

**SALMAN NOMAN ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**1 STATUS AND ACTIVITIES**

The company was incorporated in Pakistan on November 05, 1985 as a Public Limited Company under the Companies Ordinance, 1984. The registered office and mills of the company are situated at 03 kilometer Bhai Pheru, Tehsil Chunian, District Kasur. The company is listed on Karachi and Lahore stock exchanges. The principal business of the company is manufacturing and sale of yarn.

**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**

- ❖ IFRS 7 (Amendments), 'Financial Instruments', emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment has only resulted in additional disclosures with respect to financial Instruments.
- ❖ IAS 1, 'Presentation of financial statements' (Amendments), now requires an entity to present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Since the company currently does not have any items of other comprehensive income, the amendments do not affect the Company's financial statements.
- ❖ IAS 24 (Revised), 'Related Party Disclosures', issued in November 2009. It supersedes IAS 24, 'Related Party Disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.
- ❖ IFRIC 14 (Amendment), 'Prepayments of a minimum funding requirement'. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions.

**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:

- ❖ IFRS 9, 'Financial Instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until January 01, 2013 but is available for early adoption. This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace IAS 39, 'Financial Instruments' Recognition and measurement'. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions. There will be no impact on the company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the company does not have any such liabilities
- ❖ IFRS 10, 'Consolidated Financial Statements', applicable from January 01, 2013, build on existing principles by identifying the concept of control as the determine factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
- ❖ IFRS 11, 'Joint Arrangements', applicable from January 01, 2013, is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement; joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The company will apply this standard from April 01, 2013.
- ❖ IFRS12, 'Disclosures of interests in other entities', this standard includes the disclosure requirements for all forms of interests in other

- ❖ IFRS 13, 'Fair value measurement', this standard provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The standard is not applicable until April 01, 2013 but is available for early adoption.
- ❖ IAS 1, 'Financial statement presentation' (Amendment). The main change resulting from this amendment is the requirement for entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendment does not address which items are presented in other comprehensive income.
- ❖ IAS 12, 'Income Taxes' (Amendments). These are applicable on accounting periods beginning on or after January 01, 2012. IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment Property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.
- ❖ IAS 19, 'Employee Benefits' (Amendment). The amendment will eliminate the corridor approach and calculate finance costs on a net funding basis. The amendments are not applicable until January 01, 2013 but is available for early adoption.
- ❖ Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) - (effective for annual periods beginning on or after January 01, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. the amendments clarify the meaning of 'currently has a legally enforceable right of set-off; and that some gross settlement systems may be considered equivalent to net settlement.
- ❖ Offsetting of financial assets and financial liabilities (Amendments to IFRS 7) - (effective for annual periods beginning on or after January 01, 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.
- ❖ Annual Improvements 2009-2011 (effective for annual periods beginning on or after 1 January 2013. The new cycle of improvements contains amendments to the following standards, with consequential amendments to other standards and interpretations.

IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period - which is the preceding period - is required for a complete set of financial statements.

IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand by equipment and servicing equipment.

IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to accounting for income taxes relating to distribution to holders of an equity instrument and transaction costs of an equity transaction.

IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments.

- ❖ There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

### 2.3.3 Standards, interpretations and amendments to published standards that are effective but not relevant to the company

- ❖ The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 are considered not to be relevant or to have any significant impact on the company's financial reporting and operations.

## 3 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention on accrual basis, except for recognition of staff retirement benefits which are based on actuarial values (net present value), certain items of property, plant and equipment which are stated at revalued amounts and certain financial assets are stated at fair 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

### **3.3 Financial instruments**

The fair value 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 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.

3.5.1 Provision for doubtful debts

3.5.2 Estimation of net realizable value

3.5.3 Computation of deferred taxation

3.5.4 Disclosure of contingencies

## **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 Staff retirement benefits - gratuity**

The company operates an approved unfunded gratuity scheme (defined benefit plan) for all its permanent employees who have completed minimum qualifying period of service as defined under the respective scheme. Contributions are made annually to cover the obligation under the scheme on the basis of actuarial valuation and are charged to income. The most recent valuation was carried out on June 30, 2012 using the "Project Unit Credit Method".

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

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.

### **4.2 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, in which case it is recognized in equity.

#### **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.

#### **Deferred**

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

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.

### **4.3 Trade and other payables**

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

### **4.4 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.

### **4.5 Borrowings and borrowing costs**

Borrowing costs are cognized as an expense in the period in which these are incurred except to the extent 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.

#### **4.6 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.

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

##### **Recognition**

Property, plant and equipment except for freehold land are stated at cost / revaluation less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost / revaluation 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 condition.

Subsequent costs 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.

##### **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 note 19**.

Depreciation on additions is charged from the month in which the asset is acquired or capitalized 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.

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

##### **4.8.1 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 of 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.

##### **4.8.2 Operating 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.

#### **4.9 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.

#### **4.10 Long term deposits**

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

#### **4.11 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.

#### 4.12 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. These are valued at the lower of cost and net realizable value applying the following basis:

Raw material	Weighted average cost except those in transit which are stated at cost comprising invoice value plus other charges incurred thereon.
Finished good and work in process	Raw material cost plus appropriate manufacturing overheads.
Waste	Net realizable value

Average manufacturing cost in relation to work in process and finished goods, consists of direct material, labor and a proportion of manufacturing overheads based on normal capacity.

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.

#### 4.13 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.

#### 4.14 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, cash in transit and balances with banks.

#### 4.15 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.

#### 4.16 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.

#### 4.17 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.

#### 4.18 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.

#### 4.19 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 free.

#### 4.20 Dividend

Dividend distributed to the share holders is recognized as a liability in the period in which it is approved by the shareholders.

5 ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2012	2011		2012	2011
Number of shares		Note	Rupees	Rupees
4,174,800	3,976,000	Ordinary shares of Rs. 10 each allotted for consideration fully paid in cash	41,748,000	39,760,000
292,236	198,800	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	2,922,360	1,988,000
<u>4,467,036</u>	<u>4,174,800</u>		<u>44,670,360</u>	<u>41,748,000</u>

5.1 The shareholders' are entitled to receive all distributions 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.

5.2 During the year the company has issued 292,236 (June 30, 2011 : 198,800) shares of Rs. 10 each as fully paid bonus shares.

6 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - NET OF TAX	Note	2012 Rupees	2011 Rupees
Surplus on revaluation of property, plant and equipment at the beginning of the year		389,649,392	249,174,885
Add: Surplus raised during the year		-	155,406,433
<i>Transfer to unappropriated profit in respect of:</i>			
Disposal of property, plant and equipment		-	-
Incremental depreciation on revalued assets		10,476,050	9,705,752
Related deferred tax liability		5,640,950	5,226,174
		<u>16,117,000</u>	<u>14,931,926</u>
Surplus on revaluation of property, plant and equipment as at the end of year		373,532,392	389,649,392
<i>Related deferred tax liabilities on:</i>			
Revaluation at the beginning of the year		110,129,339	74,790,449
Surplus arised during the year		-	40,565,064
Incremental depreciation on revalued assets		(5,640,950)	(5,226,174)
		<u>104,488,389</u>	<u>110,129,339</u>
		<u>269,044,003</u>	<u>279,520,053</u>

7 DEFERRED INCOME

Opening balance	5,129,519	7,327,884
Arised during the year	-	-
Amortized during the year	(2,198,364)	(2,198,365)
	<u>2,931,155</u>	<u>5,129,519</u>

7.1 This represents excess of sale proceeds over carrying amount in sale and lease back transactions. This amount is being amortized over the lease term in equal proportion.

8 LONG TERM FINANCING

Secured - from banking companies

	Note	2012 Rupees	2011 Rupees
Term finance	8.1	105,991,606	79,493,704
Inland letter of credit	8.2	52,847,299	-
		<u>158,838,905</u>	<u>79,493,704</u>

8.1 Term finance

Opening balance	114,824,240	123,656,874	
Obtained during the year	-	-	
	<u>114,824,240</u>	<u>123,656,874</u>	
Transfer / paid during the year	(8,832,634)	(8,832,634)	
	<u>105,991,606</u>	<u>114,824,240</u>	
Current Maturity	17	-	(35,330,536)

**8.1.1** This represents term finance obtained from Soneri Bank Limited to pay off import bills of the company related to BMRE. The loan is secured against joint pari passu charges of Rs. 485,666,667 (Soneri Bank Limited's share of Rs. 164,000,000) on all the present and future fixed assets (both movable and immovable) of the company, Equitable mortgage with legal mortgage on House no. 41, Block L, Gulberg III, Lahore in the name of Mr. Noman Almas Valuing Rs. 55,000,000 and personal guarantee of sponsoring directors. The loan is subject to mark up at three months average ask KIBOR plus 2.75% (June 30, 2011 : three months KIBOR plus 2.75%) per annum payable quarterly. The loan is repayable in 14 equal quarterly installments commenced after one year grace period.

Out of total outstanding liability an amount of Rupees 26.498 million stands overdue as at June 30, 2012. Overdue installment of Rs. 26.498 million and current portion of Rs. 35.331 million is not accounted for in current liabilities under current portion of long term financing from banking companies. Bank has not confirmed closing balance as at June 30, 2012.

**8.2** This represents amount payable to National Bank of Pakistan on account of inland Letter of credits (usage) of 90 days. The facility is secured against a joint pari passu charge of Rs. 135 million over the non current assets and a joint pari passu charge of Rs. 75 million over the current assets of the company, lien over documents and personnel guarantee of sponsoring director of the company. Previously the amount was classified as current liabilities under trade and other payables but in current year amount payable against LCs has been classified as long term financing as there are on going negotiation for conversion of the facilities to long term with the bank. The entire amount stands overdue as at June 30, 2012.

**9 LONG TERM FINANCING FROM DIRECTORS AND OTHERS**

	<b>2012</b>	<b>2011</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>Unsecured - related parties</b>	71,622,513	42,556,983

These are unsecured and interest free loans. The directors of the company, and others have acknowledged that they have no intention to demand such loans within next twelve months, therefore, current maturity has not been recognized. It includes Rs. 42,556,983 (June 30, 2011 : Rs. 25,932,094) as subordinated to the loans from banking companies.

<b>10 LONG TERM MURABAHA</b>	<b>Note</b>	<b>Orix-I</b>	<b>Orix-II</b>	<b>FNBM</b>	<b>2012</b>	<b>2011</b>
		10.1	10.2	10.3	<b>Rupees</b>	<b>Rupees</b>
<b>Secured - from banking companies and other financial institutions</b>						
Opening balance		4,117,650	3,888,880	3,500,000	11,506,530	22,415,030
Obtained during the year		-	-	-	-	-
		4,117,650	3,888,880	3,500,000	11,506,530	22,415,030
Paid during the year		(588,235)	(388,890)	(3,500,000)	(4,477,125)	(10,908,500)
		3,529,415	3,499,990	-	7,029,405	11,506,530
Current maturity	17	(3,529,415)	(2,722,230)	-	(6,251,645)	(7,408,500)
		-	777,760	-	777,760	4,098,030

**10.1** This loan has been obtained from Orix Leasing Pakistan Limited formally Orix Investment Bank Pakistan Limited which represents letter of credits for the import of plant and machinery. The loan is secured against joint pari passu charges of Rs. 485,666,667 (Orix Leasing Pakistan Limited's share of Rs. 23,000,000) on all the present and future fixed assets (both movable and immovable) of the company, demand promissory note amounting to Rs. 15,752,508 and personal guarantee of sponsoring directors. The loan is subject to mark up at six months ask KIBOR plus 3.5% (June 30, 2011: six months ask KIBOR plus 3.5%) per annum payable quarterly. The loan is payable in seventeen quarterly installments started from August 26, 2009 after grace period of six months. It will expire on February 26, 2013.

**10.2** This loan has been obtained from Orix Leasing Pakistan Limited formally Orix Investment Bank Limited which represents letter of credits for the import of plant and machinery. The loan is secured against joint pari passu charges of Rs. 485,666,667 (Orix Leasing Pakistan Limited's share of Rs. 23,000,000) on all the present and future fixed assets (both movable and immovable) of the company, demand promissory note amounting to Rs. 10,624,842 and personal guarantee of sponsoring directors. The loan is subject to mark up at six months ask KIBOR plus 3.5% (June 30, 2011 : six months ask KIBOR plus 3.5%) per annum payable quarterly. The loan is payable in twenty quarterly installments started from August 07, 2009 after grace period of six months. It will expire on November 07, 2013.

**10.3** Murabaha facility has been obtained from First National Bank Modaraba to meet the working capital needs of the company. The loan is secured against joint pari passu charges of Rs. 485,666,667 (First National Bank Modaraba's share of Rs. 18,667,000) on all the present and future fixed assets (both movable and immovable) of the company and the personal guarantee of the sponsoring directors. The loan is subject to mark up six months ask KIBOR plus 3.00% (June 30, 2011 : six months ask KIBOR plus 3.00%) per annum. The loan was disbursed in three installments of Rs. 8 million, 4 million and 2 million. The principal amounts are payable in four equal half yearly installments commenced from February 18, 2010, February 28, 2010 and May 26, 2010 respectively.

## 11 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2012			2011		
	Minimum lease payments	Financial charges for future period	Present value of minimum lease payments	Minimum lease payments	Financial charges for future period	Present value of minimum lease payments
Up to one year	48,111,878	19,374,297	28,737,581	45,607,357	13,776,353	31,831,004
Later than one year but not later than five years	85,734,489	14,184,998	71,549,491	81,141,298	11,025,106	70,116,192
	<b>133,846,367</b>	<b>33,559,295</b>	<b>100,287,072</b>	<b>126,748,655</b>	<b>24,801,459</b>	<b>101,947,196</b>
	<b>ABBPL</b>	<b>FNBM</b>	<b>FDIB</b>	<b>HMBL</b>	<b>2012</b>	<b>2011</b>
<b>Note</b>	<b>11.1</b>	<b>11.2</b>	<b>11.3</b>	<b>11.4</b>	<b>Rupees</b>	<b>Rupees</b>
Opening balance	43,333,962	39,242,042	4,384,750	14,986,442	101,947,196	127,898,471
Obtained during the year	-	-	-	-	-	-
	<b>43,333,962</b>	<b>39,242,042</b>	<b>4,384,750</b>	<b>14,986,442</b>	<b>101,947,196</b>	<b>127,898,471</b>
Paid / adjusted during the year	(46,552)	-	(355,388)	(1,258,184)	(1,660,124)	(25,951,275)
	<b>43,287,410</b>	<b>39,242,042</b>	<b>4,029,362</b>	<b>13,728,258</b>	<b>100,287,072</b>	<b>101,947,196</b>
Current portion	17 (14,564,067)	(1,136,198)	(2,837,737)	(10,199,579)	(28,737,581)	(31,831,004)
	<b>28,723,343</b>	<b>38,105,844</b>	<b>1,191,625</b>	<b>3,528,679</b>	<b>71,549,491</b>	<b>70,116,192</b>

**11.1** These represent finance lease which have been obtained from Al Baraka Bank (Pakistan) Limited (previously Emirates Global Investment Bank) under the lease arrangement for plant and machinery for balancing, modernization, restructuring and expansion of the project. These facilities were partly used to finance the imported machinery through usance L/C of 450 days which was issued by the National Bank of Pakistan. The facility has been rescheduled during the year and as per the rescheduled documents bank has allowed grace period for one year (applicable for principal repayments from September 15, 2011 to September 15, 2012). The total minimum lease payments are payable in twenty with one year grace period as discussed above (June 30, 2011: twenty one) quarterly installments. It carries markup at six months KIBOR (ask) plus 3 percent (June 30, 2011: Six month ask KIBOR plus 5 percent). Revised markup rate is applicable from interest installment payable at December 15, 2011. These are secured against joint pari passu charges of Rs. 485,666,667 (Al Baraka Bank's share of Rs. 21,000,000) on all the present and future fixed assets (both movable and immovable) of the company, exclusive ownership of the asset under Ijarah, assignment of insurance policy of assets under Ijarah in favor of ABBPL, 10% key money of Ijarah value and personal guarantee of the sponsoring directors.

**11.2** These represent finance lease which have been obtained from First National Bank Modaraba for two sets of Gen-set (gas generator) JGS 420 GS-N.L for balancing, modernization, restructuring and expansion of the project. These facilities were partly used to finance the imported machinery through usance L/C at sight which was issued by the National Bank of Pakistan. The facility has been rescheduled during the year and as per rescheduled documents bank has extended the tenure of lease facility by two years and five months. Moratorium period is allowed on principal amount due from June 10, 2011 to April 10, 2013. Markup accrued amounted to Rs. 10,803,665 during the moratorium period will be accumulated and paid by partial rentals amounted to Rs. 4,267,888 during the moratorium period and differential markup of Rs. 6,535,776 will be payable after the moratorium period according to the revised schedule. The total minimum lease payments are payable in 57 monthly installment carrying markup at six months KIBOR plus 3 percent (June 30, 2011: twelve half yearly installments with one year grace period carrying mark up at six months ask KIBOR plus 3.25). These are secured against title over leased asset, 20% security deposit of the facility amount, ranking modified charges of Rs. 66,474,666 reduced from Rs. 85,141,333 over the moveable and immovable assets and all present and future fixed assets of the company and personal guarantee of the sponsoring directors.

**11.3** These represent finance lease which have been obtained from First Dawood Investment Bank Limited for plant and machinery for balancing, modernization, restructuring and expansion of the project. These facilities were partly used to finance the imported machinery through usance L/C of 720 days which was issued by the Soneri Bank Limited. The total minimum lease payments are payable in twenty quarterly installments carrying mark up of six months ask KIBOR plus 2.5% (June 30, 2011 : Six months ask KIBOR plus 5%). These are secured against joint pari passu charge of Rs. 485,666,667 (First Dawood Investment Bank Limited's share of Rs. 7,000,000) on all present and future fixed assets (both movable and immovable) of the company, post dated cheques for entire lease rentals, security deposit of Rs. 721,954 and personal guarantee of the sponsoring directors.

**11.4** These represent finance lease which have been obtained from Habib Metropolitan Bank Limited for plant and machinery for balancing, modernization, restructuring and expansion of the project. These facilities are partly used to finance the imported machinery through usance L/C of 720 days which was issued by the Habib Metropolitan Bank Limited. The total minimum lease payments are payable in three years by quarterly installments after six months grace period. It carries mark up at three months ask KIBOR plus 2.50% (June 30, 2010 : three months ask KIBOR plus 2.50%) payable quarterly. These are secured against hypothecation charges over machinery valuing Rs. 18.50 million (Two Hara's High Speed Drawing frames Model DX8-LT (Finisher) with auto leveler and all parts / accessories) with 10% margin. It will expire on August 05, 2013.



12 DEFERRED LIABILITIES	Note	2012 Rupees	2011 Rupees		
Staff retirement benefits - gratuity	12.1	17,752,378	15,555,617		
Deferred taxation	12.2	121,276,692	120,240,883		
		<u>139,029,070</u>	<u>135,796,500</u>		
<b>12.1 Staff retirement benefits - gratuity</b>					
<b>12.1.1 Movement in net liability recognized in the balance sheet</b>					
Opening balance		15,555,617	12,485,050		
Charge to profit and loss account		7,515,019	7,000,753		
Benefits paid during the period		(5,318,258)	(3,930,186)		
Closing balance of balance sheet liability		<u>17,752,378</u>	<u>15,555,617</u>		
<b>12.1.2 Reconciliation of the liability recognized in the balance sheet</b>					
Present value of defined benefit obligation		18,637,438	18,541,446		
Add: Unrecognized actuarial loss		(885,060)	(2,985,829)		
Closing liability		<u>17,752,378</u>	<u>15,555,617</u>		
<b>12.1.3 Expense recognized in the profit and loss account</b>					
Current service cost		5,904,934	5,336,587		
Interest cost		1,464,801	1,621,649		
Actuarial loss recognized		145,284	42,517		
		<u>7,515,019</u>	<u>7,000,753</u>		
<b>12.1.4 The movement in the present value of defined benefit obligation</b>					
Present value of defined benefit obligation		18,541,446	14,239,518		
Current service cost		5,904,934	5,336,587		
Interest cost		1,464,801	1,621,649		
Actuarial gain / (loss)		(1,955,485)	1,273,878		
Benefits paid		(5,318,258)	(3,930,186)		
		<u>18,637,438</u>	<u>18,541,446</u>		
<b>12.1.5 Changes in unrecognized actuarial loss</b>					
Opening balance of unrecognized actuarial loss		(2,985,829)	(1,754,468)		
Actuarial gain / (loss) arised during the year		1,955,485	(1,273,878)		
Actuarial loss charged to profit and loss		145,284	42,517		
Closing balance of unrecognized actuarial loss		<u>(885,060)</u>	<u>(2,985,829)</u>		
<b>12.1.6 Historical information</b>					
	2012	2011	2010	2009	2008
	-----Rupees-----				
Present value of defined benefit obligation	18,637,438	18,541,446	14,239,518	16,778,547	16,044,912
Experience adjustments	1,955,485	(1,273,878)	1,495,961	1,495,961	(976,930)
<b>12.1.7 General description</b>					
The scheme provide 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.					
<b>12.1.8 Principal actuarial assumptions</b>					
Following are few important actuarial assumption used in the valuation.	%	%			
Discount rate	13	14			
Expected rate of increase in salary	10	10			
<b>12.1.9 Expected gratuity expenses for the year ending June 30, 2013 works out Rs. 8,151,140</b>					

<b>12.2 Deferred taxation</b>	<b>Note</b>	<b>2012 Rupees</b>	<b>2011 Rupees</b>
Opening balance		120,240,883	72,175,273
Add: Surplus revaluation		-	40,565,064
Provided during the year		1,035,809	7,500,546
		<u>121,276,692</u>	<u>120,240,883</u>

### 12.2.1 The liability of deferred taxation comprises of temporary differences

#### *Deferred tax liabilities on taxable temporary differences*

Accelerated depreciation on owned assets	35,585,113	20,493,144
Liabilities against assets subject to finance lease - net	29,150,619	31,951,213
Surplus on revaluation of property, plant and equipment	104,488,389	110,129,339
	<u>169,224,121</u>	<u>162,573,696</u>

#### *Deferred tax asset on deductible temporary differences*

Staff retirement benefits - gratuity	6,213,332	5,444,466
Brought forward tax losses	41,734,097	36,888,347
	<u>47,947,429</u>	<u>42,332,813</u>
	<u>121,276,692</u>	<u>120,240,883</u>

## 13 LONG TERM LOANS FROM OTHERS

These are unsecured loans from parties carrying zero percent to three months KIBOR plus zero percent (June 30, 2011 : zero to eighteen percent) per annum. The parties have agreed that they have no intention to demand such loans within next twelve months, therefore not shown under normal trade creditors.

<b>14 TRADE AND OTHER PAYABLES</b>	<b>Note</b>	<b>2012 Rupees</b>	<b>2011 Rupees</b>
Creditors		58,127,460	38,985,434
Accrued expenses	14.1	24,403,159	13,101,610
Advances from customers and suppliers		19,303,310	22,156,575
Workers' welfare fund		104,374	678,501
Workers' profit participation fund	14.2	5,692,957	4,928,967
Unclaimed dividend		184,476	184,476
Withholding tax payable		10,835,566	7,469,787
Bills payable		4,030,807	69,254,900
		<u>122,682,109</u>	<u>156,760,250</u>

14.1 Accrued liabilities also includes fuel adjustment surcharge of Rs. 5,549,090 for the month of September 2011, October 2011 and January 2012. Company has taken stay orders from the Honorable Islamabad High Court against writ petitions No. , 651/2012, 1853/2012, (CM No. 2315/2012 and 3135/2012) dated: March 12, 2012, July 05, 2012 and August 27, 2012 respectively.

<b>14.2 Workers' profit participation fund</b>	<b>Note</b>	<b>2012 Rupees</b>	<b>2011 Rupees</b>
Opening balance		4,928,967	2,251,996
Interest on funds utilized in the company's business	14.3	763,990	372,030
		<u>5,692,957</u>	<u>2,624,026</u>
Allocation for the period		-	2,304,941
		<u>5,692,957</u>	<u>4,928,967</u>
Payments during the period		-	-
		<u>5,692,957</u>	<u>4,928,967</u>

14.3 Interest on workers' profit participation fund has been provided at the rate 15.50% (2011 : 16.52%) per annum up to June 30, 2012.

<b>15 ACCRUED MARK UP / INTEREST</b>	<b>Note</b>	<b>2012 Rupees</b>	<b>2011 Rupees</b>
<b>Accrued markup / interest on :</b>			
Long term financing		16,819,044	4,714,042
Long term murabaha		399,472	352,709
Short term borrowings		7,359,689	6,469,261
Liabilities against assets subject to finance lease		12,671,962	1,497,521
		<u>37,250,167</u>	<u>13,033,533</u>

15.1 It includes overdue markup of Rupees 16.819 million, Rupees 0.399 million and Rupees 5.553 million on long term financing, long term murabaha and liabilities against assets subject to finance lease respectively.

16 SHORT TERM BORROWINGS	Note	2012 Rupees	2011 Rupees
<b>Secured - from banking companies</b>			
Cash finance - NBP	16.2	63,627,189	93,137,110
Cash finance - BAFL	16.3	14,658,529	47,892,962
Cash finance - BIPL	16.4	12,265,650	9,237,880
Cash finance - FNBM	16.5	29,000,000	-
Running finance - B AHL	16.6	47,936,997	-
Book Overdraft - unsecured	16.7	1,520,540	54,135
		169,008,905	150,322,087

16.1 The aggregate unavailed short term financing facilities available amounted to Rs. 304.762 million (2011 : Rs. 120.574 million).

16.2 This loan has been obtained from National Bank of Pakistan to meet working capital needs of the company. It is secured against pledge of cotton bales, polyester / synthetic fiber bales and yarn with 10% margin on cotton / polyester / synthetic bales and 25% on yarn, joint pari passu hypothecation charge of Rs. 75 million on all current assets, joint pari passu charges of Rs. 485,666,667 (National Bank of Pakistan's share of Rs. 135,000,000) on all the present and future fixed assets (both movable and immovable) of the company and personal guarantee of sponsoring directors. It is subject to mark up at three months average ask KIBOR plus 2% (June 30, 2011 : three months average ask KIBOR plus 2%) per annum payable quarterly. The limit will expire on December 31, 2012.

16.3 This loan has been obtained from Bank Alfalah Limited to finance working capital requirements. The loan is secured against pledge of local cotton (under covered area) with 10% margin on Karachi Cotton Association rates, 10% margin on invoice value for imported cotton, pledge of polyester at 20% margin over invoice value, joint pari passu hypothecation charge of Rs. 50 million on all current assets, joint pari passu charges of Rs. 485,666,667 ( Bank Alfalah Limited's share of Rs. 50,000,000) on all the present and future fixed assets (both movable and immovable) of the company, lien on export documents/accepted drafts and personal guarantee of all the sponsoring directors of the company. The loan is subject to mark up at three months ask KIBOR plus 3% (June 30, 2011 : three months KIBOR plus 3%) payable quarterly. The limit will expire on November 30, 2012.

16.4 This murabaha facility has been obtained from Bank Islami Pakistan Limited to facilitate purchase of raw material from identified customers. This facility has been secured against joint pari passu charges of Rs. 485,666,667 ( Bank Islami Pakistan Limited's share of Rs. 67,000,000) on all the present and future fixed assets (both movable and immovable) of the company with 25% margin and personal guarantee of all the sponsoring directors. This loan is subject to mark up at three months ask KIBOR plus 6% (June 30, 2011 : three months ask KIBOR plus 6%) per annum.

16.5 This murabaha facility has been obtained from First National Bank Modaraba to facilitate purchase of raw material from identified customers. This facility has been secured against joint pari passu charge of Rs. 485,666,667 (First National Bank Modaraba's share of Rs. 18,667,000) on all the present and future fixed assets (both movable and immovable) of the company, ranking charge of Rs. 20.67(M) on all present and future fixed assets of the company which will be upgraded to joint pari passu charge within 180 days from the date of disbursement and personal guarantee of all the sponsoring directors. This loan is subject to mark up at six months ask KIBOR plus 3.50% (June 30, 2011 : Nil) per annum. Principal and profit will be paid at maturity The limit will expire on August 10, 2013

16.6 This loan has been obtained from Bank Al Habib Limited to meet working capital needs of the company. It is secured against lien over Al Habib special saver certificates valuing Rs. 80.00 million in the name of Mian Muhammad Ahmed with 12.50% margin. It is subject to mark up at three months average ask KIBOR plus 2% (June 30, 2011 : Nil) per annum payable quarterly. The limit will expire on February 28, 2013.

16.7 This represents cheque issued in excess of bank balance. Since there was no bank facility this has been grouped under Book Overdraft.

17 CURRENT PORTION OF NON CURRENT LIABILITIES	Note	2012 Rupees	2011 Rupees
Long term financing	8	-	35,330,536
Long term murabaha	10	6,251,645	7,408,500
Liabilities against assets subject to finance lease	11	28,737,581	31,831,004
		34,989,226	74,570,040

17.1 It includes overdue installment of Rs. 2,931,375 and Rs. 5,179,796 in respect of long term murabaha and lease finance respectively.

18 CONTINGENCIES AND COMMITMENTS	Note	2012 Rupees	2011 Rupees
<b>Contingencies</b>			
Bank guarantee issued in the ordinary course of business		18,100,000	18,100,000
<b>Commitments</b>			
Letters of credit for other than capital expenditure		52,500,218	90,146,438

	Note	2012 Rupees	2011 Rupees
<b>20 LONG TERM DEPOSITS</b>			
Security deposits			
Electricity		1,360,620	1,360,620
Sui gas		938,200	938,200
Leasing company		11,994,426	11,994,426
Others		510,060	15,060
		<u>14,803,306</u>	<u>14,308,306</u>
<b>21 STORES, SPARE PARTS AND LOOSE TOOLS</b>			
Stores		16,217,545	16,899,734
Spare parts		24,168,470	24,578,687
Loose tools		54,845	61,560
		<u>40,440,860</u>	<u>41,539,981</u>
<b>22 STOCK IN TRADE</b>			
Raw material		147,727,456	244,529,597
Work in process		10,378,661	10,248,729
Finished goods	22.1	14,028,372	14,311,164
		<u>172,134,489</u>	<u>269,089,490</u>
22.1 It includes Rs. 959,143 (June 30, 2011 : Rs. 880,398) in respect of waste stock being valued at net realizable value .			
22.2 The value of pledged stock in raw material and finished goods is Rs. 62,240,456 (June 30, 2011 : Rs. 89,391,824).			
<b>23 LOANS AND ADVANCES</b>	Note	2012 Rupees	2011 Rupees
<b>Considered good</b>			
Advances to:			
Employees		3,314,305	2,586,901
Suppliers		40,944,518	29,289,977
Letters of credit fee and expenses		3,618,495	5,074,544
		<u>47,877,318</u>	<u>36,951,422</u>
<b>24 TRADE DEPOSITS AND SHORT TERM PREPAYMENTS</b>			
Prepaid insurance		677,561	545,056
		<u>677,561</u>	<u>545,056</u>
<b>25 OTHER RECEIVABLES</b>			
Claim receivable		1,255,500	95,339
		<u>1,255,500</u>	<u>95,339</u>
<b>26 TAX REFUNDS DUE FROM GOVERNMENT</b>			
Advance income tax		11,423,311	14,766,312
Sales tax receivable		5,969,712	2,129,644
		<u>17,393,023</u>	<u>16,895,956</u>
<b>27 CASH AND BANK BALANCES</b>			
Cash in hand		1,124,521	2,161,180
Cash with banks - in current accounts		13,313,753	5,813,888
		<u>14,438,274</u>	<u>7,975,068</u>
<b>28 SALES - NET</b>			
<b>Local</b>			
Yarn		1,519,199,936	1,825,900,089
Waste		5,564,153	5,303,955
Raw material		12,506,950	16,691,670
		1,537,271,039	1,847,895,714
Less: Commission on local sales		(4,043,464)	(6,706,708)
		<u>1,533,227,575</u>	<u>1,841,189,006</u>

29 COST OF SALES	Note	2012 Rupees	2011 Rupees
Cost of goods manufactured	29.1	1,569,459,166	1,718,476,629
Finished goods			
Opening stock		14,311,164	6,917,614
Closing stock		(14,028,372)	(14,311,164)
		282,792	(7,393,550)
		<u>1,569,741,958</u>	<u>1,711,083,079</u>
<b>29.1 Cost of goods manufactured</b>			
Raw material consumed	29.1.1	1,193,811,265	1,395,108,989
Cost of raw material sold	29.1.1	12,526,979	18,727,836
Packing material consumed		18,009,334	18,573,139
Stores and spares consumed		28,611,103	23,237,836
Salaries, wages and other benefits	29.1.2	94,583,700	83,830,378
Fuel and power		165,861,237	133,340,812
Insurance		4,604,477	4,192,084
Depreciation	19.2	34,927,285	34,023,890
Repairs and maintenance		7,012,045	5,227,335
Other manufacturing overheads		9,641,673	5,465,564
		<u>1,569,589,098</u>	<u>1,721,727,863</u>
Work in process			
Opening stock		10,248,729	6,997,495
Closing stock		(10,378,661)	(10,248,729)
		(129,932)	(3,251,234)
		<u>1,569,459,166</u>	<u>1,718,476,629</u>
<b>29.1.1 Raw material consumed</b>			
Opening stock		244,529,597	137,267,323
Add: Purchases - net		1,110,409,954	1,521,099,099
		<u>1,354,939,551</u>	<u>1,658,366,422</u>
Less: Closing stock		147,727,456	244,529,597
		<u>1,207,212,095</u>	<u>1,413,836,825</u>
Less: Cost of raw material sold		12,526,979	18,727,836
Cotton claim received		873,851	-
		<u>1,193,811,265</u>	<u>1,395,108,989</u>
<b>29.1.2 Salaries, wages and other benefits include Rs. 6,430,236 (June 30, 2011: Rs. 5,694,018) in respect of staff retirement benefits - gratuity.</b>			
<b>30 OTHER OPERATING INCOME</b>	Note	2012 Rupees	2011 Rupees
<b>From financial assets</b>			
Profit on bank deposits		-	39,039
Profit on bank deposits - sinking fund	30.1	-	1,108,440
<b>From other than financial assets</b>			
Gain on disposal of property, plant and equipment		483,476	208,939
Amortization of deferred income	7	2,198,364	2,198,365
		<u>2,681,840</u>	<u>3,554,783</u>
<b>30.1</b> It represents interest earned on deposit of sinking fund which was created with Soneri Bank Limited against repayment of installments of long term financing. It carries markup at nil (June 30, 2011 : 8.5 percent) per annum.			
<b>31 DISTRIBUTION COST</b>	Note	2012 Rupees	2011 Rupees
Freight		1,550,600	1,708,600
Loading charges		258,990	266,622
		<u>1,809,590</u>	<u>1,975,222</u>

<b>32 ADMINISTRATIVE EXPENSES</b>	<b>Note</b>	<b>2012 Rupees</b>	<b>2011 Rupees</b>
Directors' remuneration		2,400,000	1,329,000
Director's benefits		622,062	460,204
Staff salaries and other benefits	32.1	5,347,553	4,463,645
Rent, rates and taxes		313,753	99,610
Printing and stationery		200,603	199,042
Electricity, gas and water		424,839	414,055
Vehicles running and maintenance		2,037,548	1,505,999
Postage and telephone		485,035	572,905
Fee and subscription		219,990	240,776
Traveling and conveyance		1,056,090	2,442,414
Legal and professional		3,415,010	642,870
Repairs and maintenance		301,785	255,791
Auditors' remuneration	32.2	672,020	640,208
Insurance		47,836	59,014
Entertainment		310,018	431,520
Depreciation	19.2	573,270	338,410
Advertisement		48,000	116,128
Other expenses		490,787	1,144,248
		<u>18,966,199</u>	<u>15,355,839</u>

32.1 Staff salaries and other benefits include Rs. 1,084,783 (2011 : Rs. 1,306,735) in respect of staff retirement benefits.

<b>32.2 Auditors' remuneration</b>	<b>Note</b>	<b>2012 Rupees</b>	<b>2011 Rupees</b>
Statutory annual audit		550,000	550,000
Half yearly review		70,000	70,000
Other reviews and certifications		52,020	20,208
		<u>672,020</u>	<u>640,208</u>

### 33 OTHER OPERATING EXPENSES

Donation	33.1	128,680	179,721
Loss on disposal of property, plant and equipment		22,869	3,496
Workers' welfare fund	33.2	-	-
Workers' profit participation fund		-	2,304,941
		<u>151,549</u>	<u>2,488,158</u>

33.1 No director or his spouse has any interest in the donee funds.

33.2 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.

<b>34 FINANCE COST</b>	<b>Note</b>	<b>2012 Rupees</b>	<b>2011 Rupees</b>
Mark up / interest on			
Short term borrowings		26,620,905	28,187,606
Long term financing		24,299,044	19,265,779
Liabilities against assets subject to finance lease		13,926,892	17,865,680
Long term murabaha		1,268,149	2,738,602
Workers' profit participation fund	14.3	763,990	372,030
Bank charges, commission and excise duty		1,081,768	1,617,924
		<u>67,960,748</u>	<u>70,047,621</u>

### 35 TAXATION

Current			
Current year		-	19,409,143
Prior year		(177,091)	-
Additional tax		33,493	-
Deferred		1,035,809	7,500,546
		<u>892,211</u>	<u>26,909,689</u>

35.1 The assessment of the company will be finalized under section 113 of the Income Tax Ordinance, 2001. During the year company has declared gross loss before set off of depreciation and other inadmissible expenses under the Income Tax Ordinance, 2001. Therefore, no provision for the current tax has been provided in these financial statements. The income tax assessment of the company has been finalized up to the tax year 2011.

35.2 The relationship between tax expense and accounting profit has not been presented in these financial statements as the total income of the company attracts minimum tax under section 113 of the Income Tax Ordinance, 2001.

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

	Chief executive		Directors		Executives	
	2012	2011	2012	2011	2012	2011
	-----Rupees-----					
Remuneration	800,000	443,000	800,000	443,000	1,204,800	404,000
House rent	360,000	199,350	360,000	199,350	542,160	181,800
Utilities	40,000	22,150	40,000	22,150	60,240	20,200
Others	-	364,579	-	95,625	-	-
	1,200,000	1,029,079	1,200,000	760,125	1,807,200	606,000
Number of persons	1	1	1	1	3	1

36.1 No meeting fee has been paid to directors except nominee director during the period.

36.2 Chief executive and directors are also provided with free use of company maintained cars and medical facility. The monetary value of the benefits amount to Rs. 773,212 (June 30, 2011 : Rs. 777,242).

36.3 Chief executive and directors are also entitled for reimbursement of residential telephone bills. The monetary value of the benefits amount to Rs. 185,160 (2011 : Rs. 86,819).

### 37 PROFIT PER SHARE - BASIC AND DILUTED

The calculation of the basic and diluted earnings per share is based on the following data.

<b>Earnings</b>		<b>2012</b>	<b>2011</b>
(Loss) / profit for the year	Rupees	(123,612,840)	16,884,181
<b>Number of shares</b>			
Weighted average number of ordinary shares outstanding during the year	Numbers	4,467,036	4,467,036
Earnings per share - basic and diluted	Rupees	<b>(27.67)</b>	<b>3.78</b>

37.1 Weighted average number of shares in issue during last year have been restated for the effect of bonus shares issued during current year.

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

### 38 TRANSACTIONS WITH RELATED PARTIES

The related parties comprises of associated companies, directors and key management personnel. Amounts due to related parties and transactions with related parties (key management personnel) are disclosed in the relevant notes.

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. 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.

### 39 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

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

- 39.1 Credit risk
- 39.2 Liquidity risk
- 39.3 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.

#### 39.1 Credit risk

##### 39.1.1 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. Out of total financial assets of Rs. 145.800 million (June 30, 2011: 96.160 million), financial assets which are subject to credit risk aggregate to Rs. 131.362 million (June 30, 2011: 88.185 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.

	2012 Rupees	2011 Rupees
<b>Financial assets</b>		
Long term deposits	14,803,306	14,308,306
Trade debts	66,748,814	36,284,999
Loans and advances	47,877,318	36,951,422
Trade deposits and short term prepayments	677,561	545,056
Other receivables	1,255,500	95,339
Cash and bank balances	14,438,273	7,975,067
	<u>145,800,772</u>	<u>96,160,190</u>

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

Domestic	66,748,814	36,284,999
	<u>66,748,814</u>	<u>36,284,999</u>

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

	2012 Rupees	2011 Rupees
Yarn	61,184,661	30,981,045
Waste	5,564,153	5,303,955
	<u>66,748,814</u>	<u>36,284,999</u>

39.1.4 The aging of trade debtors at the balance sheet is as follows,

Past due 0 - 30 days	44,069,476	18,912,754
Past due 31 - 90 days	9,150,763	15,751,791
Past due 91 days - 1 year	13,187,564	1,620,454
More than 1 year	341,011	-
	<u>66,748,814</u>	<u>36,284,999</u>

#### 39.2 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 un acceptable losses or risking damages to the company's reputation. The following are the contractual maturities of the financial liabilities including interest payments and excluding the impact of netting agreements..

2012					
Carrying amount	Contractual cash flow	Six months or less	Six to twelve months	Two to five years	More than five years
----- Rupees -----					

##### Non-derivative

##### Financial liabilities

Long term financing	105,991,606	131,275,904	10,730,325	10,730,325	109,815,254	-
Long term financing from directors	71,622,513	71,622,513	-	-	71,622,513	-
Long term murabaha	7,029,405	8,526,534	2,613,711	2,411,118	3,501,705	-
Finance lease	100,287,072	139,735,227	14,710,189	15,271,891	109,753,147	-
Trade and other payables	116,884,778	116,884,778	116,884,778	-	-	-
Accrued mark up / interest	37,250,167	37,250,167	37,250,167	-	-	-
Short term borrowings	169,008,905	175,032,485	175,032,485	-	-	-
	<u>608,074,446</u>	<u>680,327,608</u>	<u>357,221,655</u>	<u>28,413,334</u>	<u>294,692,619</u>	<u>-</u>



2011					
Carrying amount	Contractual cash flow	Six months or less	Six to twelve months	Two to five years	More than five years
-----Rupees-----					

**Non-derivative  
Financial liabilities**

Long term financing	114,824,240	179,206,191	10,730,325	10,730,325	157,745,541	-
Long term financing from directors	42,556,983	42,556,983	-	-	42,556,983	-
Long term murabaha	11,506,530	13,699,436	6,504,086	2,509,134	4,686,216	-
Finance lease	101,947,196	124,255,865	22,812,851	22,794,506	78,648,508	-
Trade and other payables	151,152,782	151,152,782	151,152,782	-	-	-
Accrued mark up / interest	13,033,533	13,033,533	13,033,533	-	-	-
Short term borrowings	150,322,087	156,369,780	156,369,780	-	-	-
	<u>585,343,351</u>	<u>680,274,569</u>	<u>360,603,357</u>	<u>36,033,965</u>	<u>283,637,248</u>	<u>-</u>

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

**39.3 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.

**39.3.1 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, Japanese Yen and Euro. The currency in which these transactions primarily are denominated is US Dollar and Euro. The company is not exposed to any foreign currency risk as at June 30, 2012.

**Sensitivity analysis**

5% strengthening of Pak Rupee against the following currency at June 30, would not increased / (decreased) equity and profit and loss.

**39.3.2 Interest rate risk management**

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 short and long term borrowings from bank and term deposits and deposits in PLS saving accounts with banks. At the balance sheet date the interest rate profile of the company's interest bearing financial instrument is as follows.

	Rupees	Rupees
<b>Variable rate instruments</b>		
Financial liabilities	382,316,988	378,600,053

**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, 2011.

	Profit and loss		Equity	
	100 bp increase	100 bp (decrease)	100 bp increase	100 bp (decrease)
	-----Rupees-----			
Cash flow sensitivity - variable rate instruments 2012	(668,790)	668,790	(668,790)	668,790
Cash flow sensitivity - variable rate instruments 2011	(684,297)	684,297	(684,297)	684,297

**39.4 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.

	2012 Rupees	2011 Rupees
<b>39.5 Off balance sheet items</b>		
Bank guarantees issued in ordinary course of business	18,100,000	18,100,000
Letters of credit for capital expenditures	-	-
Letters of credit other than capital expenditures	52,500,218	90,146,438

**39.6 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 return for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintained 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 borrowing divided by total capital employed. Borrowing represents long term portion of long term financing, liabilities against assets subject to finance lease, long term murabaha and long term loans from others. Total capital employed includes total equity as shown in the balance sheet plus borrowings.

	2012 Rupees	2011 Rupees
Total borrowings	337,788,669	248,464,909
Net debt	337,788,669	248,464,909
Total equity	387,447	113,524,237
Total capital	<u>338,176,116</u>	<u>361,989,146</u>
Gearing ratio	<u>99.89%</u>	<u>68.64%</u>

**40 CAPACITY INSTALLED AND ACTUAL PRODUCTION**

Number of spindles installed	28,248	28,248
Number of spindles worked	28,248	28,248
Number of shifts per day	3	3
Installed capacity after conversion into 20/s counts (Kgs.)	10,084,462	10,084,462
Actual production of yarn after conversion into 20/s counts (Kgs.)	11,351,269	11,979,826

It is difficult to precisely describe production capacity and the resultant production converted into single counts in the textile industry since it fluctuates widely depending on various factors such as type of yarn produced and raw material used etc. It would also vary according to pattern of production adopted in a particular year. Actual production is more than the installed capacity due to the conversion of fine count to 20/s count.

**41 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements have been authorized for issue on October 03, 2011 by the board of directors of the company.

**42 CORRESPONDING FIGURES**

Figures have been rearranged / reclassified whenever necessary for the purpose of comparison. Following reclassification / rearrangement has been made in financial statements for compliance, better understanding and presentation.

Note	From	To	Nature	Amount
31	Distribution cost - commission	Sales - commission	Better classification	6,706,708

**43 EVENTS AFTER THE BALANCE SHEET DATE**

The Board of Directors, in their meeting held on October 03, 2012 have proposed Nil bonus shares (2011: Rs. 2,922,360) out of the profit of the company.

**44 GENERAL**

Figures have been rounded off to the nearest rupee.

CHIEF EXECUTIVE

DIRECTOR