

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. 97.190 million (June 30, 2012: 145.800 million), financial assets which are subject to credit risk aggregate to Rs. 92.048 million (June 30, 2012: 131.362 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.

	2013 Rupees	2012 Rupees
Long term deposits	7,185,489	14,803,306
Trade debts	68,384,919	66,748,814
Loans and advances	15,352,527	47,877,318
Trade deposits and short term prepayments	1,125,073	677,561
Other receivables	-	1,255,500
Cash and bank balances	5,141,628	14,438,274
	<u>97,189,636</u>	<u>145,800,773</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	68,384,919	66,748,814
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#### 39.1.3 The maximum exposure to credit risk for trade debts at the balance sheet date by type of customer is as follows:

	2013 Rupees	2012 Rupees
Yarn	56,009,743	61,184,661
Waste	12,375,176	5,564,153
	<u>68,384,919</u>	<u>66,748,814</u>

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

Past due 0 - 30 days	37,111,292	44,069,476
Past due 31 - 90 days	26,904,095	9,150,763
Past due 91 days - 1 year	3,895,518	13,187,564
More than 1 year	474,015	341,011
	<u>68,384,920</u>	<u>66,748,814</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 an 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..

2013					
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	186,782,548	244,964,200	26,552,352	25,437,233	162,167,941	30,806,674
Long term financing from directors	71,622,513	71,622,513	-	-	71,622,513	-
Finance lease	96,865,847	102,122,049	16,283,508	12,717,702	73,120,839	-
Trade and other payables	141,990,415	141,990,415	141,990,415	-	-	-
Accrued mark up / interest	17,722,930	17,722,930	17,722,930	-	-	-
Short term borrowings	220,292,609	226,940,366	226,940,366	-	-	-
	<u>735,276,862</u>	<u>805,362,473</u>	<u>429,489,571</u>	<u>38,154,935</u>	<u>306,911,293</u>	<u>30,806,674</u>

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>

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, 2013.

**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	502,865,832	403,231,226

**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, 2012.

	Profit and loss		Equity	
	100 bp increase	100 bp (decrease)	100 bp increase	100 bp (decrease)
-----Rupees-----				
Cash flow sensitivity - variable rate instruments 2013	(652,031)	652,031	(652,031)	652,031
Cash flow sensitivity - variable rate instruments 2012	(668,790)	668,790	(668,790)	668,790

**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.

	2013 Rupees	2012 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 other than capital expenditures	-	52,500,218

**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.

	2013 Rupees	2012 Rupees
Total borrowings	312,564,592	337,788,669
Net debt	312,564,592	337,788,669
Total equity	2,181,764	387,447
Total capital	<u>314,746,356</u>	<u>338,176,116</u>
Gearing ratio	<u>99.31%</u>	<u>99.89%</u>

**40 CAPACITY INSTALLED AND ACTUAL PRODUCTION**

Number of spindles installed	28,248	28,248
Number of spindles worked	21,313	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.)	8,028,616	11,351,269

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 NUMBER OF EMPLOYEES**

	2013	2012
Number of employees as at year end	442	506
Average employee during the year	427	575

**42 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements have been authorized for issue on October 10, 2013 by the board of directors of the company.

**43 CORRESPONDING FIGURES**

Figures have been rearranged / reclassified whenever necessary for the purpose of comparison.

**44 GENERAL**

Figures have been rounded off to the nearest rupee.

CHIEF EXECUTIVE

DIRECTOR