	116,400,000	116,400,000
Reserves & un-appropriated Profit/(Loss)	239,293,078	228,023,324	70,181,965	93,595,815	59,426,565	110,330,128
	355,693,078	344,423,324	186,581,965	209,995,815	175,826,565	226,730,128
<b>Ratios:</b>						
Gross Profit/(Loss) to sales (%age)	7.55	15.50	6.02	5.93	2.16	4.52
Net Profit/(Loss) from ordinary activities to sales (%age)	0.54	7.35	(2.70)	(2.90)	(6.64)	(4.11)
Debt:equity ratio	45:55	47:53	62:38	57:43	60:40	57:43
Current ratio	1.02:1	1.40:1	0.82:1	0.80:1	0.70:1	1.02:1
Breakup value per share of Rs. 10 each	30.56	29.59	16.03	18.04	15.11	19.47
Earning Per Share Rs.	0.97	8.58	(2.01)	(1.83)	(4.37)	(2.52)
<b>Quantitative Data</b>						
Yarn Production (cont.into 20's)	7,013,385 kgs	7,034,381 kgs	6,633,236 kgs	6,595,154 kgs	6,682,722 kgs	6,281,801 kgs
Spindles installed	19,344	19,344	19,344	19,344	19,344	17,280



## *Statement of Compliance with the Code of Corporate Governance*

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of Karachi, Lahore & Islamabad stock exchanges for the purpose of establishing a framework of good 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. Therefore, the Board of Directors has always supported implementation of highest standards of corporate governance.
2. The directors have confirmed that none of them is serving as director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by the stock exchange.
4. No casual vacancies arose in Board during the year June 30, 2011.
5. The Company has prepared a 'Statement of Ethics and Business practices' which has been signed by all the directors and employees of the company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the company.
7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and condition of employment of CEO and other non-executive directors, have been taken by the Board.
8. The meetings of the Board were presided over the Chairman & Chief Executive and in his absence, by a director elected for this purpose. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. No specific orientation course was held during the year. However management continues to apprise and familiarize with changes in law to discharge their duties and responsibilities.
10. During the year under review there was no change of CFO, Company Secretary and Head of Internal Auditor. They execute their responsibilities pursuant to the approved appointment by the Board including their remuneration and condition of employment, as determined by the CEO.
11. 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.
12. The financial statements of the Company were duly endorsed by the CEO and CFO before the approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.



14. Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises four members including two non-executive directors including chairman of the committee.
16. The meetings of the audit committee were held at least once in 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.
17. The Board has set up an effective internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on the code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been substantially complied with.

Lahore: October 06, 2011



By order of the Board,  
For Glamour Textile Mills Ltd.,

  
**AZHER ELAHI,**  
Chairman & Chief Executive



## MUSHTAQ & CO.

CHARTERED ACCOUNTANTS

407, Commerce Centre, Hasrat Mohani Road, Karachi. Tel: 32638521-4 Fax: 32639843  
Branch Office: 20-B, Block-G, Gulberg-III, Lahore. Tel: 35884926 Fax: 35843360  
Email Address: mushtaq\_vohra@hotmail.com

Member of



Illinois, USA

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

*On the Statement of Compliance with 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 prepared by the Board of Directors of Glamour Textile Mills Limited to comply with the Listing Regulation No. 35 (previously Regulation No. 37) of the Karachi Stock Exchange (Guarantee) Limited and Listing Regulations No. 35 of Lahore Stock Exchange (Guarantee) Limited, where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement of compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company 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 system 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.

Further, Sub- Regulation (xiii a) of Listing Regulation No. 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price.

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 respect, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended June 30, 2011.

KARACHI:  
Dated: October 06, 2010.



*Mushtaq & Co.*  
**MUSHTAQ & COMPANY**  
Chartered Accountants

**Engagement Partner:**  
Shahabuddin A. Siddiqui  
F.C.A



# MUSHTAQ & CO.

CHARTERED ACCOUNTANTS

407, Commerce Centre, Hasrat Mohani Road, Karachi. Tel: 32638521-4 Fax: 32639843  
Branch Office: 20-B, Block-G, Gulberg-III, Lahore. Tel: 35884926 Fax: 35843360  
Email Address: mushtaq\_vohra@hotmail.com

Member of



Illinois, USA

## Auditors' Report to the Members

We have audited the annexed Balance Sheet of Glamour Textile Mills Limited as at June 30, 2011 and the related profit and loss account, statement of comprehensive income, 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 purpose 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 the 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 verifications, we report that;

- (a) in our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion;
  - (i) the Balance Sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, profit and loss account, statement of comprehensive income, 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, 2011 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

KARACHI:  
Date: **October 06, 2011**

*Mushtaq & Co.*  
**MUSHTAQ & COMPANY**  
 Chartered Accountants  
 Engagement Partner:  
 Shahabuddin A. Siddiqui  
 F.C.A.



**Balance Sheet**

As at June 30, 2011

	Notes	2011 Rupees	2010 Rupees
<b>ASSETS</b>			
Non Current Assets			
Property, plant and equipment	5	630,398,026	571,125,775
Long term loans and advances	6	-	778,767
Long term deposits	7	2,734,699	2,734,699
		<b>633,132,725</b>	<b>574,639,241</b>
<b>Current Assets</b>			
Stores, spare parts and loose tools	8	21,227,207	17,787,947
Stock in trade	9	271,088,456	128,274,038
Trade debts	10	97,979,278	88,596,633
Loans and advances	11	11,225,813	10,453,161
Trade deposits and short term prepayments	12	354,662	387,141
Other receivables	13	-	335,000
Tax refunds due from Government	14	17,023,044	10,962,026
Cash and bank balances	15	11,296,359	8,121,393
		<b>430,194,819</b>	<b>264,917,339</b>
<b>Total Assets</b>		<b>1,063,327,544</b>	<b>839,556,580</b>
<b>EQUITY AND LIABILITIES</b>			
Share Capital and Reserve			
<b>Authorized capital</b>			
15,000,000 (June 30, 2010 : 15,000,000) ordinary shares of Rs. 10 each			
		<b>150,000,000</b>	<b>150,000,000</b>
Issued, subscribed and paid up capital	16	<b>116,400,000</b>	<b>116,400,000</b>
Accumulated loss		<b>(67,223,849)</b>	<b>(93,426,253)</b>
<b>Total Equity</b>		<b>49,176,151</b>	<b>22,973,747</b>
Surplus on revaluation of property, plant and equipment	17	<b>306,516,927</b>	<b>321,449,577</b>
<b>LIABILITIES</b>			
<b>Non - Current Liabilities</b>			
Long term financing	18	<b>279,802,100</b>	<b>299,802,100</b>
<b>Deferred Liabilities</b>			
Staff retirement benefits - gratuity	19	<b>7,339,506</b>	<b>5,426,467</b>
<b>Current Liabilities</b>			
Trade and other payables	20	<b>49,176,806</b>	<b>32,726,373</b>
Accrued interest / mark up	21	<b>18,825,255</b>	<b>9,370,983</b>
Current portion of long term financing		<b>20,000,000</b>	<b>-</b>
Short term borrowings	22	<b>332,490,799</b>	<b>147,807,333</b>
		<b>420,492,860</b>	<b>189,904,689</b>
<b>Contingencies and Commitments</b>	23	<b>-</b>	<b>-</b>
<b>Total Equity and Liabilities</b>		<b>1,063,327,544</b>	<b>839,556,580</b>

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

AZHER ELAHI  
CHIEF EXECUTIVEATHER J. ELAHI  
DIRECTOR





## Profit and Loss Account

FOR THE YEAR ENDED JUNE 30, 2011

	Notes	2011 Rupees	2010 Rupees
Sales - net	24	2,072,440,887	1,358,437,228
Cost of sales	25	(1,915,947,967)	(1,147,871,324)
<b>Gross profit</b>		<b>156,492,920</b>	<b>210,565,904</b>
Other operating income	26	803,027	297,874
Distribution cost	27	(36,127,094)	(23,259,708)
Administrative expenses	28	(11,833,608)	(9,026,361)
Other operating expenses	29	(2,304,899)	(21,076,426)
Finance cost	30	(74,185,131)	(49,359,957)
<b>Profit before taxation</b>		<b>32,892,715</b>	<b>108,141,326</b>
Taxation	31	(21,575,461)	(8,264,346)
<b>Profit for the year</b>		<b>11,269,754</b>	<b>99,876,980</b>
<b>Earnings per share - basic and diluted</b>	32	<b>0.97</b>	<b>8.58</b>

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

  
AZHER ELAHI  
CHIEF EXECUTIVE



  
ATHER J. ELAHI  
DIRECTOR



## Statement of Comprehensive Income

FOR THE YEAR ENDED JUNE 30, 2011

	2011 Rupees	2010 Rupees
Profit for the year	11,269,754	99,876,980
Other comprehensive income	-	-
Total comprehensive income for the year	<u>11,269,754</u>	<u>99,876,980</u>

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

  
**AZHER ELAHI**  
CHIEF EXECUTIVE  


  
**ATHER J. ELAHI**  
DIRECTOR

**Cash Flow Statement**

FOR THE YEAR ENDED JUNE 30, 2011

	Notes	2011 Rupees	2010 Rupees
<b>A) CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		32,845,215	108,141,326
Adjustments for :			
Depreciation		43,560,208	35,707,978
Staff retirement benefits - gratuity		4,461,600	3,636,833
Profit on disposal of fixed assets		(137,941)	(151,345)
Loss on disposal of fixed assets		-	1,825,549
Credit balances written back		-	(146,529)
Bad debts written off directly		-	8,669,319
Finance cost		74,185,131	49,359,957
Provision for workers welfare fund		-	2,206,966
Provision for workers profit participation fund		1,728,696	5,807,805
Provision for workers profit participation fund		123,797,694	106,916,533
Profit before working capital changes		156,642,909	215,057,859
(Increase) / decrease in current assets			
Stores, spare parts and loose tools		(3,439,260)	(4,537,055)
Stock in trade		(142,814,418)	(16,858,904)
Trade debts		(9,382,644)	3,103,112
Loans and advances		(772,652)	2,242,120
Trade deposits and short term prepayments		32,479	(271,456)
Other receivables		335,000	(335,000)
Tax refunds due from Government		(5,326,469)	(2,796,412)
Increase current liabilities		(161,367,964)	(19,453,595)
Trade and other payables		14,721,737	3,013,602
Cash generated from operations		9,996,682	198,617,866
Finance cost paid		(64,730,859)	(53,293,137)
Staff retirement benefits - gratuity paid		(2,548,561)	(2,204,754)
Taxes paid		(22,310,010)	(8,187,299)
Net cash (used in) / from operating activities		(89,589,430)	(63,685,190)
<b>B) CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		500,000	1,036,000
Property, plant and equipment - acquired		(103,194,519)	(10,759,745)
Long term loans and advances		778,767	(778,767)
Net cash used in investing activities		(101,915,752)	(10,502,512)
<b>C) CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Short term borrowings- net		184,683,466	(117,989,619)
Net cash from / (used in) financing activities		184,683,466	(117,989,619)
Net increase in cash and cash equivalents	(A+B+C)	3,174,966	6,440,545
Cash and cash equivalents at the beginning of the year		8,121,393	1,680,848
Cash and cash equivalents at the end of the year		11,296,359	8,121,393
Cash and cash equivalents		11,296,359	8,121,393
Cash and bank balances	15	11,296,359	8,121,393
		11,296,359	8,121,393

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

**AZHER ELAHI**  
CHIEF EXECUTIVE



**ATHER J. ELAHI**  
DIRECTOR



*Statement of Changes in Equity*

FOR THE YEAR ENDED JUNE 30, 2011

	Share Capital	Accumulated Loss	Total
<b>Balance as at July 01, 2009</b>	116,400,000	(203,808,226)	(87,408,226)
Total comprehensive income for the year	-	99,876,980	99,876,980
Transfer from surplus on revaluation of property, plant and equipment	10,504,993	10,504,993	
<b>Balance as at June 30, 2010</b>	<b>116,400,000</b>	<b>(93,426,253)</b>	<b>22,973,747</b>
<b>Balance as at July 01, 2010</b>	116,400,000	(93,426,253)	22,973,747
Total comprehensive income for the year	-	11,269,754	11,269,754
Transfer from surplus on revaluation of property, plant and equipment	-	14,932,650	14,932,650
<b>Balance as at June 30, 2011</b>	<b>116,400,000</b>	<b>(67,223,849)</b>	<b>49,176,151</b>

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

  
**AZHER BLAHI**  
 CHIEF EXECUTIVE



 **ATHER J. ELAHI**  
 DIRECTOR



## Notes to the financial Statements Accounts

FOR THE YEAR ENDED JUNE 30, 2011

### I LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 The company is limited by shares, incorporated in Pakistan on September 14, 1991 and is quoted on stock exchanges at Karachi, Islamabad and Lahore. The registered office of the company is situated at 11 K.M., Manga Raiwind Road, District Kasur in the province of Punjab, Pakistan.
- 1.2 The principal business of the company is manufacture and sale of yarn. The manufacturing unit is also located at Manga Raiwind Road in the province of Punjab.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

#### 2.2 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the company's functional and presentation currency and figures are rounded to the nearest rupee.

#### 2.3 Standards, interpretations and amendments to published approved accounting standards

##### 2.3.1 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

Following are the amendments that are applicable for accounting periods beginning on or after January 1, 2010:

- ✘ IAS 1 (Amendment), 'Presentation of Financial Statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The company will apply IAS 1 (amendment) from January 1, 2010. It is not expected to have a material impact on the company's financial statements.
- ✘ IAS 17 (Amendment), 'Leases' is effective from annual periods beginning on or after January 1, 2010. The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendment clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7-13 of IAS 17, taking account of the fact that land normally has an indefinite economic life. The amendment is not relevant to the company's operations.
- ✘ IAS 32 (Amendment), 'Financial Instruments: Presentation- Classification of Rights Issues is effective for annual periods beginning on or after January 1, 2010. The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers right, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. These amendments are unlikely to have an implication on the company's financial statements.
- ✘ IAS 36 (Amendment), 'Impairment of Assets' (effective for annual periods beginning on or after January 1, 2010). The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8. The amendment apply prospectively. The amendment is not relevant to company's operations.
- ✘ IAS 39 (Amendment), 'Cash Flow Hedge Accounting'. This amendment provides clarification when to recognize gains or losses on hedging instruments as a reclassification adjustments in a cash flow



hedge of forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to income statement in the period in which the hedged forecast cash flow affects income statement. The company will apply IAS 39 (Amendment) from January 1, 2010. It is not expected to have any significant impact on the company's financial statements.

- ✘ IFRS 2 (Amendment), "Share-based Payment - Group Cash-settled Share-based Payment Transactions" is effective for annual periods beginning on or after January 01, 2010. The IASB amended IFRS 2 to require an entity receiving goods or services (receiving entity) in either an equity settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements. This principle even applies if another group entity or shareholder settles the transaction (settling entity) and the receiving entity has no obligation to settle the payment. Retrospective application is subject to the transitional requirements in IFRS 2.
- ✘ IFRS 5 (Amendment), 'Measurement of Non-Current Assets (or disposal group) Classified as Held-for-Sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current asset (or disposal group) classified as held-for-sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The company will apply IFRS 5 (Amendment) from January 1, 2010. It is not expected to have a material impact on the company's financial statements.
- ✘ IFRS 8, 'Operating segments'. The amendment provides that the requirement for disclosing a measure of segment assets is only required when the Chief Operating Decision Maker (CODM) reviews that information. It does not have a material impact on the company's financial statements.
- ✘ IFRS 3 (amendments), 'Business combinations'. These amendments clarify that the amendments to IFRS 7 Financial instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). Moreover, these amendments limit the scope of the measurement choices that only the components of NCI that are the present ownership interests which entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value, or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. These amendments require an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether by obligation or voluntarily), i.e., split between consideration and post-combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. These amendments do not have a material impact on the company's financial statements.
- ✘ IFRIC 19 (amendment), 'Extinguishing financial liabilities with equity instruments'. IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with a paragraph 41 of IAS 39 Financial instruments: Recognition and Measurement. The equity instruments issued are measured at their fair value, unless this cannot be reliably measure, in which case they are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. This interpretation does not have a material impact on the company's financial statements.

**2.3.2 Standards, interpretations and amendments to existing standards that are applicable to the company but are not yet effective The following amendments and interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after their respective effective dates:**

- ✘ IAS 1 (amendment), 'Presentation of financial statements', is effective for annual periods beginning on or after January 1, 2011. The amendment clarifies that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The amendment is not expected to have a material impact on the company's financial statements.
- ✘ IAS 24. 'Related Party Disclosures (revised 2009)' (effective for annual periods beginning on or after January 1, 2011). The revised IAS amends the definition of a related party and modifies certain related



party disclosure requirements for government-related entities. These amendments are unlikely to have an impact on the company's financial statements.

- ✘ IAS 34 (Amendment), 'Interim financial reporting', is effective for annual period beginning on or after January 1, 2011. The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. This amendment is not expected to have a material impact on the company's financial statements.
- ✘ IFRS 7, 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after January 1, 2011). The amendments add an explicit statement that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial statements. In addition, the IASB amended and removed existing disclosure requirements. These amendments would result in increase in disclosures in the financial statements of the company.
- ✘ IFRS-9 'Financial Instruments' (effective for annual periods beginning on or after January 1, 2013). IFRS 9 is the first standard issued as a part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary classifications depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.
- ✘ IFRIC 13, 'Customer Loyalty Programs' (effective for annual periods beginning on or after January 1, 2011). The amendment clarify that the fair value of the award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.
- ✘ IFRIC - 14 IAS 19- The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. These amendments are unlikely to have an impact on the company's financial statements.

### 3 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for certain items of property, plant and equipment at revalued amounts, revaluation of certain financial instruments at fair value and recognition of certain staff retirement benefits at present value.

The company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows.

#### 3.1 Provision for taxation

The company takes into account the current income tax law and decisions taken by the appellate authorities. Instances where the company's view differs from the view taken by the income tax department at the assessment stage and where the company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

#### 3.2 Staff retirement benefits - gratuity

Certain actuarial assumptions have been adopted as disclosed in relevant note to the financial statements for valuation of present value of defined benefit obligation. Any changes in these assumptions in future year might affect unrecognized gains and losses in those years. of financial instruments that are not traded in an active market is determined by using valuation



techniques based on assumptions that are dependent on market conditions existing at balance sheet date.

### **3.4 Property, plant and equipment**

The company reviews recoverable amount, useful life, residual value and possible impairment on an annual basis. Any changes, if material in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding affect on the depreciation charge and impairment.

### **3.5 Stocks in trade and Stores, spares and loose tools\**

The Company reviews the net realizable value of stock-in-trade and stores and spares to assess any diminution in the respective carrying values. Any change in the estimates in future years might affect the carrying amounts of stock-in-trade and stores and spares with a corresponding affect on the amortization charge and impairment. Net realizable value is determined with respect to estimated selling price less estimated expenditures to make the sales. As the selling price of yarn has decreased substantially after the balance sheet date therefore the valuation of raw material, work in process and finished goods as on 30th June 2011 has been made using the following accounting estimates and judgments;

#### **3.5.1 Valuation of Raw material**

Due to erratic variation in cotton price in the month of July 2011, August 2011 and September 2011 ranging from PKR 4,800 per mound to PKR 7,500, the raw material cost can not be determined at replacement cost as recommended in the paragraph 32 of IAS 2. The valuation has been made on the basis of realization value. Amount realized on account of cotton component has been determined on the basis of sale price of yarn sold during the month of July 2011, August 2011 and September 2011. The value of raw cotton as on 30th June 2011 has been reduced by Rs. 50,076,649 due to above effect.

#### **3.5.2 Valuation of finished goods**

Finished goods have been valued at cost or net realizable value which ever is lower as defined in IAS 2. The value of finished goods as on June 30, 2011 has been reduced by Rs. 14,866,965 due to carrying stock at net realizable value.

#### **3.5.3 Valuation of work in process**

Work in process has been valued at value of cotton as determined above plus overhead cost.

#### **3.5.4 Valuation of waste**

Waste has been valued at net realizable value as defined in IAS 2.

### **3.6 Other areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows.**

**3.6.1** Provision for doubtful debts

**3.6.2** Disclosure of contingencies

**3.6.3** Computation of deferred taxation

## **4 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

### **4.1 Property, plant and equipment - owned**

#### **Recognition**





Property, plant and equipment except for freehold land are stated at cost / revalued amount less accumulated depreciation and any identified impairment loss. Freehold land is stated at revalued amount less any identified impairment loss. Cost of tangible assets consists of historical cost pertaining to erection / construction period and other directly attributable cost of bringing the asset to working

Subsequent cost are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

Surplus arising on revaluation of an item of property, plant and equipment is credited to surplus on revaluation of property, plant and equipment, except to the extent that it reverses deficit on revaluation of the same assets previously recognized in profit or loss, in which case the surplus is credited to profit or loss to the extent of deficit previously charged to income. Deficit on revaluation of an item of property, plant and equipment is charged to profit or loss to the extent that it exceeds the balance, if any held in surplus on revaluation of property, plant and equipment relating to previous revaluation of that item. On subsequent sale or retirement of revalued item of property, plant and equipment the attributable surplus remaining in the surplus on revaluation of property, plant and equipment is transferred directly to unappropriated profit. The surplus on revaluation of property, plant and equipment to the extent of incremental depreciation charged on the related assets is transferred to unappropriated profit.

#### **Depreciation**

Depreciation on all items of property, plant and equipment except for freehold land is charged to income applying the reducing balance method so as to write off historical cost of an asset over its estimated useful life at the rates as disclosed in relevant note.

Depreciation on additions is charged from the month in which the asset become available for uses while no depreciation is charged in the month of disposal.

#### **Derecognition**

An item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the assets) is included in the income statement in the year the assets is derecognized.

### **4.2 Accounting for leases and assets subject to finance lease**

#### **4.2.1 Finance lease**

##### **Recognition**

Leases where the company has substantially all the risks and rewards of ownership are classified as finance lease. Assets subject to finance lease are initially recognized at the commencement of the lease term at the lower of present value of minimum lease payments under the lease agreements and the fair value of the leased assets, each determined at the inception of the lease. Subsequently these assets are stated at cost less accumulated depreciation and any identified impairment loss. The related rental obligations, net off finance cost, are included in liabilities against assets subject to finance lease. The liabilities are classified as current and non current depending upon the timing of payments.

##### **Financial charges**

Lease payments are allocated between the liability and finance cost so as to achieve a constant rate on the balance outstanding. The finance cost is charged to income over the lease term.

##### **Depreciation**

Assets acquired under a finance lease are depreciated in the same manner and at the same rates used for similar owned assets, so as to depreciate these assets over their estimated useful lives in view of certainty of ownership of these assets at the end of lease term. Depreciation of the leased assets is charged to income.



**Deferred income**

Income arising from sale and lease back transaction, if any, which results in finance lease, is deferred and amortized equally over the lease period.  
ating lease

Leases where significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income on a straight-line basis over the period of lease.

**4.3 Capital work in progress**

Capital work in progress is stated at cost less any identified impairment loss. Transfers are made to relevant fixed assets category as and when assets are available for use.

**4.4 Long term deposits**

These are stated at cost which represents the fair value of consideration given.

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

These are valued at lower of cost and net realizable value. Cost is determined by moving average method. Items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

**4.6 Stock in trade**

These are valued at lower of cost and net realizable value except waste which is valued at net realizable value. Cost is determined as follows.

**4.6.1 Raw material**

In hand                      Weighted average cost  
In transit                     Cost comprising invoice value plus other charges incurred  
thereon

**4.6.2 Finished goods and work in process**

Raw material cost plus appropriate manufacturing overheads

**4.6.3 Waste**

Net realizable value

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

**4.7 Trade debts and other receivables**

Trade debts originated by the company are recognized and carried at original invoice value less any allowance for uncollectible amounts. An estimated provision for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. The amount of provision is charged to income. Bad debts are written off as incurred. Other receivables are stated at amortized cost. Known impaired receivables are written off, while receivables considered doubtful are provided for.

**4.8 Cash and cash equivalents**

Cash in hand, cash at bank and short term deposits, which are held to maturity, are carried at cost. For the purpose of cash flow statements, cash and cash equivalent comprise cash in hand, with banks on current & saving accounts.

**4.9 Staff retirement benefits**

Defined benefit plan

The company operates an unfunded gratuity scheme covering for all its permanent employees who have attained the minimum qualifying period for entitlement to the gratuity. Provision is made annually to cover the obligation on the basis of actuarial valuation and charged to income currently. The most recent actuarial valuation was carried on June 30, 2011 using the Projected Unit Credit Method.



Net cumulative unrecognized actuarial gains / losses relating to previous reporting periods in excess of the higher of 10 percent of present value of defined benefit obligation or 10 percent of the fair value of plan assets are recognized as income or expense over the estimated remaining working lives of the employees.

#### **4.10 Taxation**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account, except to the extent that it relates to items recognized directly in equity or below equity, in which case it is recognized in equity or below equity respectively.

##### **4.10.1 Current**

Provision for current taxation is based on taxability of certain income streams of the company under presumptive / final tax regime at the applicable tax rates and remaining income streams chargeable at current rate of taxation under the normal tax regime after taking into account tax credit and tax rebates available, if any. The charge for current tax includes any adjustment to past years liabilities.

##### **4.10.2 Deferred**

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

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profits will be available against which deferred tax asset can be utilized, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability that, at the time of transaction, affects neither the accounting nor taxable profits.

The carrying amount of deferred tax assets 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 utilized.

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

#### **4.11 Trade and other payables**

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

#### **4.12 Provisions**

A provision is recognized in the balance sheet when the company has a legal or constructive obligation as a result of past event, and it is probable that an out flow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

#### **4.13 Borrowings and borrowing costs**

Borrowings are recorded at the proceeds received. Finance costs are accounted for on an accrual basis and are included in current liabilities to the extent of the amount remaining unpaid.

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs are capitalized as part of the cost of that asset up to the date of its commissioning.

#### **4.14 Revenue recognition**



#### 4.14 Revenue recognition

Revenue is recognized on dispatch of goods or on performance of services. Return on deposits is recognized on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

#### 4.15 Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Pak Rupee at the rate of exchange prevailing at the balance sheet date, except those covered by forward contracts, which are stated at contracted rates. Foreign currency transactions are translated into Pak Rupees at the rates prevailing at the date of transaction except for those covered by forward contracts, which are translated at contracted rates. Non monetary items are translated into Pak Rupee on the date of transaction or on the date when fair values are determined. Exchange differences are included in income currently.

#### 4.16 Financial instruments

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the instrument and derecognized when the company loses control of contractual rights that comprise the financial assets and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account for the year.

All financial assets and financial liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

#### 4.17 Offsetting of financial assets and liabilities

A financial asset and financial liability is offset and the net amount is reported in the balance sheet if the company has a legal enforceable right to set off the recognized amounts and intends either to settle on net basis or to realize the assets and the liabilities simultaneously.

#### 4.18 Impairment

At each balance sheet date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the greater of net selling price and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

#### 4.19 Related party transactions

All transactions with related parties are carried out by the company at arms' length price using the method prescribed under the Companies Ordinance, 1984 with the exception of loan taken from related parties which is interest / mark up free.

#### 4.20 Government grants

Government grants for meeting revenue expenses are set off from respective expenses in the year in which they become receivable.

#### 4.21 Research and development cost

Research and development cost is charged to profit and loss account in the year in which it is incurred.

#### 4.22 Dividend

The dividend distribution to the shareholders is recognized as a liability in the period in which it is approved by the shareholders.



	Note	2011 Rupees	2010 Rupees
<b>5 PROPERTY, PLANT AND EQUIPMENT</b>			
Operating assets - own	5.1	614,977,496	571,125,775
Capital work in progress - at cost	5.5	15,420,530	-
		<b>630,398,026</b>	<b>571,125,775</b>

**5.1 Operating assets - owned**

	Freehold land	Building on freehold land	Plant and machinery	Furniture, fixture and equipments	Vehicles	Total
<b>Cost / revaluation</b>						
Balance as at July 1, 2009	143,478,000	161,453,985	860,296,381	11,820,150	4,582,918	1,181,631,434
Additions during the year	-	-	11,237,426	221,599	3,827,800	15,286,825
Revaluation / adjustment	(7,853,000)	(4,602,736)	223,054,175	-	-	210,598,439
Disposals	-	-	(10,865,355)	-	(974,670)	(11,840,025)
Balance as at June 30, 2010	<b>135,625,000</b>	<b>156,851,249</b>	<b>1,083,722,627</b>	<b>12,041,749</b>	<b>7,436,048</b>	<b>1,395,676,673</b>
Balance as at July 1, 2010	135,625,000	156,851,249	1,083,722,627	12,041,749	7,436,048	1,395,676,673
Additions during the year	-	-	85,280,604	409,340	2,084,044	87,773,988
Revaluation / adjustment	-	-	-	-	-	-
Disposals	-	-	-	-	(1,159,000)	(1,159,000)
Balance as at June 30, 2011	<b>135,625,000</b>	<b>156,851,249</b>	<b>1,169,003,231</b>	<b>12,451,089</b>	<b>8,361,092</b>	<b>1,482,291,661</b>
<b>Depreciation</b>						
Balance as at July 1, 2009	-	60,657,436	575,004,982	7,318,142	2,357,354	645,337,914
Charge for the year	-	5,039,828	29,517,525	457,821	692,804	35,707,978
Revaluation / adjustment	-	(1,872,900)	154,507,727	-	-	152,634,827
Disposal	-	-	(8,344,806)	-	(785,015)	(9,129,821)
Balance as at June 30, 2010	-	<b>63,824,364</b>	<b>750,685,428</b>	<b>7,775,963</b>	<b>2,265,143</b>	<b>824,550,898</b>
Balance as at July 1, 2010	-	63,824,364	750,685,428	7,775,963	2,265,143	824,550,898
Charge for the year	-	4,651,345	37,142,486	459,776	1,306,601	43,560,208
Revaluation / adjustment	-	-	-	-	-	-
Disposal	-	-	-	-	(796,941)	(796,941)
Balance as at June 30, 2011	-	<b>68,475,709</b>	<b>787,827,914</b>	<b>8,235,739</b>	<b>2,774,803</b>	<b>867,314,165</b>
Written down value as at June 30, 2010	<b>135,625,000</b>	<b>93,026,885</b>	<b>333,037,199</b>	<b>4,265,786</b>	<b>5,170,905</b>	<b>571,125,775</b>
Written down value as at June 30, 2011	<b>135,625,000</b>	<b>88,375,540</b>	<b>381,175,317</b>	<b>4,215,350</b>	<b>5,586,289</b>	<b>614,977,496</b>
Rate of depreciation	-	5%	10%	10%	20%	

**5.2 The depreciation for the year has been allocated as under.**

	Note	2011 Rupees	2010 Rupees
Cost of sales	25.1	40,116,781	32,713,536
Administrative expenses	28	3,443,427	2,994,442
		<b>43,560,208</b>	<b>35,707,978</b>

**5.3** Had there been no revaluation, the original cost and accumulated depreciation of revalued assets would have been as follows as on June 30, 2011.



	Cost	Accumulated Depreciation	Written down Value
	Rupees		
Land	15,791,001	-	15,791,001
Building	92,480,693	51,289,675	41,191,018
Plant and machinery	721,493,730	450,257,092	271,236,638
	<b>829,765,424</b>	<b>501,546,767</b>	<b>328,218,657</b>

The company had its freehold land, building on freehold land, plant and machinery revalued at June 30, 2010. Revaluation of the assets were carried out by the independent valuers "M/s Harvester Services (Pvt) Limited" registered surveyors and valuation consultants. Freehold land was revalued at market value and building on freehold land, plant and machinery are valued at depreciated market value.

#### 5.4 Detail of assets disposed off:

Description	Mode of Disposal	Particulars of buyer	Cost	Accumulated Depreciation	Written Down Value	Sale Proceeds
R u p e e s						
Vehicles	Negotiation	Mirza Asgher Ali, PIA Housing Society Lahore	1,159,000	796,941	362,059	500,000
			<b>1,159,000</b>	<b>796,941</b>	<b>362,059</b>	<b>500,000</b>

#### 5.5 Capital work in progress

Plant and machinery

Note

2011  
Rupees

2010  
Rupees

- 4,527,081

- 4,527,081

## 6 LONG TERM LOANS AND ADVANCES

### Loan to employees - considered good - unsecured

Workers and employees

6.1

- 838,767

Less: Current portion

- (60,000)

778,767

6.1 All the loans were granted to the workers and employees (drawing below taxable income), free of interest in accordance with their terms of employment. During the year outstanding amount against these loans were recovered by the company.



	Note	2011 Rupees	2010 Rupees
<b>7 LONG TERM DEPOSITS</b>			
Security deposits - utilities		2,734,699	2,734,699
		<u>2,734,699</u>	<u>2,734,699</u>
<b>8 STORES, SPARE PARTS AND LOOSE TOOLS</b>			
Stores		2,713,979	1,985,432
Spare parts		18,366,970	15,692,035
Loose tools		146,258	110,480
		<u>21,227,207</u>	<u>17,787,947</u>
<b>9 STOCK IN TRADE</b>			
Raw material	9.1	146,703,993	94,543,818
Work in process		12,217,465	5,947,579
Finished goods		110,656,373	26,836,112
Waste		1,510,626	946,529
		<u>271,088,456</u>	<u>128,274,038</u>
<b>9.1</b>	Raw material of Rs. 137.100 million (June 30, 2010 : Rs. 75.825 million) are pledged as security for short term borrowing (cash finance).		
<b>9.2</b>	Raw material amounting to Rs. 196,780,642 (June 30, 2010 : Rs. Nil), finished goods amounting to Rs. 118,385,044 (June 30, 2010: Rs. ) stated at their net realizable value aggregating Rs. 146,703,993 ( June 30, 2010 : Rs. Nil ) and Rs. 103,518,079 (June 30, 2010 : Rs. Nil) respectively. The amount charged to profit and loss in respect of stocks written down to their net realizable value is Rs. 64,943,614 (June 30, 2010 : Rs. Nil )		
<b>10 TRADE DEBTS</b>			
<b>Export - secured</b>			
Considered good		5,297,158	-
<b>Local - unsecured</b>			
Considered good		92,682,120	88,596,633
Considered doubtful		1,176,341	13,267,116
		<u>99,155,619</u>	<u>101,863,749</u>
<b>Less:</b>			
Provision for doubtful debts written off directly	10.1	(1,176,341)	(4,597,797)
		-	(8,669,319)
		<u>97,979,278</u>	<u>88,596,633</u>



	Note	2011 Rupees	2010 Rupees
<b>10.1 Provision for doubtful debts</b>			
Balance as at 1 July		4,597,797	-
Charged / (reversed) during the year		(665,086)	4,597,797
Written off during the year		(2,756,370)	-
Balance as at 30 June 1,		<u>1,176,341</u>	<u>4,597,797</u>
<b>11 LOANS AND ADVANCES</b>			
Considered good			
Advances to			
Suppliers		3078,934	3187,612
Staff against purchase		2,030,036	2276594
Workers against wages	11.1	1,200,714	2672,206
Letter of credit		4,916,129	2,316,749
		<u>11,225,813</u>	<u>10,452,161</u>
11.1 These are paid to workers whose wages are not taxable under Income Tax Ordinance, 2001. Any interest under section 13 of the Income Tax Ordinance 2001 will not result in taxable income.			
<b>12 TRADE DEPOSITS AND SHORT TERM PREPAYMENTS</b>			
Security deposits		299,000	29,000
Prepayments		125,662	358,141
		<u>354,662</u>	<u>387,141</u>
<b>13 OTHER RECEIVABLES</b>			
Considered good			
Claims receivable		-	335,000
		<u>-</u>	<u>335,000</u>
<b>14 TAX REFUNDS DUE FROM GOVERNMENT</b>			
Considered good			
Sales tax receivable		14,079,771	8,753,302
Advance income tax		2,943,273	2,208,724
		<u>17,023,044</u>	<u>18,962,021</u>





	Note	2011 Rupees	2010 Rupees
<b>15 CASH AND BANK BALANCES</b>			
Cash in hand		273,487	30,410
Cash at banks - current accounts		11,022,872	8,090,983
		<u>11,296,359</u>	<u>8,121,393</u>

**16 ISSUED, SUBSCRIBED AND PAID UP CAPITAL**

2010	2009		2011 Rupees	2010 Rupees
Number of Shares				
		Ordinary shares of Rs. 10 each allotted for consideration		
11,640,000	11,640,000	fully paid in cash	116,400,000	116,400,000
<u>11,640,000</u>	<u>11,640,000</u>		<u>116,400,000</u>	<u>116,400,000</u>

16.1 The shareholders are entitled to receive all distribution to them including dividend and other entitlements in the form of bonus and right shares as and when declared by the company. All shares carry "one vote" per share without restriction.

16.2 There is no movement in share capital during the year.

	Note	2011 Rupees	2010 Rupees
<b>17 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>			
Opening balance		321,449,577	273,990,958
Addition during the year		-	57,963,612
		<u>321,449,577</u>	<u>331,954,570</u>
Transfer to unappropriated profit in respect of :			
Disposal of property, plant and equipment		-	802,014
Incremental depreciation on revalued assets		14,932,650	9,702,979
		<u>14,932,650</u>	<u>10,504,993</u>
<b>Closing balance</b>		<u>306,516,927</u>	<u>321,449,577</u>

**18 LONG TERM FINANCING****Unsecured - from related parties**

18.1

Directors		214,802,100	214,802,100
Associated undertaking		85,000,000	85,000,000
		<u>299,802,100</u>	<u>299,802,100</u>
Current portion		(20,000,000)	-
		<u>279,802,100</u>	<u>299,802,100</u>



18.1 These are unsecured, interest free loans and not repayable within next twelve months except Rs.20.00 million shown as current portion . Out of total loan, Rs. 192,800,000 (June 30, 2010 : Rs. 192,800,000) was subordinated to short term borrowings from banking company.

	Note	2011 Rupees	2010 Rupees			
<b>19 STAFF RETIREMENT BENEFITS - GRATUITY</b>						
<b>19.1 Movement in net liability</b>						
recognized in the balance sheet						
Opening net liability		5,426,467	3,994,388			
Expenses for the year	19.2	4,461,600	3,636,833			
		<u>9,888,067</u>	<u>7,631,221</u>			
Benefits paid during the year		(2,548,561)	(2,204,754)			
Closing net liability		<u>7,339,506</u>	<u>5,426,467</u>			
<b>19.2 Expenses recognized in the profit and loss account</b>						
Current service cost		3,223,691	3,240,546			
Interest cost		943,615	562,429			
Actuarial loss / (gain) recognized		294,294	(166,142)			
		<u>4,461,600</u>	<u>3,636,833</u>			
<b>19.3 Movement in the present value of defined benefit obligation</b>						
Present value of defined benefit obligation		8,489,885	3,049,855			
Interest cost for the year		943,615	562,429			
Current service cost for the year		3,223,691	3,240,546			
Benefits paid during the year		(2,548,561)	(2,204,754)			
Actuarial loss		798,780	3,841,809			
		<u>10,907,410</u>	<u>8,489,885</u>			
<b>19.4 Historical information</b>						
	2011	2010	2009	2008	2007	2006
Present value of defined benefit obligation	<u>10,907,410</u>	<u>8,489,885</u>	<u>3,049,855</u>	<u>6,291,858</u>	<u>3,860,271</u>	<u>2,705,488</u>
Experience adjustments in plan liabilities	<u>798,780</u>	<u>3,841,809</u>	<u>(3,961,333)</u>	<u>1,591,251</u>	<u>1,191,783</u>	<u>1,003,232</u>
<b>19.5 Reconciliation of present value of defined benefit obligation to liabilities recognized in balance sheet</b>						
Present value of defined benefit obligation		10,907,410	8,489,885			
Actuarial loss to be recognized in later periods		(3,567,904)	(3,063,418)			
		<u>7,339,506</u>	<u>5,426,467</u>			

**19.6 General description**

The scheme provides for terminal benefits for all of its permanent employees who attain the minimum qualifying period. Annual charge is made using the actuarial technique of Projected Unit Credit Method.

	2011	2010
<b>19.7 Principal actuarial assumptions</b>		
Following are a few important actuarial assumptions used in the valuation.		
Discount rate	14%	12%
Expected rate of salary increase in future	10%	10%

**19.8 Expected gratuity expense for the year ending June 30, 2011 works out to Rs. 4,496,516**

	Note	2011 Rupees	2010 Rupees
<b>20 TRADE AND OTHER PAYABLES</b>			
Creditors		28,550,900	9,738,497
Accrued liabilities		15,699,797	14,377,848
Advance from customers		2,707,053	1,535,865
Workers profit participation fund	20.1	2,003,236	5,807,805
Workers welfare fund payable		-	1,235,588
Withholding tax payable		215,820	30,770
		<u>49,176,806</u>	<u>32,726,373</u>
<b>20.1 Workers profit participation fund</b>			
Balance as at 01 July		5,807,805	-
Interest on funds utilized in the company's business	20.1.1	274,540	-
		<u>6,082,345</u>	-
Allocation for the year		1,728,696	5,807,805
		<u>7,811,041</u>	5,807,805
Payments made during the year		(5,807,805)	-
		<u>2,003,236</u>	<u>5,807,805</u>
<b>20.1.1 Interest on Workers' profit participation fund has been provided at the rate of 16.09 % (June 30, 2010 : Nil)</b>			
<b>21 ACCRUED INTEREST / MARK UP Secured - from banking companies</b>			
Short term borrowings		18,825,255	9,370,983
		<u>18,825,255</u>	<u>9,370,983</u>
<b>22 SHORT TERM BORROWINGS</b>			
Secured - from banking companies			
Cash finance		123,390,000	68,242,100
Running finance		209,100,799	79,565,233
		<u>332,490,799</u>	<u>147,807,333</u>



22.1 These finances are available from banking companies under mark up arrangements against aggregate sanctioned limit of Rs.780 million (June 30, 2010 : 605 million). These facilities are secured against registered hypo charge over stocks, book debts and current assets, pledge of stock of raw cotton and cotton yarn through bank's approved mudadum with 10% margin on cotton and 20% margin on cotton yarn, accepted documents against inland LC's and DP/DA, export bills, parri passu charge over all present and future current assets of the company, parri passu charge over all present and future fixed assets of the company including land building and machinery located at 11 KM, manga raiwind road, lien over DSC's and personal guarantees of the directors. These carries markup ranging from 13.79 to 15.64 (June 30, 2010 : 13.84 to 14.54) percent per annum payable quarterly. These facilities will expire on various dates by October 31, 2011.

	Note	2011 Rupees	2010 Rupees
<b>23 CONTINGENCIES AND COMMITMENTS</b>			
<b>Contingencies</b>			
Bills discounted with recourse		179,432,507	37,333,671
Bank guarantee issued in the ordinary course of business		13,732,510	13,732,510
<b>Commitments</b>			
Letter of credit for capital expenditures		-	58,497,760
Letter of credit for stores and spares parts		-	-
<b>24 SALES - NET</b>			
Yarn			
Local		1,443,081,921	1,062,731,109
Export	24.1	588,584,981	258,810,934
Cotton			
Local		4,675,939	8,475,660
Waste		36,064,336	28,392,109
Export Debet		33,710	27,916
		<u>2,072,440,887</u>	<u>1,358,437,228</u>

24.1 It includes exchange gain amounting to Rs. 1,657,727 (2010 : Rs. 2,317,359)

<b>25 COST OF SALES</b>			
Cost of goods manufactured	25.1	2,000,332,324	1,154,696,039
Finished goods			
Opening		27,782,641	20,175,926
Finished goods purchased during the year		-	782,000
Closing		(112,166,998)	(27,782,641)
		<u>(84,384,357)</u>	<u>(6,824,715)</u>
		<u>1,915,947,967</u>	<u>1,147,871,324</u>



	2011	2010
	Rupees	Rupees
<b>25.1 Cost of goods manufactured</b>		
Raw materials consumed	25.2 1,683,507,272	871,878,082
Cost of raw material sold	4,588,802	8,100,864
Fuel and power	131,689,561	109,086,172
Stores and spares consumed	30,189,244	31,329,679
Salaries, wages and other benefits	80,251,268	72,596,856
Staff retirement benefits - gratuity	3,878,423	3,164,595
Packing material consumed	21,396,341	17,369,714
Depreciation	5.2 40,116,781	32,713,536
Other expenses	10,984,518	8,309,589
	<u>2,006,602,210</u>	<u>1,154,549,087</u>
Work in process		
Opening	5,947,579	6,094,531
Closing	(12,217,465)	(5,947,579)
	<u>(6,269,886)</u>	<u>146,952</u>
	<u>2,000,332,324</u>	<u>1,154,696,039</u>
<b>25.2 Raw material consumed</b>		
Opening stock	94,543,818	85,144,677
Purchases - net	1,735,667,447	881,277,223
	<u>1,830,211,265</u>	<u>966,421,900</u>
Less: Closing stock	146,703,993	94,543,818
	<u>1,683,507,272</u>	<u>871,878,082</u>
<b>26 OTHER OPERATING INCOME</b>		
<b>From financial assets</b>		
Reversal of provision of doubtful debts	665,086	-
<b>From other than financial assets</b>		
Credit balances written back	-	146,529
Profit on sale of property plant and equipment	137,941	151,345
	<u>803,027</u>	<u>297,874</u>
<b>27 DISTRIBUTION COST</b>		
Commission on local sales	8,764,379	6,920,882
Commission on export sales	13,454,407	6,195,063
Local freight	1,372,210	1,519,855
Inland freight on export sales	3,578,000	2,178,346
Ocean freight	3,845,627	2,805,128
Export development surcharge	1,432,138	674,579
Clearing and forwarding	1,010,770	836,076
Bank charges	1,268,031	1,105,012
Other export expenses	1,401,532	1,024,767
	<u>36,127,094</u>	<u>23,259,708</u>



		2011 Rupees	2010 Rupees
<b>28 ADMINISTRATIVE EXPENSES</b>		<b>3,953,280</b>	2,886,012
Salaries and other benefits		583,177	472,238
Staff retirement benefits - gratuity		1,031,461	400,777
Fees, subscription and taxes		140,170	30,000
Legal and professional		292,400	358,085
Repairs and maintenance		39,612	68,968
Traveling and conveyance		836,511	517,882
Vehicle running expenses		73,500	73,895
Entertainment		285,653	192,211
Insurance		645,000	570,000
Auditors' remuneration	28.1	23,715	67,740
Advertisement		355,038	210,752
Postage, telephones and telegrams		-	5,356
Electricity, gas and water		130,664	178,003
Printing and stationary		3,443,427	2,994,442
Depreciation	5.2	<u>11,833,608</u>	<u>9,026,361</u>
<b>28.1 Auditors' remuneration</b>			
Statutory audit fee		550,000	500,000
Review of code of corporate governance		25,000	25,000
Half yearly and other reviews		40,000	35,000
Certification		30,000	10,000
		<u>645,000</u>	<u>570,000</u>
<b>29 OTHER OPERATING EXPENSES</b>			
Loss on disposal of property, plant and equipment		-	1,825,549
Bad debts written off directly		-	8,669,319
Provision for doubtful debts		-	4,597,797
Loss/(Gain) of cotton destroyed by fire (claim)/loss		576,203	(2,031,010)
Workers welfare fund	29.1	-	2,206,966
Workers profit participation fund		1,728,696	5,807,805
		<u>2,304,899</u>	<u>21,076,426</u>

**29.1** Honorable High Court in writ petition bearing number W.P. No. 8763/2011 has decided that the amendment made in the Workers' Welfare Fund ordinance through Finance Act 2006 and 2008 is unconstitutional and unlawful. Therefore, no provision for workers welfare fund has been made in the financial statements.



	Note	2011 Rupees	2010 Rupees
<b>30 FINANCE COST</b>			
Markup on short term borrowings			
Banking companies		66,329,377	46,575,272
Directors	30.1	5,436,180	-
Markup on worker profit participation fund		274,540	-
Bank charges and commission		2,145,034	2,784,685
		<u>74,185,131</u>	<u>49,359,957</u>

30.1 It represents markup charge on loan from directors of Rs. 113.656 million (arranged from Habib Bank Limited under HBL easy loan facility) to finance the procurement of cotton and this loan is utilized by company for a period less than six months. These carries markup ranging from 14.24 to 14.71 percent per annum payable quarterly.

### 31 TAXATION

Current year		21,575,461	8,264,346
		<u>21,575,461</u>	<u>8,264,346</u>

#### 31.1 Current tax

The assessment of the company will be finalized in respect of export proceeds under presumptive tax regime under section 169. Other than export income, assessment will be finalized under the provisions of Income Tax Ordinance, 2001. Income tax return of the company has been filed up to tax year 2010. The numerical reconciliation between the average tax rate and the applicable tax rate has not been presented in these financial statements as the total income of the company is liable to tax under section 169 of Income Tax ordinance, 2001.

#### 31.2 Deferred tax

During the year deferred tax assets amounting to Rs. 9,730,115 (2010: Rs.19,967,558) arised which has not been recognized as it is not probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized.

### 32 EARNINGS PER SHARE - basic and dilutive

Pofit for the year	Rupees	111,269,754	99,876,980
Weighted average number of ordinary shares	Rupess	11,640,000	11,640,000
Earnings per share - basic	Rupees	<u>0.97</u>	<u>8.58</u>

32.1 There is no dilutive effect on basic earning per share.

### 33 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The chief executive and directors have waived off their remunerations and meeting fees for the year. One director is entitled for maintenance of two cars. The maintenance expenses for the year is Rs. 476,101 (June 30, 2010: 642,263). No employee fall under the definition of executives as defined under the Companies Ordinance, 1984.

**34 FINANCIAL INSTRUMENT AND RELATED DISCLOSURES**

The company has exposures to the following risks from its use of financial instruments.

- 34.1 Credit risk
- 34.2 Liquidity risk
- 34.3 Market risk

The board of directors has overall responsibility for the establishment and oversight of company's risk management framework. The board is also responsible for developing and monitoring the company's risk management policies.

**34.1 Credit risk****34.1.1 Exposure to credit risk**

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the trade debts, loans and advances, trade deposits and short term prepayments and cash and bank balances. Out of total financial assets of Rs. 113.440 million (June 30, 2010 : Rs. 102.489 million), financial assets which are subject to credit risk aggregate to Rs. 102.144 million (June 30, 2010 : Rs. 94.368 million). The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows.

	2011	2010
	Rupees	Rupees
Long term deposits	2,734,699	2,734,699
Trade debts	97,979,278	88,596,633
Loans and advances	1,200,714	2,672,206
Trade deposits and short term prepayments	229,000	29,000
Other receivables	-	335,000
Cash and bank balances	11,296,359	8,121,393
	<u>113,440,050</u>	<u>102,488,931</u>

**34.1.2 The maximum exposure to credit risk for trade debts at the balance sheet date by geographical region is as follows.**

Domestic	92,682,120	88,596,633
Export	5,297,158	-
	<u>97,979,278</u>	<u>88,596,633</u>

The export debtors of the company are situated in China.

**34.1.3 The maximum exposure to credit risk for trade debts at the balance sheet date by type of customer is as follows:**

Yarn	97,979,278	88,596,633
	<u>97,979,278</u>	<u>88,596,633</u>





**34.1.4** The aging of trade debtors at the balance sheet is as follows.

	Gross Debtors	
	2011	2010
	Rupees	Rupees
Not past due	89,224,903	79,151,584
Past due 1-30 days	8,699,965	8,466,658
Past due 31-1 year	1,119,576	528,391
Past due more than 1 year	111,175	5,047,797
Provision for doubtful debts	(1,176,341)	(4,597,797)
	<b>97,979,278</b>	<b>88,596,633</b>

Based on the past experience, sales volume, consideration of financial position, past track records and recoveries and economic conditions, the company have made provision of doubtful balance outstanding more than one year.

**34.2 Liquidity risk**

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the company's reputation. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements.

	2011					
	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	Two to five years	More than five years
	Rupees					
<b>Non - derivative Financial liabilities</b>						
Long term financing	279,802,100	279,802,100	-	-	-	279,802,100
Trade and other payables	46,206,433	46,206,433	46,206,433	-	-	-
Accrued mark up / interest	18,825,255	18,825,255	18,825,255	-	-	-
Short term borrowings	332,490,799	356,563,133	356,563,133	-	-	-
	<b>677,324,587</b>	<b>701,396,920</b>	<b>421,594,820</b>	<b>-</b>	<b>-</b>	<b>- 279,802,100</b>
	2010					
	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	Two to five years	More than five years
	Rupees					
<b>Non - derivative Financial liabilities</b>						
Long term financing	299,802,100	299,802,100	-	-	-	299,802,100
Trade and other payables	31,159,738	31,159,738	31,159,738	-	-	-
Accrued mark up / interest	9,370,983	9,370,983	9,370,983	-	-	-
Short term borrowings	147,807,333	287,782,790	287,782,790	-	-	-
	<b>488,140,154</b>	<b>628,115,611</b>	<b>328,313,511</b>	<b>-</b>	<b>-</b>	<b>- 299,802,100</b>

**34.2.1** The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark up rates effective as at June 30. The rates of mark up have been disclosed in relevant notes to these financial statements.

**34.3 Market risk**

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities, and liquidity in the market. The company is exposed to currency risk and interest rate risk only.



**34.3.1 Currency risk**

Exposure to currency risk

The company is exposed to currency risk on trade debts, borrowing and import of raw material and stores that are denominated in a currency other than the respective functional currency of the company, primarily in US Dollar and Euro. The currencies in which these transactions primarily are denominated is US Dollar and Euro. The company's exposure to foreign currency risk is as follows.

	US Dollar	Rupees
Trade debts 2011	<u>63,001</u>	<u>5,297,158</u>
Trade debts 2010	<u>-</u>	<u>-</u>

The following significant exchange rates applied during the year.

	Average rates		Reporting date rates	
	2011	2010	2011	2010
US Dollar to Rupee	<u>84.94</u>	<u>84.19</u>	<u>84.08</u>	<u>85.60</u>

Sensitivity analysis

5% strengthening of Pak Rupee against the following currencies at June 30, would have increased / (decreased) equity and profit and loss by the amount shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. 5% weakening of Pak Rupee against the above currencies at periods ends would have had the equal but opposite effect on the above currencies to the amount shown below, on the basis that all other variables remain constant.

	2011 Rupees	2010 Rupees
US Dollar	<u>(264,858)</u>	<u>(178,024)</u>

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

**34.3.2 Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposures arises from long term financing and short term borrowings. At the balance sheet date the interest rate profile of the company's interest bearing financial instrument is as follows.

**Fixed rate instruments**

Financial assets	<u>-</u>	<u>-</u>
Financial liabilities	<u>-</u>	<u>-</u>

**Variable rate instruments**

Financial assets	<u>-</u>	<u>-</u>
Financial liabilities	<u>332,490,799</u>	<u>147,807,333</u>

**Fair value sensitivity analysis for fixed rate instruments**

The company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect profit and loss account.

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for June 30, 2010.



Profit and loss		Equity	
100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Rupees			
Cash flow sensitivity - variable rate instruments 2011	720,401	(720,401)	-
Cash flow sensitivity - variable rate instruments 2010	465,753	(465,753)	-

**34.4 Fair value of financial assets and liabilities**

The carrying value of all financial instruments reflected in the financial statements approximate to their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

**34.5 Off balance sheet items**

	2011 Rupees	2010 Rupees
<b>Contingencies</b>		
Bills discounted with recourse	179,432,507	37,333,671
Bank guarantee issued in the ordinary course of business	13,732,510	13,732,510
<b>Commitments</b>		
Letter of credit for capital expenditures	-	58,497,760
Letter of credit for stores and spares parts	-	-

**34.6** The effective rate of interest / mark up for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

**35 CAPITAL RISK MANAGEMENT**

The company's prime object when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. The ratio is calculated as total borrowings divided by total capital employed. Borrowings represent long term financing, long term loan from directors and others and short term borrowings. Total capital employed includes total equity as shown in the balance sheet plus borrowings.

		2011	2010
Borrowings	Rupees	612,292,899	447,609,433
Total equity	Rupees	49,223,300	22,973,747
Total capital employed	Rupees	661,516,199	470,583,180
Gearing ratio	Percentage	92.56	95.12



**36 PLANT CAPACITY AND PRODUCTION**

It is difficult to describe precisely the production capacity in textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw material used, spindle speed and twist. It would also vary according to the pattern of production adopted in a particular year.

	2011	2010
Total number of spindles installed	<u>19,344</u>	<u>19,344</u>
Total number of spindles worked	<u>18,268</u>	<u>18,637</u>
Number of shifts per day	<u>3</u>	<u>3</u>
Rated capacity converted at 20/1 count (Kgs.)	<u>6,785,551</u>	<u>6,785,551</u>
Actual production converted at 20/1 count (Kgs.)	<u>7,013,385</u>	<u>7,034,381</u>

36.1 It is difficult to precisely describe production capacity and the resultant production in the textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw material used, spindle speed, twist etc.

36.2 The difference between installed capacity and actual production is in normal course of business.

**37 TRANSACTIONS WITH RELATED PARTIES**

The company has related party relationship with its associated undertakings, its directors and executives officers. Transactions with related parties essentially entail sale and purchase of goods and / or services from the aforementioned concerns. All transactions are carried out on commercial basis

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The company considers all members of their management team, including the chief executive officer and directors to be its key management personnel. There are no transactions with key management personnel other than under the terms of employment.

There are no transactions with key management personnel other than under their terms of employments / entitlements. Balance outstanding from related parties are unsecured and repayable on demand or as contracted. Amounts due to related parties are shown in the relevant notes to the financial statements. Long term financing from related parties, short term borrowings from related parties and remuneration of chief executive, directors and executives are disclosed in the relevant notes to the financial statements.

Details of transactions with related parties are as follows :

Nature of relationship	Nature of transaction / balances	Rupees	Rupees
Directors	Short term loans from directors utilized for less than six months	13,656,000	-
	Mark up cost of short term loans from directors	5,436,180	-
	Long term Financing from directors- unsecured interest free	214,802,100	214,802,100
Associated undertaking	Long term Financing from associate undertaking- unsecured interest free	65,000,000	85,000,000
	Current portion of long term loan- unsecured interest free	20,000,000	-

**38 CORRESPONDING FIGURES**

Figures have been rearranged / reclassified whenever necessary for the purpose of comparison. However, no major reclassification / rearrangement was made in these financial statements.

**39 EVENTS AFTER THE BALANCE SHEET DATE**

There are no subsequent events occurring after balance sheet date.

**40 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements have been authorized for issue on October 6, 2011 by the board of directors of the company.

  
**AZHER ELAHI**  
 CHIEF EXECUTIVE



 **ATHAR J. ELAHI**  
 DIRECTOR