

SALMAN NOMAN ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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

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 clarifies 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 applies 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.

2.3.3 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 contact 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 Programmes' (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 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 of defined benefit obligation. Any changes in these assumptions in future year might affect unrecognized gains and losses in those years.

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, 2011 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

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 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

2011	2010	Note	2011 Rupees	2010 Rupees
3,976,000	3,976,000	Ordinary shares of Rs. 10 each allotted for consideration fully paid in cash	39,760,000	39,760,000
198,800	-	Ordinary shares of Rs. 10 each issued as bonus shares	1,988,000	-
<u>4,174,800</u>	<u>3,976,000</u>		<u>41,748,000</u>	<u>39,760,000</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 198,800 (June 30, 2010 : Nil) shares of Rs. 10 each as bonus shares.

6 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - NET OF TAX	Note	2011 Rupees	2010 Rupees
Surplus on revaluation of property, plant and equipment at the beginning of the year		249,174,885	260,826,029
Add: Surplus raised during the year		155,406,433	-
<i>Transfer to unappropriated profit in respect of:</i>			
Incremental depreciation on revalued assets		9,705,752	7,573,244
Related deferred tax liability		5,226,174	4,077,900
		<u>14,931,926</u>	<u>11,651,144</u>
Surplus on revaluation of property, plant and equipment as at the end of year		389,649,392	249,174,885
<i>Related deferred tax liabilities on:</i>			
Revaluation at the beginning of the year		74,790,449	78,868,349
Surplus arised during the year		40,565,064	-
Incremental depreciation on revalued assets		(5,226,174)	(4,077,900)
		<u>110,129,339</u>	<u>74,790,449</u>
		<u>279,520,053</u>	<u>174,384,436</u>

7 DEFERRED INCOME

Opening balance		7,327,884	-
Arised during the year		-	7,694,278
Amortized during the year		(2,198,365)	(366,394)
		<u>5,129,519</u>	<u>7,327,884</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	Note	2011 Rupees	2010 Rupees
Secured - from banking companies			
Opening balance	8.1	123,656,874	131,885,546
Obtained during the year		-	123,656,874
		<u>123,656,874</u>	<u>255,542,420</u>
Transfer / paid during the year		(8,832,634)	(131,885,546)
		<u>114,824,240</u>	<u>123,656,874</u>
Current portion of long term financing	17	(35,330,536)	-
		<u>79,493,704</u>	<u>123,656,874</u>

8.1 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, 2010 : 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.

9 LONG TERM FINANCING FROM DIRECTORS AND OTHERS

	2011 Rupees	2010 Rupees
Unsecured - related parties	42,556,983	25,932,094

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. 25,932,094 (June 30, 2010 : Nil) as subordinated to the loans from banking companies.

		Orix-I	Orix-II	FNBM	2011	2010
	Note	10.1	10.2	10.3	Rupees	Rupees
Secured - from banking companies and other financial institutions						
Opening balance		6,470,590	5,444,440	10,500,000	22,415,030	29,823,530
Obtained during the year		-	-	-	-	-
		6,470,590	5,444,440	10,500,000	22,415,030	29,823,530
Paid during the year		(2,352,940)	(1,555,560)	(7,000,000)	(10,908,500)	(7,408,500)
		4,117,650	3,888,880	3,500,000	11,506,530	22,415,030
Current portion of long term murabaha	17	(2,352,940)	(1,555,560)	(3,500,000)	(7,408,500)	(10,908,500)
		1,764,710	2,333,320	-	4,098,030	11,506,530

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, 2010: six months 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, 2010 : six months 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 KIBOR plus 3.00% (June 30, 2010 : six months ask KIBOR plus 3.25%) 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

	2011			2010		
	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	45,607,357	13,776,353	31,831,004	41,447,554	16,556,270	24,891,284
Later than one year but not later than five years	81,141,298	11,025,106	70,116,192	126,756,770	23,749,583	103,007,187
	126,748,655	24,801,459	101,947,196	168,204,324	40,305,853	127,898,471
	ABBPL	FNBM	FDIB	HMBL	2011	2010
	Note				Rupees	Rupees
Opening balance	57,218,510	46,587,319	5,592,642	18,500,000	127,898,471	125,425,914
Obtained during the year	-	-	-	-	-	18,500,000
	57,218,510	46,587,319	5,592,642	18,500,000	127,898,471	143,925,914
Paid during the year	(13,884,548)	(7,345,277)	(1,207,892)	(3,513,558)	(25,951,275)	(16,027,443)
	43,333,962	39,242,042	4,384,750	14,986,442	101,947,196	127,898,471
Current maturity	17	(16,565,149)	(8,502,737)	(1,446,490)	(31,831,004)	(24,891,284)
		26,768,813	30,739,305	2,938,260	70,116,192	103,007,187

- 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 total minimum lease payments are payable in twenty quarterly installments carrying mark up of six months KIBOR (ask) plus 5% (June 30, 2010 : Six months KIBOR plus 5%). 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 favour 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 total minimum lease payments are payable in twelve half yearly installments carrying mark up of six months ask KIBOR plus 3.25% with effect from December 01, 2008 (initially charged as six month ask KIBOR plus 2.75%) with a grace period of one year. The base rate has been decrease from 3.25% to 3.00% effective on installment due after 01.07.2011. 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 5% (June 30, 2010 : Six months ask KIBOR plus 5%). These are secured against joint pari passu charge of Rs. 485,666,66 7 (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 leveller and all parts / accessories) with 10% margin. It will expire on March 31,2013.

12 DEFERRED LIABILITIES	Note	2011 Rupees	2010 Rupees
Staff retirement benefits - gratuity	12.1	15,555,617	12,485,050
Deferred taxation	12.2	120,240,883	72,175,273
		<u>135,796,500</u>	<u>84,660,323</u>
12.1 Staff retirement benefits - gratuity			
12.1.1 Movement in net liability recognized in the balance sheet			
Opening balance		12,485,050	9,975,848
Charge to profit and loss account		7,000,753	5,451,516
Benefits paid during the period		(3,930,186)	(2,942,314)
Closing balance of balance sheet liability		<u>15,555,617</u>	<u>12,485,050</u>
12.1.2 Reconciliation of the liability recognized in the balance sheet			
Present value of defined benefit obligation		18,541,446	14,239,518
Add: Unrecognized actuarial loss		(2,985,829)	(1,754,468)
Closing liability		<u>15,555,617</u>	<u>12,485,050</u>
12.1.3 Expense recognized in the profit and loss account			
Current service cost		5,336,587	3,993,121
Interest cost		1,621,649	1,178,789
Actuarial loss recognized		42,517	279,606
		<u>7,000,753</u>	<u>5,451,516</u>
12.1.4 The movement in the present value of defined benefit obligation			
Present value of defined benefit obligation		14,239,518	13,505,883
Current service cost		5,336,587	3,993,121
Interest cost		1,621,649	1,178,789
Actuarial loss / (gain)		1,273,878	(1,495,961)
Benefits paid		(3,930,186)	(2,942,314)
		<u>18,541,446</u>	<u>14,239,518</u>

12.1.5 Changes in unrecognized actuarial loss

Opening balance of unrecognized actuarial loss	(1,754,468)	(3,530,035)
Actuarial gain arised during the year	(1,273,878)	1,495,961
Actuarial loss charged to profit and loss	42,517	279,606
Closing balance of unrecognized actuarial loss	<u>(2,985,829)</u>	<u>(1,754,468)</u>

12.1.6 Historical information

	2011	2010	2009	2008	2007
	-----Rupees-----				
Present value of defined benefit obligation	18,541,446	14,239,518	16,778,547	16,044,912	5,188,624
Experience adjustments	(1,273,878)	1,495,961	1,495,961	(976,930)	(995,744)

12.1.7 General description

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.

12.1.8 Principal actuarial assumptions

	2011	2010
Following are few important actuarial assumption used in the valuation.	%	%
Discount rate	14	13
Expected rate of increase in salary	10	10

12.1.9 Expected gratuity expenses for the year ending June 30, 2011 works out Rs. 7,103,812.

12.2 Deferred taxation	Note	2011 Rupees	2010 Rupees
Opening balance		72,175,273	51,476,078
Add: Surplus revaluation		40,565,064	-
Provided during the year		7,500,546	20,699,195
		<u>120,240,883</u>	<u>72,175,273</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	20,493,144	53,701,068
Surplus on revaluation of property, plant and equipment	110,129,339	74,790,449
	130,622,483	128,491,517

Deferred tax asset on deductible temporary differences

Staff retirement benefits - gratuity	5,444,466	4,369,768
Liabilities against assets subject to finance lease - net	(31,951,213)	12,430,749
Brought forward tax losses	36,888,347	39,515,727
	10,381,600	56,316,244
	<u>120,240,883</u>	<u>72,175,273</u>

13 LONG TERM LOANS FROM OTHERS

These are unsecured loans from parties carrying interest rate ranging from 0% to 18% (June 30, 2010 : Nil) 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.

14 TRADE AND OTHER PAYABLES	Note	2011 Rupees	2010 Rupees
Creditors		38,985,434	26,893,796
Accrued expenses		13,101,610	12,583,346
Advances from customers and suppliers		22,156,575	15,495,281
Workers' welfare fund		678,501	678,501
Workers' profit participation fund	14.1	4,928,967	2,251,996
Unclaimed dividend		184,476	184,476
Withholding tax payable		7,469,787	1,492,440
Bills payable		69,254,900	89,659,277
		<u>156,760,250</u>	<u>149,239,113</u>

14.1 Workers' profit participation fund

Opening balance		2,251,996	612,483
Interest on funds utilized in the company's business	14.2	372,030	96,160
		<u>2,624,026</u>	<u>708,643</u>
Allocation for the period		2,304,941	1,543,353
		<u>4,928,967</u>	<u>2,251,996</u>
Payments during the period		-	-
		<u><u>4,928,967</u></u>	<u><u>2,251,996</u></u>

14.2 Interest on workers' profit participation fund has been provided at the rate 16.52% (2010 : 15.70%) per annum up to June 30, 2011.

15 ACCRUED MARK UP / INTEREST	Note	2011 Rupees	2010 Rupees
Accrued markup / interest on :			
Long term financing		4,714,042	4,452,888
Long term murabaha		352,709	743,560
Short term borrowings		6,469,261	3,741,226
Liabilities against assets subject to finance lease		1,497,521	1,759,260
		<u>13,033,533</u>	<u>10,696,934</u>
16 SHORT TERM BORROWINGS			
Secured - from banking companies			
Cash finance	16.2	93,137,111	38,654,195
Cash finance	16.3	47,892,962	22,190,708
Cash finance	16.4	9,237,880	20,772,000
Book Overdraft - unsecured	16.5	54,135	-
		<u>150,322,087</u>	<u>81,616,902</u>

16.1 The aggregate unavailed short term financing facilities available amounted to Rs.120.574 million (2010 : Rs. 217.508 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, 2010 : three months average ask KIBOR plus 2%) per annum payable quarterly. The limit will expire on December 31, 2011.

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, 2010 : three months KIBOR plus 3%) payable quarterly. The limit will expire on November 30, 2011.

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, 2010 : three months ask KIBOR plus 3.50%) per annum.

16.5 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	2011 Rupees	2010 Rupees
Long term financing	8	35,330,536	-
Long term murabaha	10	7,408,500	10,908,500
Liabilities against assets subject to finance lease	11	31,831,004	24,891,284
		<u>74,570,040</u>	<u>35,799,784</u>

18 CONTINGENCIES AND COMMITMENTS**Contingencies**

Bank guarantee issued in the ordinary course of business

	18,100,000	18,100,000
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Commitments

Letters of credit for other than capital expenditure

	90,146,438	118,554,859
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	Note	2011 Rupees	2010 Rupees
20 LONG TERM DEPOSITS			
Security deposits			
Electricity		1,360,620	1,360,620
Sui gas		938,200	4,298,350
Leasing company		11,994,426	11,994,426
Others		15,060	15,060
		<u>14,308,306</u>	<u>17,668,456</u>
21 STORES, SPARE PARTS AND LOOSE TOOLS			
Stores		16,899,734	15,577,363
Spare parts		24,578,687	16,744,283
Loose tools		61,560	57,641
		<u>41,539,981</u>	<u>32,379,288</u>
22 STOCK IN TRADE			
Raw material		244,529,597	137,267,323
Work in process		10,248,729	6,997,495
Finished goods	22.1	14,311,164	6,917,614
		<u>269,089,490</u>	<u>151,182,432</u>
22.1	It includes Rs. 880,398 (June 30, 2010 : Rs. 1,025,446) 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. 89,391,824 (June 30, 2010 : Rs. 63,925,158).		
23 LOANS AND ADVANCES	Note	2011 Rupees	2010 Rupees
Considered good			
Advances to:			
Employees		2,586,901	1,378,726
Suppliers		29,289,977	17,219,506
Letters of credit fee and expenses		5,074,544	1,829,950
		<u>36,951,422</u>	<u>20,428,182</u>
24 TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Deposits - Sinking fund	24.1	-	8,300,000
Prepaid insurance		545,056	1,153,481
		<u>545,056</u>	<u>9,453,481</u>
24.1	The sinking fund which was created with Soneri Bank Limited against repayment of installments of long term financing has been fully utilized against repayment of first installment of the loan.		
25 OTHER RECEIVABLES	Note	2011 Rupees	2010 Rupees
Other receivables		-	1,400,000
Claim receivable		95,339	383,520
		<u>95,339</u>	<u>1,783,520</u>
26 TAX REFUNDS DUE FROM GOVERNMENT			
Income tax		14,766,312	13,857,536
Sales tax receivable		2,129,644	3,611,173
		<u>16,895,956</u>	<u>17,468,710</u>
27 CASH AND BANK BALANCES			
Cash in hand		2,161,180	5,899,313
Cash with banks - in current accounts		5,813,888	1,052,835
		<u>7,975,067</u>	<u>6,952,148</u>

28 SALES - NET	Note	2011 Rupees	2010 Rupees
Local			
Yarn		1,825,900,089	1,161,548,232
Waste		5,303,955	5,314,523
Raw material		16,691,670	26,509,282
		<u>1,847,895,714</u>	<u>1,193,372,037</u>
29 COST OF SALES			
Cost of goods manufactured	29.1	1,718,476,629	1,062,431,210
Finished goods			
Opening stock		6,917,614	16,568,784
Closing stock		(14,311,164)	(6,917,614)
		(7,393,550)	9,651,170
		<u>1,711,083,079</u>	<u>1,072,082,380</u>
29.1 Cost of goods manufactured			
Raw material consumed	29.1.1	1,395,108,989	782,374,636
Cost of raw material sold	29.1.1	18,727,836	23,956,078
Packing material consumed		18,573,139	13,382,645
Stores and spares consumed		23,237,836	21,778,870
Salaries, wages and other benefits	29.1.2	83,830,378	83,735,402
Fuel and power		133,340,812	93,112,295
Insurance		4,192,084	3,221,362
Depreciation	19.2	34,023,890	30,973,022
Repairs and maintenance		5,227,335	3,917,476
Other manufacturing overheads		5,465,564	5,230,294
		<u>1,721,727,863</u>	<u>1,061,682,081</u>
Work in process			
Opening stock		6,997,495	7,746,624
Closing stock		(10,248,729)	(6,997,495)
		(3,251,234)	749,129
		<u>1,718,476,629</u>	<u>1,062,431,210</u>
29.1.1 Raw material consumed			
Opening stock		137,267,323	126,018,991
Add: Purchases - net		1,521,099,099	818,570,416
		<u>1,658,366,422</u>	<u>944,589,407</u>
Less: Closing stock		244,529,597	137,267,323
		<u>1,413,836,825</u>	<u>807,322,084</u>
Less: Cost of raw material sold		18,727,836	23,956,078
Cotton claim received		-	991,370
		<u>1,395,108,989</u>	<u>782,374,636</u>
29.1.2 Salaries, wages and other benefits include Rs. 5,694,018 (June 30, 2010: Rs. 4,409,388) in respect of staff retirement benefits - gratuity.			
30 OTHER OPERATING INCOME			
From financial assets			
Profit on bank deposits		39,039	41,868
Profit on bank deposits - sinking fund	30.1	1,108,440	-
From other than financial assets			
Scrap sales and other		-	475,099
Gain on disposal of property, plant and equipment		208,939	-
Amortization of deferred income	7	2,198,365	366,394
		<u>3,554,783</u>	<u>883,361</u>
30.1 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 8.5 percent (June 30, 2010 : Nil) per annum.			
31 DISTRIBUTION COST			
Commission		6,706,708	6,582,631
Freight		1,708,600	400,107
Loading charges		266,622	226,765
		<u>8,681,930</u>	<u>7,209,503</u>

32 ADMINISTRATIVE EXPENSES	Note	2011 Rupees	2010 Rupees
Directors' remuneration		1,329,000	972,000
Director's benefits		460,204	324,947
Staff salaries and other benefits	32.1	4,463,645	4,061,614
Rent, rates and taxes		99,610	311,395
Printing and stationery		199,042	172,426
Electricity, gas and water		414,055	346,952
Vehicles running and maintenance		1,505,999	1,530,467
Postage and telephone		572,905	476,741
Fee and subscription		240,776	200,756
Traveling and conveyance		2,442,414	2,705,732
Legal and professional		642,870	2,740,325
Repairs and maintenance		255,791	382,012
Auditors' remuneration	32.2	640,208	579,090
Insurance		59,014	77,922
Entertainment		431,520	311,670
Depreciation	19.2	338,410	351,693
Advertisement		116,128	51,100
Other expenses		1,144,248	1,157,081
		<u>15,355,839</u>	<u>16,753,923</u>

32.1 Staff salaries and other benefits include Rs. 1,306,735 (2010 : Rs. 1,042,129) in respect of staff retirement benefits.

32.2 Auditors' remuneration	Note	2011 Rupees	2010 Rupees
Statutory annual audit		550,000	500,000
Half yearly review		70,000	70,000
Other reviews and certifications		20,208	9,090
		<u>640,208</u>	<u>579,090</u>

33 OTHER OPERATING EXPENSES

Donation	33.1	179,721	312,105
Exchange loss on revaluation of supplier credit		-	8,667,251
Loss on disposal of property, plant and equipment		3,496	80,800
Workers' welfare fund	33.2	-	617,341
Workers' profit participation fund		2,304,941	1,543,353
		<u>2,488,158</u>	<u>11,220,850</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.

34 FINANCE COST

Mark up / interest on			
Short term borrowings		28,187,606	16,535,391
Long term financing		19,265,779	7,151,981
Liabilities against assets subject to finance lease		17,865,680	17,899,273
Long term murabaha		2,738,602	4,387,350
Workers' profit participation fund	14.2	372,030	96,160
Bank charges, commission and excise duty		1,617,924	12,212,229
		<u>70,047,621</u>	<u>58,282,384</u>

35 TAXATION

Current	19,409,143.00	5,966,860
Deferred	7,500,546.00	20,699,195
	<u>26,909,689.00</u>	<u>26,666,055</u>

35.1 The assessment of the company will be finalized under section 113 of the Income Tax Ordinance 2001. The income tax assessment of the company has been finalized up to the tax year 2010.

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	
	2011	2010	2011	2010	2011	2010
	-----Rupees-----					
Remuneration	443,000	178,200	443,000	178,200	606,000	606,000
House rent	199,350	145,800	199,350	145,800	-	-
Utilities	22,150	162,000	22,150	162,000	-	-
Others	364,579	249,712	95,625	75,235	-	-
	1,029,079	735,712	760,125	561,235	606,000	606,000
Number of persons	1	1	1	1	1	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. 777,242 (June 30, 2010 : Rs. 510,229).

36.3 Chief executive and directors are also entitled for reimbursement of residential telephone bills. The monetary value of the benefits amount to Rs. 86,819 (2010 : Rs. 81,110).

37 PROFIT PER SHARE - BASIC AND DILUTED

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

Earnings		2011	2010
Profit for the year	Rupees	16,884,180	2,040,303
Number of shares			
Weighted average number of ordinary shares outstanding during the year	Numbers	4,174,800	4,174,800
Earnings per share - basic and diluted	Rupees	4.04	0.49

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. 96.160 million (June 30, 2010: 75.475 million), financial assets which are subject to credit risk aggregate to Rs. 88.185 million (June 30, 2010: 68.523 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 Rupees	2010 Rupees
Financial assets		
Long term deposits	14,308,306	17,668,456
Trade debts	36,284,999	19,189,562
Loans and advances	36,951,422	20,428,182
Trade deposits and short term prepayments	545,056	9,453,481
Other receivables	95,339	1,783,520
Cash and bank balances	7,975,067	6,952,148
	96,160,190	75,475,350

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

Domestic	36,284,999	19,189,562
	36,284,999	19,189,562

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

	2011 Rupees	2010 Rupees
Yarn	30,981,045	13,875,039
Waste	5,303,955	5,314,523
	36,284,999	19,189,562

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

Past due 0 - 30 days	18,912,754	14,682,593
Past due 31 - 90 days	15,751,791	4,453,457
Past due 91 days - 1 year	1,620,454	9,051
More than 1 year	-	44,461
	36,284,999	19,189,562

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 an unacceptable 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..

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	-	-	-
	585,343,351	680,274,569	360,603,357	36,033,965	283,637,248	-

2010					
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	123,656,874	198,357,992	11,492,480	11,492,480	175,373,033	-
Long term financing from directors	25,932,094	25,932,094	-	-	25,932,094	-
Long term murabaha	22,415,030	28,057,986	7,428,787	6,947,459	13,681,740	-
Finance lease	127,898,471	145,470,842	18,983,486	18,983,486	107,503,870	-
Trade and other payables	146,308,616	146,308,616	146,308,616	-	-	-
Accrued mark up / interest	10,696,934	10,696,934	10,696,934	-	-	-
Short term borrowings	81,616,902	84,740,711	84,740,711	-	-	-
	538,524,921	639,565,175	279,651,013	37,423,425	322,490,737	-

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, 2011.

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
Variable rate instruments		
Financial liabilities	343,269,517	355,587,277

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	(684,297)	684,297	(684,297)	684,297
Cash flow sensitivity - variable rate instruments 2010	(460,702)	460,702	(460,702)	460,702

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.

	2011 Rupees	2010 Rupees
39.5 Off balance sheet items		
Bank guarantees issued in ordinary course of business	18,100,000	18,100,000
Letters of credit other than capital expenditures	90,146,438	118,554,859

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.

	2011	2010
	Rupees	Rupees
Total borrowings	248,464,909	264,102,685
Net debt	248,464,909	264,102,685
Total equity	113,524,237	86,934,304
Total capital	<u>361,989,146</u>	<u>351,036,989</u>
Gearing ratio	<u>68.64%</u>	<u>75.24%</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.)	11,979,826	12,105,378

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 08, 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	Sales - commission	Distribution cost - commission	Better classification	6,582,631

43 EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors, in their meeting held on October 08, 2011 have proposed 7% bonus shares amounting to Rs. 2,922,360 (2010: 1,988,000) out of the profit of the company.

44 GENERAL

Figures have been rounded off to the nearest rupee.

CHIEF EXECUTIVE

DIRECTOR