

Annual Report 2012



Shahzad Textile Mills Limited

Shahzad Textile Mills Limited

ISO 9001:2008



Issue 4

Detailed scope

Manufacturing and Export of 100% Cotton, Blended, Pure Synthetic, Combed, Carded and Double Yarn

Further Clarifications regarding the scope of this certificate and the applicability of ISO 9001:2008 requirements may be obtained by consulting the organisation

Additional facilities

Site 01 : 34th Km, Sheikhpura Road,
Sheikhpura, Pakistan
Site 02 : 7th Km Sheikhpura- Faisalabad Road,
Sheikhpura, Pakistan



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The word 'SGS' is repeated in a stylized, colorful font where the letters are integrated with the silhouettes of birds in flight. The colors transition from green to blue.

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The management system of

Shahzad Textile Mills Limited

Head Office: 19-A, Off Zafar Ali Road, Gulberg - V,
Lahore, Pakistan

has been assessed and certified as meeting the requirements of

ISO 9001:2008

For the following activities

The Scope of registration appears on page 2 of this certificate.

Further clarifications regarding the scope of this certificate and the applicability of ISO 9001:2008 requirements may be obtained by consulting the organisation

This certificate is valid from 16 August 2011 until 15 August 2014
and remains valid subject to satisfactory surveillance audits.

Re certification audit due before 15 July 2014
Issue 4. Certified since 16 August 2005

This is a multi-site certification.
Additional site details are listed on the subsequent page.

Authorised by



SGS United Kingdom Ltd. Systems & Services Certification
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COMPANY INFORMATION

Board of Directors	Mian Parvez Aslam Mr. Imran Aslam Mrs. Nazish Imran Mr. Naveed Sheikh Mr. Humayun Bakht Mr. Rashid Ahmed Mr. Hassan-ud-Din Ansari	Chairman Chief Executive
Chief Financial Officer	Mr. Humayun Bakht	
Company Secretary	Mr. Hassan-ud-Din Ansari	
Auditors	Horwath Hussain Chaudhry & Co. Chartered Accountants	
Bankers	NIB Bank Ltd. Habib Metropolitan Bank Ltd. J S Bank Ltd. National Bank of Pakistan Bank Al- Falah (Islamic Banking)	
Share Registrar	Hameed Majeed Associates (Pvt.) Ltd. H.M. House, 7- Bank Square, Lahore	
Registered Office	19-A Off. Zafar Ali Road, Gulberg-V, Lahore. Ph: +92 (42) 35754024-27 Fax: +92 (42) 35712313	
Mills	Units # 1,3 & 4 Unit # 2	34th KM Lahore Sheikhpura Road, Sheikhpura 7th KM Sheikhpura Faisalabad Road, Sheikhpura.

VISION STATEMENT

We aim at seeing our mills to be a model manufacturing unit producing high quality yarn by complying with the requirements of Quality Management System and continuously improving its effectiveness for total customers' satisfaction. We wish to play a leading role in the spinning sector by keeping a substantial presence in the export and local markets.

MISSION STATEMENT

1. To install state of the art machinery and to acquire sophisticated process technology to achieve maximum growth in a competitive quality environment.
2. To make strenuous efforts to enhance profitability of the mills ensuring a fair return to the investors, shareholders and employees of the company.
3. To exercise maximum care for improvement of quality of our products by employing a team of highly skilled technicians and professional managers.
4. To strive hard to explore new customers for the sale of our products in export and local markets.
5. To improve customers' satisfaction level by adhering strictly to quality requirements of our customers in local and export markets and by improving communications with customers for receiving prompt feed backs about quality of our products.
6. To attend and prompt resolution of customers' quality complaints by taking timely corrective measures.
7. To improve logistic facilities for our customers dispatch programme and issue all shipments / delivery documents well in time.
8. To make comprehensive arrangements for the training of our workers / technicians.
9. To promote team work, sense of transparency, creativity in our professionals and technical people.

STATEMENT OF ETHICS AND BUSINESS PRACTICES

Shahzad Textile Mills Limited has laid down the following business ethics and principles, the observance of which is compulsory for all the directors and staff members of the company in the conduct of company's business in order to protect and safeguard the reputation and integrity of the company at all levels of its operations. Any contravention of these ethics is regarded as misconduct. The company will ensure that all the executives and subordinate staff members are fully aware of these standards and principles.

1. Conflict of interest

All staff members are expected not to engage in any activity which can cause conflict between their personal interests and company's interests, such as:

- a. In effecting the purchases for the company and selling its products the directors and the staff members are forbidden from holding any personal interest in any organization supplying goods or services to the company or buying its products.
- b. The staff members should not engage in any outside business while serving the company.
- c. Staff members are not permitted to conduct personal business in company's premises or use company's facilities for the same.
- d. If a staff member has direct or indirect relationship with an outside organization dealing with the company he must disclose the same to the management.

2. Confidentiality

All staff members are required not to divulge any secrets / informations of the company to any outsider even after leaving the service of the company unless it is so required by a court of law. During the course of service in the company they should not disseminate any information relating to business secrets of the company without the consent of management.

3. Kickbacks

All staff members are strictly forbidden not to accept any favour, gifts or kick backs from any organization dealing with the company. In case if such a favour is considered, in the interest of the company, the same should be disclosed clearly to the management.

4. Proper Books of Account

All funds, receipts and disbursements should be properly recorded in the books of accounts of the company. No false or fictitious entries should be made or misleading statement pertaining to the company or its operations should be issued. All agreements with agents, dealers and consultants should be made in writing supported with required evidence.

5. Relationship with government officials suppliers, agents etc.

The dealings of the company with Government officials, suppliers, buyers, agents and consultants of the company should always be such that the integrity of the company and reputation is not damaged. Members having queries in connection with how to deal with these requirements should consult the management.

6. Health and Safety

Every staff member is required to take care of his health and safety and of those working with him. The management is responsible for keeping its staff members insured as per government rules and regulations.

7. Environment

To preserve and protect the environment all staff members are required to operate the company's facilities and processes so as to ensure maximum safety of the adjoining communities, and strive continuously to improve environmental awareness and protections.

8. Alcohol, Drugs

All types of gambling and betting at the company's work places are strictly forbidden. Also bringing alcohols or drugs inside the work places are not allowed. If any staff member, not abiding by these prohibitions will attract disciplinary as well as penal action.

9. Coordination among staff members to maintain discipline

All staff members will work in close coordination with their co-workers, seniors and colleagues. Every member will cooperate with other members so that the company's work could be carried out effectively and efficiently. All cases of non-cooperation among staff members should be reported to the management for necessary and suitable action. Strict disciplinary action will be taken against those staff members who violate the rules and regulations of the company.

10. Workplace harassment

All staff members will be provided an environment that is free from harassment and in which all employees are equally respected. Work place harassment means any action that creates an intimidating, hostile or offensive environment which may include sexual harassment, disparaging remarks based on gender, religious, race or ethnicity.

SIX YEARS FINANCIAL SUMMARY

	2012	2011	2010	2009	2008	2007
	Rupees in Thousand					
Sales	4,172,217	4,513,244	3,116,385	2,223,397	1,190,419	1,100,181
Gross Profit	345,286	389,170	346,644	125,216	52,107	62,474
Profit/(Loss) before Taxation	143,224	200,474	164,838	(55,491)	4,178	(27,954)
Provision for Tax	(25,830)	(68,359)	(22,447)	(2,539)	(4,847)	1,535
Profit/(Loss) after Taxation	117,394	132,115	142,391	(58,030)	(669)	(26,149)
Total Assets	2,127,009	1,971,948	1,857,692	1,675,246	1,146,849	977,927
Current Liabilities	536,127	413,192	367,594	326,444	383,904	235,258
	1,590,882	1,558,757	1,490,098	1,348,802	762,945	742,669
Represented By :						
Equity & Surplus	1,218,474	1,108,167	981,374	798,867	504,919	410,731
Long Term Loans & Leases	125,264	190,162	282,750	334,641	152,225	230,742
Deferred Liabilities	247,144	260,427	225,974	215,294	105,801	101,196
	1,590,882	1,558,757	1,490,098	1,348,802	762,945	742,669

Statement of Compliance with the Code of Corporate Governance (Appendix B)
[See clause (xl)]

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No.35 of Listing Regulations of the Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the CCG in the following manner:

1. The company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category		Names
Independent Director	1.	Mr. Naveed Sheikh
Executive Director	2.	Mr. Imran Aslam
-do-	3.	Mr. Humayun Bakht
-do-	4.	Mr. Rashid Ahmad
-do-	5.	Mr. Hassan-ud-Din Ansari
Non-Executive Director	6.	Mian Parvez Aslam
-do-	7.	Mrs. Nazish Imran

The independent director meets the criteria of independence under clause I (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company.
3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII.
4. Two casual vacancies occurring on the board were filled up by the directors within 15 (fifteen) days.
5. The company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board/shareholders.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The board arranged training programs for one of the directors during the year.
10. No new appointments of CFO, Company Secretary and Head of Internal Audit, were made during the year. The board has, however, ratified their appointments including their remuneration and terms and conditions of employment.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the board.
13. The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
14. The company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises three (3) members, two of whom are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises three (3) members, two of whom are non-executive directors and the chairman of the committee is an independent director.
18. The board has set up an effective internal audit function which was duly reviewed and ratified by the Audit Committee and approved by the Board of Directors of the Company.

19. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

Lahore
Dated: September 29, 2012

IMRAN ASLAM
Chief Executive

REVIEW REPORT TO THE MEMBERS

ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE
OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **SHAHZAD TEXTILE MILLS LIMITED**, to comply with the Listing Regulations of the Karachi Stock Exchange and Lahore Stock Exchange respectively, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub-Regulation (xiii) of Listing Regulations 35 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Company to place before the board of directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arms length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2012.

HORWATH HUSSAIN CHAUDHURY & CO.
Chartered Accountants

LAHORE

Dated: September 29, 2012

(Engagement Partner: Muhammad Nasir Munceer)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Thirty Fourth Annual General Meeting of the Shareholders of **SHAHZAD TEXTILE MILLS LIMITED** will be held at Company's Registered Office, 19-A, Off. Zafar Ali Road, Gulberg-V, Lahore on **Tuesday, October 30, 2012 at 12.15 p.m.** to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2012 together with the Directors' and Auditors' Report thereon.
2. To approve and declare the payment of Final Cash Dividend @ 10.00% i.e. Rs.1.00 per share of Rs.10/- each as recommended by the Board of Directors.
3. To appoint auditors for the ensuing year June 30, 2013 and fix their remuneration. The present auditors M/s Horwath Hussain Chaudhry & Co., Chartered Accountants, retire and offer themselves for re-appointment.

SPECIAL BUSINESS

4. To consider and if deemed fit, to pass the following resolution, with or without modification, addition or deletion, as a Special Resolution in term of Section 208 of the Companies Ordinance, 1984.

"RESOLVED that the Company be and is hereby authorized in terms of Section 208 of the Companies Ordinance, 1984 to provide loans and advances to the extent of Rs. 100.000 million (Rupees one hundred million only) as and when deemed appropriate, to be adjustable/repayable within a period of one year to Sargodha Jute Mills Limited, an associated company at the mark up rate of 3 months KIBOR plus 3% per annum to be determined on 1st day of each quarter. The mark up will be paid quarterly."

"RESOLVED FURTHER that the Chief Executive of the Company be and is hereby authorized to take and/or cause to be taken and do necessary actions, deeds and things including signing of any documents for carrying out the purposes aforesaid and giving full effect to this resolution."

By order of the Board

Place: Lahore
Dated: September 29, 2012

(HASSAN-UD-DIN ANSARI)
Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from October 23, 2012 to October 30, 2012 (both days inclusive). Transfers received in order at Share Registrar Office of the Company, Hameed Majeed Associates (Pvt.) Limited, H.M. House, 7- Bank Square, Lahore by the close of business 22nd October, 2012, will be treated in time for the entitlement of dividend to the transferees and to attend the meeting.
2. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her.
3. The instrument appointing a proxy and the power of attorney or other authority under which it is signed or a notarially attested copy of the power of attorney must be deposited at the Registered Office of the Company at least 48 hours before the time of the meeting.

4. Members are requested to submit declaration for zakat on the required format and to advise change in address, if any.
5. Members are requested to send copies of their Computerized National Identity Cards (CNICs) to the Company's Independent Share Registrar, M/s Hameed Majeed Associates (Pvt.) Limited, H.M. House, 7- Bank Square, Lahore to enable the Company to comply with the direction of the Securities and Exchange Commission of Pakistan contained in SRO-831(1)/2012, Dated 05 July, 2012 for mentioning of CNIC Number of the Shareholders on the Dividend Warrants to be issued for Final Cash Dividend @ 10% announced by the Company.

CDC Account Holder will further have to follow the under-mentioned guidelines as laid down in Circular No.1 of 2000, dated 26th January, 2000 issued by The Securities and Exchange Commission of Pakistan.

A. For Attending the Meeting

- a. In case of Individuals, the account holder and/or sub-account holder and their registration details are uploaded as per the CDC Regulations, shall authenticate his/her identity by showing his/her original CNIC or, original Passport at the time of attending the Meeting.
- b. In case of corporate entity, the Board's resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

B. For Appointing Proxies

- a. In case of individuals, the account holder and/or sub-account holder and their registration details are uploaded as per the CDC Regulations, shall submit the proxy form as per above requirements.
- b. The proxy form shall be witnessed by two persons, whose names, addresses and CNIC number shall be mentioned on the form.
- c. Attested copies of the CNIC or the passport of beneficial owners and the proxy shall be furnished with the proxy form.
- d. The proxy shall produce his original CNIC or original passport at the time of the Meeting.
- e. In case of corporate entity, the Board's resolution/power of attorney with specimen signature shall be furnished (unless it has been provided earlier) along with proxy form to the Company.

STATEMENT OF MATERIAL FACTS UNDER SECTION 160(1)(B)
OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts pertaining to the special business to be transacted at the Thirty Fourth Annual General Meeting of the Company to be held on October 30, 2012.

Loans and Advances to Associated Company

Sargodha Jute Mills Limited is a Public Limited Company having assets of Rs.1,592.571 million with Paid-up Capital of Rs.224.570 million. The Company has reserves/un-appropriated profits amounting Rs.373.613 million as on 30-06-2012. The Company manufactures and deals in all types of Jute Products. The Directors of the Company intend to provide loans and advances of up to Rs.100.000 million to the Associated Company at such time at terms and conditions mentioned as the Chief Executive may think appropriate in the interest of the Company. The information required Regulation 3 (1) (b) of the Companies (Investment in Associated Companies or Associated Undertaking Regulations, 2012 is given below:-

- | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|-----------|---------|-----------|---------|------------|--------|---------|---------|-----------|--|--|--|-----------|--------|--------|---------|----------------|--------|---------|---------|--------------|--------|-----------|---------|
| (i) Name of Associated Company and criteria based on which the associated relationship is established; | Sargodha Jute Mills Limited (SJML).
The Company holds 36.16% shares of SJML. | | | | | | | | | | | | | | | | | | | | | | | | |
| (ii) The amount of loans and advances; | Up to Rs.100.000 million. | | | | | | | | | | | | | | | | | | | | | | | | |
| (iii) The purpose of loans and advances and its benefits likely to accrue to the Company and its shareholders; | The purpose of short term loans and advances is to earn better return. The investing company and its shareholders will be benefited in a manner that their investment will fetch a return of 1% above the prevailing short term borrowing rate from banks. | | | | | | | | | | | | | | | | | | | | | | | | |
| (iv) The complete detail of any loan has already been granted to the associated company; | In the annual general meeting held on October 29, 2011, the shareholders approved loan and advance to the extent of Rs.100.000 million (Rupees one hundred million only) to Sargodha Jute Mills Limited. However, during the year 2011-2012 no loans and advances were made. | | | | | | | | | | | | | | | | | | | | | | | | |
| (v) A brief about the financial position of the investee company on the basis of its latest financial statements for the year ended 30-06-2012; | <table border="0"> <tr> <td>Net Sales</td> <td>Rupees</td> <td>2,473.423</td> <td>Million</td> </tr> <tr> <td>Equity-Net</td> <td>Rupees</td> <td>598.182</td> <td>Million</td> </tr> <tr> <td>Long Term</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Financing</td> <td>Rupees</td> <td>12.250</td> <td>Million</td> </tr> <tr> <td>Current Assets</td> <td>Rupees</td> <td>786.285</td> <td>Million</td> </tr> <tr> <td>Total Assets</td> <td>Rupees</td> <td>1,592.571</td> <td>Million</td> </tr> </table> | Net Sales | Rupees | 2,473.423 | Million | Equity-Net | Rupees | 598.182 | Million | Long Term | | | | Financing | Rupees | 12.250 | Million | Current Assets | Rupees | 786.285 | Million | Total Assets | Rupees | 1,592.571 | Million |
| Net Sales | Rupees | 2,473.423 | Million | | | | | | | | | | | | | | | | | | | | | | |
| Equity-Net | Rupees | 598.182 | Million | | | | | | | | | | | | | | | | | | | | | | |
| Long Term | | | | | | | | | | | | | | | | | | | | | | | | | |
| Financing | Rupees | 12.250 | Million | | | | | | | | | | | | | | | | | | | | | | |
| Current Assets | Rupees | 786.285 | Million | | | | | | | | | | | | | | | | | | | | | | |
| Total Assets | Rupees | 1,592.571 | Million | | | | | | | | | | | | | | | | | | | | | | |

- (vi) Average borrowing cost of the Company; The rate of mark up of average short term borrowings of the Company is 3 months KIBOR plus 2%.
- (vii) Rate of mark up to be charged; Mark up will be charged on loans and advances at the rate of 3 months KIBOR plus 3% per annum to be determined on 1st day of each quarter.
- (viii) Sources of funds from where loans or advances will be given; Loans and advances will be given out of the Company's own funds.
- (ix) Particulars of collateral security to be obtained against loan to the borrowing company, if any; No security is considered necessary as both the companies are associated companies.
- (x) Repayment Schedule; The loans and advances are adjustable within a period of twelve months. The mark up will be payable quarterly.
- (xi) Salient feature of all agreements entered or to be entered with the associated company with regards to proposed investment. Loans and advances will be for period of one year. The mark up will be 3 months KIBOR plus 3% to be paid quarterly.
- (xii) Direct or indirect interest of directors, sponsors, majority shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration; The Directors, sponsors and majority shareholders do not have any interest except to the extent of their shareholdings in the associated company. Some of them are director of the associated company. The shareholdings of Directors, sponsors and majority shareholders in associated company are as under:-

Name	No. of Shares
Mian Parvez Aslam	722,120
Mrs. Fakhra Parvez	255,500
Mr. Imran Aslam	4,379,515
Mr. Irfan Aslam	4,379,515
Mian Shahzad Aslam	2,144,576
Mian Sajjad Aslam	528,794

The associated company holds 14,990 Shares of the Company and its directors and sponsors are also shareholder/director of the company.

Other information to be disclosed to the members

In the Annual General Meeting held on October 29, 2011, the shareholders approved loans and advances to the extent of Rs.100.000 million (Rupees one hundred million only) in Sargodha Jute Mills Limited. However, during the year no investments were made as the funds were not required by Sargodha Jute Mills Limited at any time during the year 2011-2012.

The directors submit that they have carried out necessary due diligence for the proposed investment in the associated company.

The duly signed recommendation of the due diligence report and the audited financial statements of the associated company shall be available for inspection of the members in the general meeting.

DIRECTORS' REPORT

On behalf of the directors, it is my great pleasure to present the thirty fourth (34) annual report together with audited financial statements of the company and auditors' report thereon for the year ended June 30, 2012 which reflects the affairs of the company.

Financial and operational performance

The financial results of the company with comparison of last year's results are summarized below:

	2012 Rupees	2011 Rupees
Profit before Taxation and Share of Associated Undertaking	129,265,518	178,706,526
Share of net profit of associated undertaking	<u>13,957,753</u>	<u>21,767,126</u>
Profit before Taxation	<u>143,223,271</u>	<u>200,473,652</u>
Taxation	<u>(25,829,590)</u>	<u>(68,359,107)</u>
Profit after Taxation	<u><u>117,393,681</u></u>	<u><u>132,114,545</u></u>

The briefly summed picture of financial data exhibits pre-tax profit of Rs.129.266 million as compared to last year's pre tax profit of Rs.178.707 million.

The current decrease in profit with comparison to corresponding year 30-06-2011 is attributed to temporary shut down of two units of the company for one and half month in the first quarter of financial year. The management foreseeing negative effects on profitability due to high rates of raw material took this prudent decision. Resultantly yarn sales and profitability of the company are affected but saved the company from major loss. The high mark up rates of financial institution on inoperative pledged stocks and laying off technical and supervisory labor with 50% payment of salaries in idle period also left adverse impact on the financial results.

Earnings per Share

The earnings per share for the year is Rs.6.53 as compared to earning of Rs.7.59 per share in the preceding year.

Dividend

According to dividend payout strategy, the management wishes to pay return from the company's earning to the shares holders. Accordingly, the Board of Directors have declared 10% final cash dividend.

Future Prospects

Future prospects of textile sector undoubtedly are very bright but it depends directly on cotton crop size, its yield and quantity as cotton is the main raw material for the manufacturing of yarn.

In order to confront tough competition the Government must restructure its policies ensuring uninterrupted supply of gas and electricity to the spinning Industry around the year. Unless the energy requirements of the industry are met, this sector will lack competition in the international markets.

Presently the local and international markets are very favorable, but in the winter season when the gas supply is shut down for 2-3 months and electric load shedding is increased the productivity of spinning sector is greatly eroded. But in spite of these adversities we are hopeful to achieve favorable financial results in the time to come.

The management is continuously working over expansion plan and upgrading our machinery of present units to improve our quality of product and meet the increasing requirement of our quality yarn.

We have opened letters of credit for import of two Schlafhorst Autoconers and two sets of Roving Frames which shall be part of our machinery in the coming period.

ISO 9001-2008 Certification

The Company continues to operate the high standard of quality and had obtained latest version of ISO 9001-2008 Certification which is renewed after a detail verification that quality control system is being effectively implemented. The quality control certification helps to build up trust of new customers and strengthen the confidence of our old clients.

Related Parties

The transactions between the related parties were made at arm's length prices determined in accordance with the comparable uncontrolled price method. The company has fully complied with the best practices of the transfer pricing as contained in the Listing Regulations.

Corporate and Financial Reporting Framework

- a) The financial statement prepared by the management of the Company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- b) Proper books of account for the Company have been maintained.
- c) Appropriated accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Financial Reporting Standards as applicable in Pakistan have been followed in preparation of financial statements.
- e) The system of internal control is sound in design and has been effectively implemented and monitored. The process of review will continue and any weakness in control will be removed.
- f) There are no significant doubts upon the company's ability to continue as going concern.
- g) There has been no material departure from the best practices of the code of corporate governance as detailed in the listing regulations.
- h) Key operating and financial data for last six years is annexed.
- l) The Board arranged a training program for one of its directors during the year. The training was provided by the Pakistan Institute of Corporate Governance and the training is titled "Corporate Governance Leadership Skills Programme".
- j) There are no overdue taxes and levies as on June 30, 2012.
- k) The Form 34 and Pattern of Shareholding as on June 30, 2012 as required by the section of 236 of the Companies Ordinance 1984 and Code of Corporate Governance in annexed with this report.
- l) The company has adopted practices of Corporate Governance as per listing regulations of stock exchange.
- m) No material change of commitment affecting financial position occurred between June 30, 2012 and date of directors' report.
- n) No trades in the shares of the Company carried out by the Directors, CEO, executives and their spouses and minor children.
- o) The Company operates an unfunded gratuity scheme covering its permanent employees. Employees are eligible for benefits under the gratuity scheme after completion of one year of continuous service.

Board of Directors Meetings

During the period under review, eleven meetings of the Board of Directors were held from July 1, 2011 to June 2012. The attendance of the Board members was as follows:

<u>Name of Directors</u>	<u>No. of Meetings Attended</u>
Mr. Imran Aslam	11
Mian Parvez Aslam	09
Mr.Rashid Ahmad	11
Mr.Humayun Bakht	11
Mr.Hassan-ud-din Ansari	11
Chaudhry Hakim Ali (resigned on 15-05-2012)	08
Lt.Col.(R) Abdul Qayyum (resigned on 15-05-2012)	08
Mr.Naveed Sheikh (appointed on 15-05-2012)	02
Mrs. Nazish Imran (appointed on 15-05-2012)	02

Audit Committee

The Board of Directors in compliance of Code of Corporate Governance has established an Audit Committee and the following directors are its members.

Mr. Naveed Sheikh	Chairman
Mrs. Nazish Imran	Member
Mr. Rasheed Ahmed	Member

The Audit committee actively reviews the adequacy and effectiveness of internal control system and suggests improvements for strengthening the system. During the period under review six (6) meetings of Audit Committee of the company were held from July 01, 2011 to June 30, 2012 and attendance of Audit Committee Members was as follow:

NAME OF MEMBER	NO OF MEETINGS ATTENDED
Chaudhry Hakim Ali	six(6)
Mr. Rashid Ahmad	Six(6)
Lt.Col.(R) Abdul Qayyum	Six(6)

HUMAN RESOURCE AND REMUNERATION (HR & R) COMMITTEE

In compliance with the Code of Corporate Governance the Board of Directors has formed a Human Resource Committee (HR & R Committee) consists of three Directors named below. The HR & R Committee shall help out and assist the Board of directors in management of the Company's Human Resources efficiently. Further, the HR & R Committee will also review and make recommendations to ensure that the Company's Human Resources policies are associated with its overall business objectives.

NAMES OF THE MEMBERS OF THE COMMITTEE

Mr. Naveed Sheikh	Chairman
Mrs. Nazish Imran	Member
Mr. Imran Aslam	Member

Corporate Governance

Statement of compliance with the code of Corporate Governance is annexed.

Appointment of Auditors

The auditors M/s Horwath Hussain Chaudhury and Company, Chartered Accountants, will retire and are eligible for re-appointment as auditors for the company for the next year.

The Audit Committee of the board has recommended the re-appointment of M/s Harwath Hussain Chaudhury and Company, Chartered Accountants, as external auditors of the Company for the year ending June 30, 2013.

The labor management relations remained cordial during the year. The directors place on record their appreciation for the devoted efforts and hard work done by the workers, staff and Officers of the Company during the period under review.

For and on behalf of the Board

Lahore
Dated: September 29, 2012

Mr. Imran Aslam
Chief Executive

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **SHAHZAD TEXTILE MILLS LIMITED** as at June 30, 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, we report that:

- a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion;
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2012 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

HORWATH HUSSAIN CHAUDHURY & CO.
Chartered Accountants

LAHORE

Dated: September 29, 2012

(Engagement Partner: Muhammad Nasir Muneer)

	Note	2012 Rupees	2011 Rupees
CAPITAL AND LIABILITIES			
Share Capital and Reserves			
Authorized capital: 21,000,000 (2011: 21,000,000) ordinary shares of Rs. 10 each		210,000,000	210,000,000
Issued, subscribed and paid up capital	6	179,713,720	179,713,720
Reserves	7	540,019,357	408,397,733
		719,733,077	588,111,453
Surplus on Revaluation of Property, Plant and Equipment	8	498,740,449	520,056,243
Non Current Liabilities			
Long term financing	9	125,264,472	188,429,047
Liabilities against assets subject to finance lease	10	-	1,732,969
Deferred liabilities	11	247,144,270	260,426,543
		372,408,742	450,588,559
Current Liabilities			
Trade and other payables	12	223,028,197	106,416,663
Accrued mark up	13	8,426,605	12,979,537
Short term borrowings	14	184,491,427	190,800,579
Current portion of non current liabilities	15	66,216,110	57,525,139
Provision for taxation	16	53,964,992	45,470,369
		536,127,331	413,192,287
Contingencies and Commitments	17	-	-
		2,127,009,599	1,971,948,542

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

CHIEF EXECUTIVE

JUNE 30, 2012

	Note	2012 Rupees	2011 Rupees
ASSETS			
Non Current Assets			
Property, plant and equipment	18	1,282,549,101	1,348,330,672
Long term investment	19	216,056,865	204,167,850
Long term deposits		2,860,329	1,626,829
		1,501,466,295	1,554,125,351
Current Assets			
Stores and spares	20	50,449,752	47,828,892
Stock in trade	21	361,705,962	225,497,637
Trade debts	22	83,501,858	75,631,218
Advances, trade deposits, prepayments and other receivables	23	68,695,382	35,923,041
Short term investments	24	751,061	747,050
Tax refunds due from Government	25	17,718,776	23,411,761
Cash and bank balances	26	42,720,513	8,783,592
		625,543,304	417,823,191
		<u>2,127,009,599</u>	<u>1,971,948,542</u>

DIRECTOR

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012 Rupees	2011 Rupees
Sales	27	4,172,216,660	4,513,244,278
Cost of sales	28	(3,826,931,050)	(4,124,074,613)
Gross Profit		345,285,610	389,169,665
Operating Expenses			
Selling and distribution costs	29	(52,530,383)	(46,835,820)
Administrative expenses	30	(83,498,159)	(74,372,733)
		(136,028,542)	(121,208,553)
Operating Profit		209,257,068	267,961,112
Finance costs	31	(66,884,584)	(79,268,795)
Other operating charges	32	(18,303,347)	(13,049,731)
Other operating income	33	5,196,381	3,063,940
		(79,991,550)	(89,254,586)
Profit before Taxation and Share of Associated Undertaking		129,265,518	178,706,526
Share of net profit of associated undertaking		13,957,753	21,767,126
Profit before Taxation		143,223,271	200,473,652
Taxation	34	(25,829,590)	(68,359,107)
Profit after Taxation		117,393,681	132,114,545
Earnings per Share - Basic and Diluted	35	6.53	7.59

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

CHIEF EXECUTIVE

DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2012

	2012 Rupees	2011 Rupees
Profit after Taxation	117,393,681	132,114,545
Other comprehensive income for the year		
Transfer from surplus on revaluation of property, plant and equipment on incremental depreciation charged in current year - net of deferred tax	21,049,077	13,441,113
Surplus realized on disposal of revalued property, plant and equipment (net of deferred tax) transferred to retained earnings	372,415	-
Share of associated undertaking's other comprehensive income net off deferred tax	1,792,137	2,061,586
	23,213,629	15,502,699
Total Comprehensive Income for the Year	<u>140,607,310</u>	<u>147,617,244</u>

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

CHIEF EXECUTIVE

DIRECTOR

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2012

	2012	2011
	Rupees	Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation and share of associated undertaking	129,265,518	178,706,526
Adjustments for:		
- Depreciation	81,042,841	57,758,254
- Inventories written down to net realizable value	-	73,870,515
- Loss / (Gain) on disposal of property, plant and equipment - Net	1,323,941	(783,783)
- Surplus on revaluation of investments at fair value through profit or loss	(4,010)	(293,971)
- Excess liabilities written back	-	(1,804,450)
- Provision for gratuity	17,924,568	15,439,960
- Exchange gain	(1,824,620)	-
- Provision for doubtful debts	6,941,158	213,244
- Provision for workers' (profit) participation fund	7,047,562	9,546,335
- Provision for workers' welfare fund	2,340,686	2,295,098
- Interest on workers' (profit) participation fund	973,529	362,748
- Finance costs	65,911,055	78,906,047
	<u>181,676,710</u>	<u>235,509,997</u>
Operating profit before working capital changes	310,942,228	414,216,523
Decrease / (increase) in current assets:		
- Stores and spares	(1,350,422)	9,900,969
- Stock in trade	(136,208,325)	(104,139,534)
- Trade debts	(12,987,178)	(21,783,369)
- Advances, trade deposits, prepayments and other receivables	5,813,246	622,869
- Tax refunds due from Government	5,692,985	2,963,335
(Decrease) / increase in current liabilities:		
- Trade and other payables	116,738,758	(26,957,184)
	<u>(22,300,936)</u>	<u>(139,392,914)</u>
Cash generated from operations	288,641,292	274,823,609
Income tax paid	(77,255,613)	(21,840,555)
Gratuity paid	(9,295,910)	(7,404,969)
Finance costs paid	(69,106,422)	(66,114,725)
Workers' welfare fund paid	-	(1,896,950)
Workers' (profit) participation fund paid	(10,519,864)	(8,325,471)
Net Cash from Operating Activities	122,463,483	169,240,939
CASH FLOW FROM INVESTING ACTIVITIES		
Property, plant and equipment	(7,720,557)	(41,121,316)
Capital work in progress	(11,230,178)	(75,877,457)
Long term deposits	(1,941,800)	(32,500)
Proceeds from disposal of property, plant and equipment	1,095,086	2,007,000
Net Cash used in Investing Activities	(19,797,449)	(115,024,273)
CASH FLOW FROM FINANCING ACTIVITIES		
Loan repaid to related parties	-	(37,476,881)
Repayment of long term financing from banking company	(55,995,214)	(56,650,000)
Dividend received from associated undertaking	4,060,000	-
Dividend paid	(8,954,823)	(8,942,184)
Liabilities against assets subject to finance lease	(1,529,924)	(1,538,459)
Short term borrowings	(6,309,152)	37,727,964
Net Cash used in Financing Activities	(68,729,113)	(66,879,560)
Net Increase / (Decrease) in Cash and Cash Equivalents	33,936,921	(12,662,894)
Cash and cash equivalents at the beginning of the year	8,783,592	21,446,486
Cash and Cash Equivalents at the End of Year	42,720,513	8,783,592

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2012

	Share Capital	Reserve for Issue of Shares	Share Premium	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees	Rupees
Balance as at June 30, 2010	135,525,690	44,188,030	5,796,000	263,970,175	449,479,895
Total comprehensive income for the year	-	-	-	147,617,244	147,617,244
Shares issued during the year	44,188,030	(44,188,030)	-	-	-
Final dividend for the year ended June 30, 2010	-	-	-	(8,985,686)	(8,985,686)
Balance as at June 30, 2011	179,713,720	-	5,796,000	402,601,733	588,111,453
Total comprehensive income for the year	-	-	-	140,607,310	140,607,310
Final dividend for the year ended June 30, 2011	-	-	-	(8,985,686)	(8,985,686)
Balance as at June 30, 2012	<u>179,713,720</u>	<u>-</u>	<u>5,796,000</u>	<u>534,223,357</u>	<u>719,733,077</u>

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

CHIEF EXECUTIVE

DIRECTOR

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Note 1

The Company and its Operations

Shahzad Textile Mills Limited is a Public Limited Company incorporated in Pakistan under the Companies Act, 1913 (now the Companies Ordinance, 1984). Its shares are quoted on Karachi and Lahore Stock Exchanges of Pakistan. The Company manufactures and deals in all types of yarn. The registered office of the Company is situated at 19-A, OFF Zafar Ali Road, Gulberg - V, Lahore.

Note 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 Standards 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 Basis of measurement

These financial statements have been prepared under the historical cost convention except for the following:

Employees' retirement benefits	Note 11	Present value
Certain property, plant and equipment	Note 18	Revalued amount
Investments in quoted companies	Note 24	Fair value

2.3 Functional and presentational currency

These financial statements are prepared and presented in Pak Rupees which is the Company's functional and presentation currency. All financial information presented in Pak Rupees have been rounded off to the nearest rupee, unless otherwise stated.

Note 3

Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under circumstances, results of which form the basis of making judgment about carrying amounts of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are as under:

Note 3 - Use of Estimates and Judgments Contd.

3.1 Property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular basis. If any change in the estimates in remaining useful life might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment, if any.

Change in estimate

During the year, the management reviewed the remaining useful life of operating fixed assets and revised the depreciation rate of power house from 5% to 20% per annum. The change in accounting estimate (depreciation rate) has resulted in increase in depreciation charge for the year and decrease in profit before tax for the year by Rs. 21.080 million. Depreciation charge for the year ending June 30, 2013 would be higher by Rs. 15.810 million.

3.2 Doubtful receivables

The Company records its trade and other receivables after deducting appropriate provisioning using its prudence and experience. This estimate is subjective in nature. Recoveries of amounts already provided and / or the need of further provisioning cannot be determined with precision.

3.3 Employees' retirement benefits

The Company has recorded its employees' retirement benefits at fair value using actuarial assumptions regarding increase in salaries in subsequent years, remaining working lives of employees and an estimate of discount rates. Change in actuarial assumptions over the period of time may affect the fair value of post-employment benefits payable and the charge for such liability accounted for in any given period.

3.4 Taxation

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

The management believes that the change in outcome of estimates would not have a material effect on the amounts disclosed in these financial statements.

Note 4

Amendments to Existing Standards and Forthcoming New Standards and Interpretations

International Accounting Standard Board (IASB) has made amendments into certain standards and further introduced new standards during the year. These standards are applicable to the financial statements of the Company covering annual period, beginning on or after the following dates:

4.1 Amendments to published standards effective in current year and applicable to the Company

- IAS 12 – Income Taxes; the amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under IAS 40 – Investment Property by introducing a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. These amendments have incorporated the requirements of SIC 21 – Income Taxes - Recovery of Revalued Non-Depreciable Assets in the amended IAS 12.

Note 4 - Amendments to Existing Standards Contd.

- IAS 24 – Related Party Disclosures; the amendments simplify the disclosure requirements for government related entities and clarify the definition of a related party. The revised standard provides a partial exemption for government related entities but still requires disclosures that are important to users of financial statements and eliminates requirements to disclose information that is costly to gather and of less value to users.
- IAS 34 – Interim Financial Reporting; the revised standard includes amendments in significant events and transactions.
- IFRS 7 - Financial Instruments: Disclosures; its requirements have been further amended that facilitate the users of financial statements in evaluating risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. These requirements have increased the transparency in the reporting of transfer transactions, particularly those that involve securitization of financial assets.

4.2 Amendments to published standards that are yet not effective and not early adopted by the Company

- IAS 1 'Presentation of Financial Statement' (Amendment). This amendment has been issued as part of annual improvements project and is applicable on accounting periods beginning on or after January 1, 2013. The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet. When an entity produces balance sheet as required by IAS 8 'Accounting policies, changes in accounting estimates and errors' in which case the balance sheet should be as at the date of the beginning of the preceding period i.e. the opening position. No notes are required to support this balance sheet. When management provides additional comparative information voluntarily e.g. statement of profit and loss, balance sheet, it should present the supporting notes to these additional statements.
- IAS 16 'Property, plant and equipment' (Amendment). This amendment has been issued as part of annual improvements project and is applicable on accounting periods beginning on or after January 1, 2013. The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.
- IAS-19 'Employee Benefits': the amendments in the standard are effective for periods beginning on or after January 1, 2013. The amendments in the standard have eliminated the corridor approach resultantly recognizing the entire actuarial gains / losses in other comprehensive income as they are incurred. These amendments have also resulted in recognizing all the past service costs immediately and replaced the interest cost and expected return on plan assets with a net interest amount that would be calculated by applying the discount rate to the net defined liability / asset.
- IAS 32 - 'Financial instruments: Presentation' (Amendment). This amendment has been issued part of annual improvements project and is applicable on accounting periods beginning on or after January 1, 2013. Prior to the amendment, IAS 32 was ambiguous as to whether the tax effects of distributions and the tax effects of equity transactions should be accounted for in the income statement or in equity. The amendment clarifies that the treatment is in accordance with IAS 12. So, income tax related to distributions is recognized in the income statement, and income tax related to the costs of equity transactions is recognized in equity. The Company will apply this amendment from July 1, 2013.

Note 5

Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company.

5.1 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and of which a reliable estimate can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

5.2 Staff retirement benefits***Defined benefit plan***

The Company operates an unfunded gratuity scheme covering its permanent employees. Employees are eligible for benefits under the gratuity scheme after completion of one year of continuous service. The benefit is calculated based upon the number of completed years of service and last drawn gross salary.

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

5.3 Taxation**Current**

Charge for taxation for the year on taxable profit is based on applicable tax rates after taking into account all tax credits and rebates available, if any.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent of potential available taxable profits against which temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

5.4 Trade and other payables

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

Note 5 - Summary of Significant Accounting Policies Contd.

5.5 Property, plant and equipment***Owned***

Property, plant and equipment are stated at cost less accumulated depreciation except freehold land which is stated at revalued amount and buildings and plant and machinery which are stated at revalued amounts less accumulated depreciation.

The management reviews market value of land, building and plant and machinery at each balance sheet date to ascertain whether the fair value of revalued assets has differed materially from the carrying value of revalued assets, thus necessitating further revaluation.

Depreciation on property, plant and equipment has been provided for using the reducing balance method at the rates specified in Note 18 and is charged to the profit and loss account. Depreciation on additions is charged from the month in which the asset is available for use upto the month in which the asset is disposed off.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. Gain or loss on disposal of property, plant and equipment, if any, is shown in the profit and loss account.

Leased

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 lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. Subsequently these assets are stated at cost less accumulated depreciation and any identified impairment loss.

Related rental obligations, net of finance charges are included in liabilities against assets subject to finance lease. Liabilities are classified as current and long term depending upon the timing of payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit over the lease term.

Assets acquired under a finance lease are depreciated over the useful life of the asset using the reducing balance method at the same rates as used for owned assets. Depreciation of leased assets is charged to the profit and loss account. Depreciation on additions to leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off.

Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.

5.6 Impairment

Carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of the fair value less costs to sell and value in use. In the absence of any information about the fair value of a cash-generating unit, the recoverable amount is deemed to be the value in use.

Impairment loss is recognized as expense in the profit and loss account. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the profit and loss account. Reversal of impairment loss is restricted to the original cost of asset.

Note 5 - Summary of Significant Accounting Policies Contd.

5.7 Investments***In associated undertakings***

An associate is an entity in which the Company holds more than 20% voting power or over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The operating results, assets and liabilities of associates are incorporated in the financial statements using the equity method. This method is applied from the date when significant influence is established until the date when the significant influence ceases. The Company's share of income and expenses of associates are recognized based upon their latest audited financial statements after realigning their accounting policies, if required.

The Company's investment is reduced to zero in recognition of its share of losses of the associate. Further losses are recognized only when the Company has made payments on behalf of the associate or has an obligation to make payments on its behalf.

Unrealized gains and losses, if any, arising from transactions with associates are eliminated under the equity method. The Company's share of changes recognized directly in associate's equity are recognized directly in the equity of the Company and disclosed in the statement of other comprehensive income.

Investments in associates, not accounted for under the equity method are classified as "Available for Sale".

Other investments

Investments, other than in associates, are initially recognized at cost, comprising the consideration paid and cost of transaction except in the case of investment at fair value through profit or loss where transaction costs are charged to the profit and loss account when incurred. For listed securities, closing quotations of stock exchanges on last working day of the accounting year are considered for determining the fair value, while for unquoted securities, cost is considered as fair value of securities.

The classification is made on the basis of intended purpose for holding such investments. These are measured at the balance sheet date in accordance with the requirements of IAS-39 (Financial Instruments: Recognition and Measurement) described as under:

Available for sale

These are stated at fair value and changes in carrying value are recognized in equity until investment is sold or determined to be impaired at which time the accumulated gain or loss previously recognized in equity is included in the profit and loss account.

At fair value through profit or loss

An investment is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's investment strategy. All investments classified as investments at fair value through profit or loss are initially measured at cost being the fair value of consideration given. At subsequent dates these investments are measured at fair value, determined on the basis of prevailing market prices, with any resulting gain or loss recognized directly in the profit and loss account.

Note 5 - Summary of Significant Accounting Policies Contd.

Investments held to maturity

Investments with fixed or determinable payments and fixed maturity and where the Company has positive intent and ability to hold investments to maturity are classified as investments held to maturity. These are initially recognized at cost inclusive of transaction costs and are subsequently carried at amortized cost using the effective interest rate method, less any impairment losses.

5.8 Stores, spares and stock in trade

These are valued at lower of cost and net realizable value; cost being determined as under:

Stores and spares	- At moving average cost
Raw materials	- At average cost
Material in transit	- At cost comprising invoice value plus incidental charges
Work in process	- At estimated average manufacturing cost
Finished goods	- At average manufacturing cost
Wastes	- At net realizable value

Manufacturing cost in relation to work-in-process and finished goods comprises cost of material, labour and appropriate manufacturing overheads.

Net realizable value signifies the selling price at which goods in stock could be currently sold less any further costs which would be incurred to complete the sale.

5.9 Trade debts and other receivables

All outstanding receivables are reviewed at the balance sheet date. The Company recognizes and carries these receivables at original invoice amount less an allowance for uncollectible amounts, if any. Bad debts are written off as incurred and provision is made against debts considered doubtful when the collection of full amount is no longer probable.

5.10 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand, cash at bank and short term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

5.11 Financial instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of an instrument. It ceases to recognize financial assets when it loses control of contractual rights and in case of financial liability when the liability is extinguished. Any gain or loss on subsequent remeasurement / derecognition is charged to income.

5.12 Offsetting

Financial assets and financial liabilities and tax assets and tax liabilities are set off in the balance sheet, only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

5.13 Foreign currency translation

Assets and liabilities in foreign currency are stated in Pak Rupees at the rates of exchange ruling on the balance sheet date or rate of exchange fixed under contractual agreements. Transactions in foreign currency are translated at the exchange rate prevailing at the date of transaction. All exchange differences are included in the profit and loss account.

Note 5 - Summary of Significant Accounting Policies Contd.

5.14 Related party transactions

Transactions with related parties are based on the transfer pricing policy that all transactions between the Company and the related party or between two or more segments of the Company are at arm's length prices using the comparable uncontrolled price method except in circumstances where it is not in the interest of the Company to do so.

5.15 Revenue recognition

- Local sales are recorded on dispatch of goods to customers.
- Export sales are recorded at the time of receipt of bill of lading.
- Dividend on equity investments is recognized as income when the Company's right to receive the dividend is established.

5.16 Borrowing costs

Borrowing costs are charged to income as and when incurred except those costs that are directly attributable to acquisition, construction or production of qualifying assets that are capitalized as part of the cost of assets.

5.17 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. Segment results, assets, and liabilities include items directly attributable to a segment. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

5.18 Dividends

Dividends are recognized as a liability in the period in which these are declared.

Note 6

Issued, Subscribed and Paid Up Capital

2012	2011		2012	2011
No. of Shares			Rupees	Rupees
12,240,569	12,240,569	Ordinary shares of Rs. 10 each fully paid in cash	122,405,690	122,405,690
4,418,803	4,418,803	Ordinary shares of Rs. 10 each issued for consideration otherwise than in cash	44,188,030	44,188,030
1,312,000	1,312,000	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	13,120,000	13,120,000
<u>17,971,372</u>	<u>17,971,372</u>		<u>179,713,720</u>	<u>179,713,720</u>

- 6.1 14,990 (2011: 14,990) ordinary shares of the Company are held by an associated undertaking, as at the balance sheet date.

Note 6 - Issued, Subscribed and Paid Up Capital

.... Contd.

6.2 Movement in number of shares during the year

	Number	Number
Opening number of shares issued	17,971,372	13,552,569
Shares issued during the year	-	4,418,803
Closing number of shares issued	<u>17,971,372</u>	<u>17,971,372</u>

Note 7

Reserves

	2012	2011
Capital	Rupees	Rupees
Share premium reserve	5,796,000	5,796,000
Revenue		
Unappropriated profit	534,223,357	402,601,733
	<u>540,019,357</u>	<u>408,397,733</u>

Note 8

Surplus on Revaluation of Property, Plant and Equipment

		2012	2011
	Note	Rupees	Rupees
Land - freehold		180,886,920	180,886,920
Buildings on freehold land		47,964,312	49,638,346
Plant and machinery		291,205,011	301,368,545
	8.1	<u>520,056,243</u>	<u>531,893,811</u>
Deferred tax relating to export	8.2	105,698	1,603,545
Incremental depreciation (net of deferred tax) charged on revalued property, plant and equipment during the year transferred to retained earnings		(21,049,077)	(13,441,113)
Surplus realized on disposal of revalued property, plant and equipment (net of deferred tax) transferred to retained earnings		(372,415)	-
		<u>498,740,449</u>	<u>520,056,243</u>

8.1 Revaluation of land, buildings and plant and machinery was carried out by an independent valuer as at September 30, 1995 resulting in revaluation surplus of Rs. 435.412 million. The following basis were used for revaluation:

Land	Market value
Building	Residual value
Plant and machinery	Residual value

Freehold land was further revalued by an approved valuer as at March 28, 2008 that resulted in revaluation surplus of 97.360 million. Market values of land in the vicinity of the factory area were used as basis of valuation.

During the year 2010, the Company further revalued its land, buildings and plant and machinery. The valuation was carried out by an approved valuer as on June 30, 2010 that resulted in revaluation surplus of Rs. 41.678 million. The following basis were used for revaluation:

Land	Market value
Buildings	Replacement value
Plant and machinery	Market value

Note 8 - Surplus on Revaluation of Property, Plant and Equipment.... Contd.

- 8.2 This represents amount transferred to deferred tax liability due to change in proportion of local and export sales resulting in change in estimate of deferred tax on surplus on revaluation of property, plant and equipment.

Note 9

Long Term Financing

	Note	2012 Rupees	2011 Rupees
Loans from banking company - Secured			
NIB Bank Limited	9.1	120,264,472	183,429,047
Loan from related party - Unsecured			
Director	9.2	5,000,000	5,000,000
		<u>125,264,472</u>	<u>188,429,047</u>
9.1 NIB Bank Limited			
Term finance - I		86,174,253	142,824,253
State Bank of Pakistan's LTF - EOP Scheme		63,807,482	63,807,482
Freezed mark up (refer to Note 13)		90,800,091	89,442,526
		<u>240,781,826</u>	<u>296,074,261</u>
Payments during the year		(55,995,214)	(56,650,000)
		<u>184,786,612</u>	<u>239,424,261</u>
Current portion transferred to current liabilities		(64,522,140)	(55,995,214)
		<u>120,264,472</u>	<u>183,429,047</u>

9.1.1 This represents long term financing obtained from NIB Bank Limited. During the year 2009, the Company reached an interim period agreement with the Bank to restructure / reschedule its outstanding liabilities. As per the terms of the interim period agreement, the Company paid Rs. 34.200 million towards its outstanding liabilities upto June 30, 2009. During the year 2010, the Company further reached a rescheduling agreement with the Bank as under:

- The loan would be repayable by April 2014 in monthly installments.
- Mark up on loan would be levied effective from January 1, 2010 and worked out @ 3 months KIBOR minus 1.5% per annum. In case of default in payment of three consecutive installments, the entire package would be withdrawn and mark up would be charged @ 3 months KIBOR plus 4.25% - 4.50% per annum with retrospective effect.
- State Bank of Pakistan's LTF - EOP loan would be settled subsequent to the settlement of term finances I.
- Overdue mark up accruing upto December 31, 2009 would be freezed and waived off subject to the payment of outstanding principal and mark up in accordance with the rescheduling agreement.
- Repayments would be settled against the outstanding principal and mark up as per the repayment schedule mutually agreed by the Company and the bank and certain portion of the mark-up would be freezed that would be payable after all the outstanding principal is repaid.
- The loan would be secured against first charge of Rs. 419.27 million on property, plant and equipment of the Company and personal guarantees of sponsoring directors of the Company.

Note 9 - Long Term Financing ... Contd.

- 9.2 This represents unsecured loan obtained from the director of the Company to meet the working capital and other liquidity requirements. Mark up is charged at six months' KIBOR (2011: six months' KIBOR) with effect from July 01, 2010. The repayment terms of the loan have not yet been settled.

Note 10

Liabilities Against Assets Subject to Finance Lease

	2012 Rupees	2011 Rupees
Future gross minimum lease payments and the period in which they will become due are as under:		
2011-12	-	1,834,815
2012-13	1,079,834	1,079,834
	<u>1,079,834</u>	<u>2,914,649</u>
Security deposits	708,300	747,300
Gross minimum lease payments	1,788,134	3,661,949
Financial charges not currently due	(94,164)	(399,055)
Present value of minimum lease payments	1,693,970	3,262,894
Current portion shown under current liabilities	(1,693,970)	(1,529,925)
	<u>-</u>	<u>1,732,969</u>

Finance lease arrangements have been entered into with financial institution for vehicles. Monthly lease rentals include finance cost ranging from 14.50% to 14.94% (approximately) per annum which are used as discounting factors.

These leases are secured against cash deposits of Rs. 0.708 million (2011: Rs. 0.747 million), demand promissory notes and personal guarantees of sponsoring directors of the Company. The security deposits shall be adjusted against the residual value along with the last installment as the management intends to retain leased assets at the expiry of the lease term.

Reconciliation between total of minimum lease payments and their present value is as under:

Gross minimum lease payments:		
- Due not later than one year	1,788,134	1,873,815
- Due later than one year but not later than five years	-	1,788,134
	<u>1,788,134</u>	<u>3,661,949</u>
Present value of minimum lease payments:		
- Due not later than one year	1,693,970	1,529,925
- Due later than one year but not later than five years	-	1,732,969
	<u>1,693,970</u>	<u>3,262,894</u>

Note 11

Deferred Liabilities

		2012 Rupees	2011 Rupees
Deferred tax - net	11.1	208,566,819	230,477,750
Staff retirement benefits - Gratuity	11.2	38,577,451	29,948,793
		<u>247,144,270</u>	<u>260,426,543</u>

Note 11 - Deferred Liabilities ... Contd.

11.1 Deferred tax - Net

Credit / (Debit) balance arising in respect of:

	2012 Rupees	2011 Rupees
- Share of net profit of associated undertaking	15,045,686	13,856,784
- Accelerated tax depreciation	105,569,358	115,843,864
- Surplus on revaluation of property, plant and equipment	98,296,420	105,023,002
- Recognized losses	-	(2,122,950)
- Staff retirement benefits, provision and others	(10,344,645)	(2,122,950)
	<u>208,566,819</u>	<u>230,477,750</u>

11.2 Staff retirement benefits - Gratuity

11.2.1 Latest actuarial valuation of retirement benefits payable was carried out as at June 30, 2012 by an independent actuary using the following significant assumptions:

Discount rate	13%	14%
Expected rate of salary increase in future years	12%	13%
Average expected remaining working life time of employees	5 years	5 years
Actuarial valuation method	Projected Unit Credit Method	

11.2.2 Based upon the actuarial valuation, the Company's liability works out to be as under:

Balance sheet liability as previously reported	29,948,793	21,913,802
Expense for the year	<u>17,924,568</u>	<u>15,439,960</u>
	47,873,361	37,353,762
Benefits paid to employees	<u>(9,295,910)</u>	<u>(7,404,969)</u>
	<u>38,577,451</u>	<u>29,948,793</u>
Reconciliation		
Present value of defined benefit obligation	37,110,984	30,953,297
Unrecognized actuarial gain / (loss)	1,466,467	(1,004,504)
Liability recognized in financial statements	<u>38,577,451</u>	<u>29,948,793</u>
Charge for the year		
Current service cost	13,591,106	12,952,260
Interest cost	4,333,462	2,487,700
Amount charged in the profit and loss account	<u>17,924,568</u>	<u>15,439,960</u>

11.2.3 The Company does not have any plan assets covering its post-employment benefits payable. The comparative statement of present value of defined benefit obligations is as under:

	2012 Rupees	2011 Rupees	2010 Rupees	2009 Rupees	2008 Rupees
Present value of defined benefit obligation	38,577,451	29,948,793	21,983,053	17,228,366	14,212,994
Less: Plan assets	-	-	-	-	-
Deficit	<u>38,577,451</u>	<u>29,948,793</u>	<u>21,983,053</u>	<u>17,228,366</u>	<u>14,212,994</u>

Note 12

Trade and Other Payables

	Note	2012 Rupees	2011 Rupees
Creditors for:			
- Goods supplied		19,415,216	17,581,821
- Services		31,880,304	31,231,449
Letter of credit payable		32,603,861	-
Accrued liabilities	12.1	119,402,613	42,202,499
Advances from customers		4,610,755	641,386
Workers' (profit) participation fund	12.2	7,047,562	9,546,335
Workers' welfare fund		4,635,784	2,295,098
Unclaimed dividend		311,137	280,274
Unclaimed wages		3,120,965	2,637,801
		<u>223,028,197</u>	<u>106,416,663</u>

12.1 This includes Rs. 26.653 million (2011: Nil) on account of fuel price adjustment.

12.2 Workers' (profit) participation fund

Balance at the beginning of the year	9,546,335	7,962,723
Provision during the year	7,047,562	9,546,335
Interest on funds utilized in the Company's business	973,529	362,748
	<u>17,567,426</u>	<u>17,871,806</u>
Paid during the year	(10,519,864)	(8,325,471)
	<u>7,047,562</u>	<u>9,546,335</u>

Note 13

Accrued Mark-up

	2012 Rupees	2011 Rupees
Long term financing	1,357,565	13,541,262
Frozen mark up (refer to Note 9.1)	(1,357,565)	(12,428,526)
	-	1,112,736
Short term borrowings	8,426,605	11,866,801
	<u>8,426,605</u>	<u>12,979,537</u>

Note 14

Short Term Borrowings

	Note	2012 Rupees	2011 Rupees
From banking companies - Secured			
Cash / packing finances	14.1	<u>184,491,427</u>	<u>190,800,579</u>

14.1 These represent utilized portion of funded and unfunded short term finance facilities of Rs. 1,133 million (2011: Rs. 885.0 million) available from various banks under mark up arrangements. These facilities shall expire on various dates latest by December 31, 2012. Mark up on these facilities is charged upto 3 months KIBOR plus 2%, (2011: 3 months KIBOR plus 2%), payable quarterly. The aggregate short term finances are secured by ranking and hypothecation charge on property, plant and equipment, stocks and receivables of the Company; lien over export and import documents and personal guarantee of sponsoring directors of the Company.

Note 15

Current Portion of Non-Current Liabilities

	Note	2012 Rupees	2011 Rupees
Long term financing	9.1	64,522,140	55,995,214
Liabilities against assets subject to finance lease	10	1,693,970	1,529,925
		<u>66,216,110</u>	<u>57,525,139</u>

Note 16

Provision for Taxation - Net

	2012 Rupees	2011 Rupees
Opening balance	45,470,369	20,421,980
Provision:		
- Current year	53,964,992	45,470,369
- Prior years	(6,131,043)	(4,722,116)
	47,833,949	40,748,253
Payments / adjustments against advance tax and refunds	(39,339,326)	(15,699,864)
	<u>53,964,992</u>	<u>45,470,369</u>

16.1 Assessments upto assessment year 2002-2003 are finalized and for tax years 2003 onward are deemed to be accepted under the self assessment scheme except tax years 2005 and 2009 which are under detailed assessment proceedings.

Note 17

Contingencies and Commitments**Contingencies**

- The Company has provided bank guarantees in favour of Sui Northern Gas Pipeline Limited amounting to Rs. 38.089 million (2011: Rs. 36.788 million) on account of payment of dues against consumption of natural gas.
- The Company is contingently liable for Rs. 3.807 million (2011: 1.795 million) on account of electricity duty on self generation not acknowledged as debt as the case is pending before the Supreme Court of Pakistan.

Commitments

- Commitments / contracts for capital expenditure outstanding as at the balance sheet date amount to Rs. 5.913 million (2011: 5.913 million).
- Letters of credit and commitments / contracts for other than capital expenditure outstanding as at the balance sheet date amount to Rs. 295.939 (2011: 216.662).

Note 18
Property, Plant and Equipment

	Note	2012	2011
		Rupees	Rupees
Operating fixed assets	18.1	1,252,211,701	1,297,510,857
Capital work in progress	18.6	30,337,400	50,819,815
		<u>1,282,549,101</u>	<u>1,348,330,672</u>

18.1 Operating fixed assets

Year ended June 30, 2012

Description	Cost / Revalued Amounts			Depreciation			Book Value as at 30-06-2012		
	As at 01-07-2011	Additions / (Disposal)	Adjustment	Total as at 30-06-2012	Rate %	Upto 01-07-2011		For the Year	Adjustment
	Rupees	Rupees	Rupees	Rupees		Rupees	Rupees	Rupees	Rupees
Owned									
Land - freehold	185,688,750	-	-	185,688,750		-	-	-	185,688,750
Buildings on freehold land	142,050,686	-	(2,723,505)	139,327,181	5	6,891,953	6,621,761	(389,440)	13,125,274
Plant and machinery	849,656,330	30,442,155	2,723,505	880,221,990	5	40,088,064	41,556,855	389,440	81,821,025
		(2,600,000)					(212,334)		
Power house	187,385,431	-	-	187,385,431	20	46,855,117	28,106,063	-	74,961,180
Furniture and fixtures	5,867,172	-	-	5,867,172	10	4,939,355	92,782	-	5,032,137
Vehicles	19,732,296	545,975	410,500	20,688,771	20	5,717,155	2,803,028	279,490	8,799,673
Electric installations	24,166,114	7,174,582	-	31,340,696	10	18,212,526	908,981	-	19,121,507
Computers and equipment	3,577,524	(355,780)	-	3,221,744	20	1,965,631	258,263	-	1,899,475
							(324,419)		
Arms and ammunition	410,775	-	-	410,775	7	148,748	18,342	-	167,090
	1,418,535,078	38,162,712	410,500	1,454,152,510		124,818,549	80,366,075	279,490	204,927,361
		(2,955,780)					(536,753)		
Leased									
Vehicles	5,302,500	-	(410,500)	4,892,000	20	1,508,172	676,766	(279,490)	1,905,448
	5,302,500	-	(410,500)	4,892,000		1,508,172	676,766	(279,490)	1,905,448
June 30, 2012	1,423,837,578	38,162,712	-	1,459,044,510		126,326,721	81,042,841	-	206,832,809
		(2,955,780)					(536,753)		

Note 18 - Property, Plant and Equipment.....contd

18.2 Operating fixed assets

Year ended June 30, 2011

Description	As at 01-07-2010		Cost / Revalued Amounts		Rate %	Upto 01-07-2010		Depreciation		Book Value as at 30-06-2011
	Rupees	Rupees	Rupees	Rupees		Rupees	Rupees	Rupees	Rupees	
Owned										
Land - freehold	185,688,750	-	-	-		-	-	-	-	185,688,750
Buildings on freehold land	137,889,058	4,211,628	-	142,050,686	5	-	6,891,953	-	-	135,158,733
Plant and machinery	801,761,288	47,895,042	-	849,656,330	5	-	40,088,064	-	-	809,568,266
Power house	159,183,835	28,201,596	-	187,385,431	5	40,572,005	6,283,112	-	-	140,530,314
Furniture and fixtures	5,867,172	-	-	5,867,172	10	4,836,264	303,091	-	-	4,939,355
Vehicles	14,493,046	7,627,446	1,557,000	19,732,296	20	5,200,293	2,519,253	(2,765,113)	762,722	14,015,141
Electric installations	24,166,134	-	-	24,166,114	10	17,551,016	661,510	-	-	5,953,588
Computers and equipment	2,575,655	1,080,646	-	3,577,524	20	1,789,133	212,141	(35,543)	-	1,611,893
Arms and ammunition	410,775	-	-	410,775	7	129,026	19,722	-	-	262,027
	1,331,985,693	89,016,358	1,557,000	1,418,535,078		70,077,737	56,778,846	(2,038,034)	-	1,293,716,329
		(4,023,973)								
Leased										
Vehicles	6,859,500	-	(1,557,000)	5,302,500	20	1,291,486	979,408	(762,722)	-	3,794,328
	6,859,500	-	(1,557,000)	5,302,500		1,291,486	979,408	(762,722)	-	3,794,328
June 30, 2011	1,338,845,193	89,016,358	-	1,423,837,578		71,369,223	57,758,254	(2,800,756)	-	1,297,510,857
		(4,023,973)								

18.3 Latest revaluation of land, building and plant and machinery was carried out by an independent valuer as on June 30, 2010 as fully explained in Note 8. Had there been no revaluation, the cost, accumulated depreciation and book values of revalued assets would have been as follows :

As on June 30, 2012		
Cost	Accumulated Depreciation	Book Value
Rupees	Rupees	Rupees
4,801,830	-	4,801,830
137,531,731	72,477,300	65,054,431
1,001,565,036	558,166,544	443,398,492
1,143,898,597	630,643,844	513,254,753

Note 18 - Property, Plant and Equipment Contd.

	Note	2012 Rupees	2011 Rupees
18.4 Depreciation charge for the year has been allocated as under:			
Cost of sales	28	77,193,660	53,924,639
Administrative expenses	30	3,849,181	3,833,615
		<u>81,042,841</u>	<u>57,758,254</u>

18.5 Disposal of property, plant and equipment

Particulars	Cost / Revalued amount	Accumulated depreciation	Book value	Sale proceeds	Gain / (Loss)	Mode of disposal	Particulars of buyer
	Rupees	Rupees	Rupees	Rupees	Rupees		
Savio Winders	1,000,000	81,667	918,333	603,448	(314,885)	Negotiation	Mr. Muhammad Sardar
Diesel Generator	900,000	73,500	826,500	351,724	(474,776)	Negotiation	Mr. Muhammad Sardar
Ring Frames (Toyoda)	700,000	57,167	642,833	122,414	(520,419)	Negotiation	Mr. Muhammad Sardar
Computer and Equipment	355,780	324,419	31,361	17,500	(13,861)	Negotiation	Scrap Sale
Total 2012	<u>2,955,780</u>	<u>536,753</u>	<u>2,419,027</u>	<u>1,095,086</u>	<u>(1,323,941)</u>		
Total 2011	<u>4,023,973</u>	<u>2,800,756</u>	<u>1,223,217</u>	<u>2,007,000</u>	<u>783,783</u>		

Note 18 - Property, Plant and Equipment Contd.

	2012 Rupees	2011 Rupees
18.6 Capital Work in Progress		
Plant and machinery		
Opening balance	20,482,415	-
Additions during the year	13,936,628	68,377,457
	34,419,043	68,377,457
Transferred to :		
- Plant and machinery	(30,442,155)	(47,895,042)
- Electric installations	(2,706,450)	-
- Stores and spares	(1,270,438)	-
	-	20,482,415
Advance for purchase of office	30,337,400	30,337,400
	<u>30,337,400</u>	<u>50,819,815</u>

Note 19

Long Term Investment

	2012 Rupees	2011 Rupees
Associated undertaking - Unquoted		
Sargodha Jute Mills Limited:		
- 8,120,000 (2011: 8,120,000) fully paid ordinary shares of Rs. 10 each	204,167,850	180,110,073
- Equity held 36.16% (2011: 36.16%)		
- Cost of investment Rs. 65,600,000 (2011: Rs. 65,600,000)		
- Share in net profit of associated undertaking	13,957,753	21,767,126
- Share in realized surplus on revaluation of property, plant and equipment of associated undertaking	2,621,370	2,289,599
- Share in (deficit) / surplus on revaluation of investments available for sale of associated undertaking	(630,108)	1,052
- Less: Dividend received	(4,060,000)	-
	<u>216,056,865</u>	<u>204,167,850</u>

19.1 The Company holds 36.16% shareholding in Sargodha Jute Mills Limited and accounts for this investment under equity method as prescribed in IAS 28 - Investments in Associates.

Summarized audited financial statements of Sargodha Jute Mills Limited are as follows:

	2012 Rupees in thousands	2011 Rupees in thousands
Equity	598,182	564,630
Total assets	1,592,571	1,769,880
Revenue	2,473,423	2,427,903
Profit after tax	38,600	60,197

Note 20

Stores and Spares

	2012 Rupees	2011 Rupees
Stores and spares	50,449,752	47,828,892

20.1 This includes stores in transit amounting to Rs. 1.242 million (2011: Rs. 0.877 million) as at the balance sheet date.

Note 21

Stock in Trade

	2012	2011
	Rupees	Rupees
Raw materials	283,677,509	143,886,442
Work in process	34,358,032	32,095,429
Finished goods	43,670,421	49,515,766
	<u>361,705,962</u>	<u>225,497,637</u>

21.1 Stocks amounting to Rs. 142.402 (2011: Rs. 140.106 million) approximately are pledged against short term borrowings (refer to Note 14).

21.2 Inventories recognized as an expense during the year include Nil (2011: Rs. 73.870 million) in respect of write-down of inventories to net realizable value.

Note 22

Trade Debts

	2012	2011
	Rupees	Rupees
	Note	
Local debts (Unsecured - considered good)	22,335,415	23,921,147
Foreign debts (Secured - considered good)	61,166,443	51,710,071
Foreign debts (Secured - considered doubtful)	6,278,843	-
	89,780,701	75,631,218
Less : Provision for doubtful debts	22.1 (6,278,843)	-
	<u>83,501,858</u>	<u>75,631,218</u>
22.1 Provision for doubtful debts		
Opening balance	-	2,938,586
Provision made during the year	6,278,843	-
	6,278,843	2,938,586
Bad debts written off	-	(2,938,586)
	<u>6,278,843</u>	<u>-</u>

Note 23

Advances, Trade Deposits, Prepayments and Other Receivables

	2012	2011
	Rupees	Rupees
	Note	
Advances - Considered good:		
- Employees	23.1 775,273	623,022
- Suppliers and others	5,197,315	11,639,762
Advance Income tax	59,278,551	21,362,264
Margins:		
- Letters of credit	78,511	-
- Export margin deposit	180,000	180,000
- Letters of guarantee	1,244,611	394,611
- Leased assets	708,300	39,000
Prepayments	857,194	1,534,726
Other receivables	375,627	149,656
	<u>68,695,382</u>	<u>35,923,041</u>

23.1 Amount due from chief executive, directors and executives as at the balance sheet date was Nil (2011: Nil).

Note 24

Short Term Investments

	Note	2012 Rupees	2011 Rupees
At fair value through profit or loss			
Related party - Quoted			
24.1			
Sajjad Textile Mills Limited			
- 26,000 (2011: 26,000) fully paid ordinary shares of Rs. 10 each		69,680	23,400
- Market value per share Rs. 2.68 (2011: Rs. 0.9)			
- Cost of investment Rs. 0.147 million (2011: Rs. 0.147 million)			
Sargodha Spinning Mills Limited			
- 42,000 (2011: 42,000) fully paid ordinary shares of Rs. 10 each		283,500	120,120
- Market value per share Rs. 6.75 (2011: Rs. 2.86)			
- Cost of investment Rs. 0.09 million (2011: Rs. 0.09 million)			
Nishat (Chunian) Mills Limited			
- 69 (2011: 69) fully paid ordinary shares of Rs.10 each including 30 (2011: 30) bonus shares		1,200	1,538
- Market value per share Rs. 17.39 (2011: Rs. 22.29)			
- Cost of investment Rs. 908 (2011 : Rs. 908)			
Crescent Fibres Limited			
- 45,675 (2011: 45,675) fully paid ordinary shares of Rs. 10 each including 2,175 (2011 : 2,175) ordinary shares received as bonus shares.		388,238	591,491
- Market value per share Rs. 8.5 (2011: Rs. 12.95)			
- Cost of investment Rs. 0.122 million (2011: Rs. 0.122 million)			
Crescent Textile Mills Limited			
- 302 (2011: 302) fully paid ordinary shares of Rs. 10 each received as bonus shares		2,688	4,702
- Market value per share is Rs. 8.90 (2011: Rs. 15.57)			
First Equity Modaraba			
- 1,005 (2011: 1,005) fully paid ordinary shares of Rs. 10 each		1,497	1,256
- Market value per share is Rs. 1.49 (2011: Rs. 1.25)			
- Cost of investment Rs. 6,049 (2011: Rs. 6,049)			
NIB Bank Limited			
- 317 (2011: 317) fully paid ordinary shares of Rs. 10 each including 36 (2011: 36) ordinary shares of Rs. 10 each received as bonus shares and 3 bonus shares of PICIC Insurance Limited		646	514
- Market value Rs. 1.99 per share (2011: Rs. 1.51)			
- Market value per share is Rs. 5.22 (2011: Rs. 13.26)			
- Cost of investment Rs. 750 (2011: Rs. 750)			
Adamjee Insurance Company Limited			
- 62 (2011: 62) fully paid ordinary shares of Rs. 10 each received as bonus shares		3,612	4,029
- Market value per share is Rs. 58.25 (2011: Rs. 64.99)			
		<u>751,061</u>	<u>747,050</u>

24.1 Investments are measured at fair value in accordance with IAS - 39 (Financial Instruments: Recognition and Measurement). The quoted market value in an active market is considered as fair value of investment. The resulting difference between cost and fair value of investment is taken to the profit and loss account.

Note 25

Tax Refunds Due from Government

	2012	2011
	Rupees	Rupees
Sales tax	17,718,776	5,434,699
Income tax	-	17,977,062
	<u>17,718,776</u>	<u>23,411,761</u>

Note 26

Cash and Bank Balances

		2012	2011
	Note	Rupees	Rupees
Cash in hand		442,045	528,545
With banks in:			
- Current accounts		42,122,797	8,099,878
- Deposit account	26.1	150,000	150,000
- Foreign currency account		5,671	5,169
		<u>42,278,468</u>	<u>8,255,047</u>
		<u>42,720,513</u>	<u>8,783,592</u>

26.1 It carries interest at the rates ranging from 5% to 7% per annum approximately.

Note 27

Sales - Net

	2012	2011
	Rupees	Rupees
Yarn:		
- Local	2,716,958,976	2,910,152,108
- Export	1,464,723,896	1,579,637,078
Wastes	40,765,910	57,247,731
	<u>4,222,448,782</u>	<u>4,547,036,917</u>
Less: Commission to selling agents	(47,341,730)	(33,792,639)
Discount allowed	(2,890,392)	-
	<u>4,172,216,660</u>	<u>4,513,244,278</u>

Note 28

Cost of Sales

		2012	2011
	Note	Rupees	Rupees
Raw materials consumed	28.1	2,876,863,687	3,376,388,035
Stores and spares consumed		66,550,189	67,494,716
Packing materials consumed		74,438,348	60,499,222
Salaries, wages and other benefits	28.2	255,892,888	219,215,137
Fuel and power		390,015,230	301,830,626
Insurance		11,883,634	10,519,938
Repairs and maintenance		10,069,760	5,383,060
Other manufacturing expenses		8,551,912	7,227,529
Depreciation	18.4	77,193,660	53,924,639
		<u>3,771,459,308</u>	<u>4,102,482,902</u>
Opening work in process		32,095,429	23,792,563
Closing work in process		(34,358,032)	(32,095,429)
		<u>(2,262,603)</u>	<u>(8,302,866)</u>
		<u>3,769,196,705</u>	<u>4,094,180,036</u>
Cost of goods manufactured :			
- Opening finished goods		49,515,766	59,042,343
- Purchase of yarn		51,889,000	20,368,000
- Closing finished goods		(43,670,421)	(49,515,766)
		<u>57,734,345</u>	<u>29,894,577</u>
		<u>3,826,931,050</u>	<u>4,124,074,613</u>

Note 28 - Cost of Sales Contd.

28.1 Inventories recognized as an expense during the year include Nil (2011: Rs. 73.870 million) in respect of write-down of inventories to net realizable value.

28.2 Salaries and benefits include Rs. 13.312 million (2011: Rs. 10.485 million) on account of staff retirement benefits.

Note 29

Selling and Distribution Costs

	2012	2011
	Rupees	Rupees
Freight and octroi	13,733,671	10,720,711
Export sale expenses	38,796,712	36,115,109
	<u>52,530,383</u>	<u>46,835,820</u>

Note 30

Administrative Expenses

		2012	2011
		Rupees	Rupees
Salaries, wages and other benefits	30.1	45,959,010	44,852,158
Printing and stationery		1,221,916	1,111,967
Telephones, telegrams and postage		1,480,903	1,527,208
Traveling and conveyance		678,386	834,590
Repairs and maintenance		962,493	1,703,095
Vehicles' running and maintenance		6,060,226	5,357,734
Rent, rates and taxes		1,825,325	1,528,460
Insurance		1,869,925	1,573,114
Legal and professional charges		1,477,000	2,479,958
Fees and subscription		7,756,828	1,532,206
Utilities		6,363,761	5,432,014
Entertainment		3,183,156	1,991,879
Advertisement		81,100	93,370
Donations	30.2	510,000	315,000
Miscellaneous		218,949	206,365
Depreciation	18.4	3,849,181	3,833,615
		<u>83,498,159</u>	<u>74,372,733</u>

30.1 Salaries and benefits include Rs. 4.613 million (2011: Rs. 4.955 million) on account of staff retirement benefits.

30.2 Directors and their spouses do not have any interest in the donees.

Note 31

Finance Costs

	2012	2011
	Rupees	Rupees
Interest / mark-up on:		
- Long term financing	14,565,229	23,042,317
- Liabilities against assets subject to finance lease	319,253	512,673
- Short term borrowings	42,465,524	47,187,435
	<u>57,350,006</u>	<u>70,742,425</u>
Bank charges and commission	7,682,018	7,744,412
Bank guarantee commission	879,031	419,210
Interest on workers' (profit) participation fund	973,529	362,748
	<u>66,884,584</u>	<u>79,268,795</u>

Note 32

Other Operating Charges

	2012	2011
	Rupees	Rupees
Auditors' remuneration		
- Statutory audit	500,000	500,000
- Limited scope review	100,000	100,000
- Other attestation services	50,000	50,000
	<u>650,000</u>	<u>650,000</u>
Loss on disposal of property, plant and equipment	1,323,941	-
Provision for workers' (profit) participation fund	7,047,562	9,546,335
Provision for workers' welfare fund	2,340,686	2,295,098
Provision for doubtful debts	6,941,158	213,244
Exchange loss	-	345,054
	<u>18,303,347</u>	<u>13,049,731</u>

Note 33

Other Operating Income

	2012	2011
	Rupees	Rupees
Income from financial assets:		
- Gain on value of investments at fair value through profit or loss	4,010	293,971
- Profit on bank account	10,875	91,280
- Dividend income	-	66,675
- Exchange gain	1,824,620	-
	<u>1,839,505</u>	<u>451,926</u>
Income from non - financial assets:		
- Gain on disposal of property, plant and equipment - Net	-	783,783
Others	3,356,876	1,828,231
	<u>5,196,381</u>	<u>3,063,940</u>

Note 34

Taxation

	2012	2011
	Rupees	Rupees
Current:		
- Current year	53,964,992	45,470,369
- Prior years	(6,131,043)	(4,903,018)
	<u>47,833,949</u>	<u>40,567,351</u>
Deferred	(22,004,359)	27,791,756
	<u>25,829,590</u>	<u>68,359,107</u>

34.1 Reconciliation of tax charge for the year

	2012	2011
	Rupees	Rupees
Profit before taxation	<u>143,223,271</u>	<u>200,473,652</u>
Tax @ 35% on profit before taxation	50,128,145	70,165,778
Prior year tax charge	(6,131,043)	(4,903,018)
Tax effect of exports under final tax regime	(1,047,067)	(5,932,507)
Tax effect on income taxed at reduced rates	(4,885,214)	(7,618,494)
Other adjustments / minimum taxation	9,769,127	(11,144,408)
Deferred taxation	(22,004,359)	27,791,756
	<u>25,829,590</u>	<u>68,359,107</u>

Note 35

Earnings per Share

		2012	2011
	Note	Rupees	Rupees
Basic	35.1	6.53	7.59
Diluted	35.2	6.53	7.59
35.1 Basic			
Profit after taxation for the year attributable to ordinary shareholders	Rupees	117,393,681	132,114,545
Weighted average number of ordinary shares outstanding during the year	Number	17,971,372	17,414,482
Earnings per share - Basic	Rupees	6.53	7.59
35.2 Diluted			
Profit after taxation for the year attributable to ordinary shareholders	Rupees	117,393,681	132,114,545
Weighted average number of ordinary shares outstanding during the year	Number	17,971,372	17,414,482
Earnings per share - Diluted	Rupees	6.53	7.59

Note 36

Transactions with Related Parties

Related parties and associated undertakings comprise related group companies, associated companies, directors and key management personnel. Transactions with related parties and associated undertakings, other than remuneration and benefits to key management personnel under the term of their employment are as follows:

	2012	2011
	Rupees	Rupees
- Purchase of materials, goods and services	180,200	162,500
- Rent received for leasehold land	108,000	-
- Sale of materials, goods and services	279,654	288,105
- Loan from directors (repaid) / received	-	(28,100,000)
- Mark up on loan from directors	639,705	1,112,736
- Loans from related parties repaid	-	(9,376,881)

There were no transactions with key management personnel other than undertaken as per terms of their employment that have been disclosed in Note 37. Sale and purchase transactions have been carried out on commercial terms and conditions under comparable uncontrolled price method.

Note 37

Chief Executive's, Directors' and Executive's Remuneration

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

	2012			2011		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Managerial remuneration	6,272,727	7,358,182	6,930,868	3,818,182	6,153,272	6,705,069
Medical	627,273	735,818	693,088	381,818	615,328	670,507
Bonus	350,000	523,378	606,688	350,000	511,550	545,573
Staff retirement benefits	575,000	617,800	710,350	350,000	511,550	676,383
	<u>7,825,000</u>	<u>9,235,178</u>	<u>8,940,994</u>	<u>4,900,000</u>	<u>7,791,700</u>	<u>8,597,532</u>
Number of persons	1	3	7	1	3	7

37.1 The chief executive, three directors and four executives are provided with free use of Company maintained vehicle. Executive is defined as an employee with basic salary exceeding Rs. 500,000.

37.2 No meeting fee has been paid to any director of the Company.

Note 38

Segment Information

For management purposes, the activities of the Company are recognized into one operating segment, i.e. manufacturing and sales of yarn. The Company operates in the said reportable operating segment based on the nature of the product, risk and return, organizational and management structure and internal financial reporting systems. Accordingly, the figures reported in these financial statements related to the Company's reportable segment. Entity-wide disclosures regarding reportable segment are as follows:

Information about products:

- Yarn

Major customers:

2 customers (2011: 2 customers)

Revenue from external customers attributed to foreign countries

All non-current assets of the Company are located in Pakistan as at the reporting date.

Note 39

Plant Capacity and Production

	2012	2011
	Percentage	Percentage
Plant capacity converted into 20/S count based on three shifts per day for 365 days (2011: 365 days)	35,301,278	35,301,278
Actual production converted into 20/S count	31,976,020	31,284,077

Reasons for shortfall

The main reason of shortfall in production for the year was temporary closure of production facilities of Unit No. 3 and 4 for one and half months. Other factors attributable to under utilization are yarn spun, spindles' speed, twist, maintenance of machinery, power shutdown etc.

Note 40

Financial Risk Management**40.1 Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management policies focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board). The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk and liquidity risk.

(a) Market risk**(i) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD). Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable from / payable to foreign entities. The Company hedges its export bills proceeds through discounting, when considered appropriate. The Company's exposure to currency risk was as follows:

	2012	2011
	Rupees in thousands	
Trade debts	67,445	51,710
Gross balance sheet exposure	67,445	51,710
Outstanding commitments against letters of credit	(41,461)	-
Outstanding commitments against foreign exchange bills payable	(254,478)	(216,662)
Net exposure	<u>(228,494)</u>	<u>(164,952)</u>

The following significant exchange rates were applied during the year:

Rupees per US Dollar

Average rate	89.93	86.24
Reporting date rate	94.25	86.05

Sensitivity analysis

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD with all other variables held constant, the impact on profit before taxation for the year would have been Rs. 3.372 million (2011: Rs. 2.586 million) respectively higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments.

Note 40 - Financial Risk Management Contd.

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Company is exposed to equity and commodity price risk in respect of investments carried at market value. Following analysis shows the impact of change in equity and commodity price.

	Year	Change in Commodity Prices %	Effect on Profit before Tax Rupees (000)
Equity instruments	2012	+10%	75.106
	2012	-10%	(75.106)
	2011	+10%	74.705
	2011	-10%	(74.705)

(iii) Interest rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant long-term interest-bearing assets. The Company's interest rate risk arises from long term financing, lease liabilities and short term borrowings. As the borrowings are obtained at variable rates, these expose the Company to cash flow interest rate risk.

At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was as follows:

	2012	2011
	Rupees in thousands	
Floating rate instruments		
Financial liabilities		
Long term financing	189,787	244,424
Liabilities against assets subject to finance lease	1,694	3,263
Short term borrowings	184,491	190,801
Financial assets		
Bank balances - saving accounts	150	150

Note 40 - Financial Risk Management Contd.

Cash flow sensitivity analysis for variable rate instruments

The following analysis demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax. This analysis is prepared assuming the amounts of floating rate instruments outstanding at balance sheet dates were outstanding for the whole year.

		Change in interest rates	Effect on Profit before Tax
		%	Rupees Thousands
Long term financing	2012	+1.00	1,898
		-1.00	(1,898)
	2011	+1.00	2,444
		-1.00	(2,444)
Liabilities against assets subject to finance lease	2012	+1.00	17
		-1.00	(17)
	2011	+1.00	33
		-1.00	(33)
Short term borrowings	2012	+1.00	1,845
		-1.00	(1,845)
	2011	+1.00	1,908
		-1.00	(1,908)
Bank balances - saving accounts	2012	+1.00	1.50
		-1.00	(1.50)
	2011	+1.00	1.50
		-1.00	(1.50)

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Carrying amounts of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2012	2011
	Rupees in thousands	
Long term deposits	2,860	1,627
Trade debts	83,502	75,631
Advances, trade deposits and other receivables	2,509	763
Short term investments	751	747
Bank balances	42,278	8,255

The credit quality of cash and bank balances that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

Note 40 - Financial Risk Management Contd.

	Rating		Rating Agency	2012	2011
	Short term	Long term			
				Rupees in thousands	
Allied Bank Limited	A1+	AA	PACRA	3,422,509	273,046
Habib Bank Limited	A1+	AA+	JCR-VIS	1,465,148	39,498
National Bank of Pakistan	A1+	AAA	JCR-VIS	224,019	1,082,044
MCB Bank Limited	A1+	AA+	PACRA	7,580,723	2,092,128
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	9,959,479	4,389,342
Bank Alfalah Limited	A1+	AA	PACRA	10,114,616	205,359
NIB Bank Limited	A1+	AA-	PACRA	129,069	129,072
United Bank Limited	A1+	AA+	JCR-VIS	44,557	44,557
JS Bank Limited	A1	A	PACRA	9,230,348	-
				42,170,468	8,255,046

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages its liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. As at the balance sheet date, the Company had Rs. 578.1215 worth unavailed short term borrowing limits available (both funded and unfunded) from financial institutions and Rs. 42.170 million cash and bank balances. Following are the contractual maturities of financial liabilities, including interest payments.

Contractual maturities of financial liabilities as at June 30, 2012:

	Carrying Amount	Contractual cash flows	Within 1 year	2-5 Years	More than 5 years
	----- Rupees in thousands -----				
Liabilities against leased assets	1,694	1,788	1,788	-	-
Long-term finances	189,787	212,561	72,265	140,296	-
Trade and other payables	206,734	206,734	206,734	-	-
Accrued interest	8,427	8,427	8,427	-	-
Short term borrowings	184,491	184,491	184,491	-	-
	591,133	614,001	473,705	140,296	-

Contractual maturities of financial liabilities as at June 30, 2011:

	Carrying Amount	Contractual cash flows	Within 1 year	2-5 Years	More than 5 years
	----- Rupees in thousands -----				
Liabilities against leased assets	3,263	3,662	1,835	1,827	-
Long-term finances	244,424	287,467	65,754	215,913	5,800
Trade and other payables	93,934	93,898	93,898	-	-
Accrued interest	12,980	12,980	12,980	-	-
Short term borrowings	190,801	221,329	221,329	-	-
	545,402	619,336	395,796	217,740	5,800

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

Note 40 - Financial Risk Management Contd.

40.3 Financial instruments by categories

Financial instruments as at June 30, 2012

Cash and Cash Equivalents	Loans and advances	Available for sale	Assets at fair value through profit or loss	Total
----- Rupees in thousands -----				

Assets as per balance sheet

Long term deposits	-	2,860	-	-	2,860
Short term investments	-	-	-	751	751
Trade debts	-	83,502	-	-	83,502
Deposits and other receivable	-	2,509	-	-	2,509
Cash and bank balances	42,721	-	-	-	42,721
	<u>42,721</u>	<u>86,010</u>	<u>-</u>	<u>751</u>	<u>129,482</u>

Financial liabilities at amortized cost

Rupees in thousands

Long term financing	189,787
Liabilities against assets subject to finance lease	1,694
Trade and other payable	206,734
Accrued markup	8,427
Short term borrowings	184,491
	<u>591,133</u>

Financial instruments as at June 30, 2011

Cash and Cash Equivalents	Loans and advances	Available for sale	Assets at fair value through profit or loss	Total
----- Rupees in thousands -----				

Assets as per balance sheet

Long term deposits	-	1,627	-	-	1,627
Short term investments	-	-	-	747	747
Trade debts	-	75,631	-	-	75,631
Deposits and other receivable	-	763	-	-	763
Cash and bank balances	8,784	-	-	-	8,784
	<u>8,784</u>	<u>76,394</u>	<u>-</u>	<u>747</u>	<u>85,925</u>

Note 40 - Financial Risk Management Contd.

	Financial liabilities at amortized cost
	Rupees in thousands
Long term financing	244,424
Liabilities against assets subject to finance lease	3,263
Trade and other payable	93,934
Accrued markup	12,980
Short term borrowings	190,801
	545,402

40.2 Fair values of financial assets and liabilities

Carrying values of all financial assets and liabilities reflected in financial statements approximate to their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

Note 41

Capital Risk Management

While managing capital, the objectives of the Company are to ensure that it continues to meet the going concern assumption, enhance shareholders' wealth and meets stakeholders' expectations. The Company ensures its sustainable growth viz. maintaining optimal capital structure, keeping its finance cost low, exercising the option of issuing right shares or repurchasing shares, if possible, selling surplus property, plant and equipment without affecting the optimal production and operating level and regulating its dividend payout thus maintaining smooth capital management.

In line with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non current) and finance leases less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus net debt.

As at the balance sheet date, the gearing ratio of the Company was as under:

	2012	2011
	Rupees in thousands	
Total borrowings	375,972	438,488
Cash and bank balances	(42,721)	(8,784)
Net Debt	333,251	429,704
Equity	719,733	588,111
Total Capital	1,052,984	1,017,815
Gearing Ratio	31.65%	42.22%

Note 42

Subsequent Events

The directors in their meeting held on September 29, 2012 have recommended a final cash dividend of Rs. 1.00 (2011: Rs. 0.5) per share in respect of the year ended June 30, 2012.

Note 43

Authorization of Financial Statements

These financial statements were authorized for issue by the Board of Directors of the Company on September 29, 2012.

Note 44

General

Figures have been rounded off to the nearest rupee.

Comparative figures have been re-arranged / reclassified, wherever necessary, to facilitate comparison. No material rearrangements have been made in these financial statements.

CHIEF EXECUTIVE

DIRECTOR

PATTERN OF HOLDING OF SHARES
HELD BY THE SHAREHOLDERS AS AT 30TH JUNE, 2012

No. of Shareholders	Share Holding		Total Shares Held
	From	To	
478	1	100	13,169
248	101	500	58,794
47	501	1,000	32,948
48	1,001	5,000	92,458
3	5,001	10,000	23,570
4	10,001	15,000	50,974
3	15,001	20,000	53,077
1	20,001	25,000	22,174
2	35,001	40,000	75,715
1	105,001	110,000	105,907
1	265,001	270,000	265,553
1	270,001	275,000	272,474
1	380,001	385,000	382,517
1	430,001	435,000	432,131
2	450,001	455,000	903,015
1	545,001	550,000	548,531
1	615,001	620,000	617,991
1	815,001	820,000	819,660
2	830,001	835,000	1,669,999
1	835,001	840,000	837,470
1	1,070,001	1,075,000	1,074,917
1	2,440,001	2,445,000	2,442,599
2	3,585,001	3,590,000	7,175,729
851			17,971,372

CATEGORIES OF SHAREHOLDERS
AS AT 30-06-2012

Sr. No.	Categories of Shareholders	Physical	CDC	Total	Percentage%
1	Directors, Chief Executive and Their Spouses and Minor Children				
	Mr. Imran Aslam - Chief Executive/Director	-	3,587,865	3,587,865	19.964
	Mian Parvez Aslam - Director	-	1,074,917	1,074,917	5.981
	Mrs. Nazish Imran - Director	650	-	650	0.004
	Mr. Naveed Sheikh - Director	650	-	650	0.004
	Mr. Humayun Bakht - Director	650	-	650	0.004
	Mr. Rashid Ahmad - Director	650	-	650	0.004
	Mr. Hassan-ud-Din Ansari - Director	650	-	650	0.004
	Mrs. Fakhra Parvez - Spouse	-	837,470	837,470	4.660
		3,250	5,500,252	5,503,502	
2	Executives	-	-	-	-
3	Associated Companies, Undertakings & Related Parties				
	Sargodha Jute Mills Limited	-	14,990	14,990	0.083
	Related Parties				
	Mr. Irfan Aslam	-	3,587,864	3,587,864	19.964
	Mrs. Saima Hassan	-	451,508	451,508	2.512
	Mrs. Sadaf Yusuf	-	451,507	451,507	2.512
	Total:	-	4,505,869	4,505,869	

CATEGORIES OF SHAREHOLDERS
AS AT 30-06-2012

Sr. No.	Categories of Shareholders	Physical	CDC	Total	Percentage%
4	National Investment Trust Limited	410	-	410	0.002
5	Mutual Funds				
	Golden Arrow Selected Fund Limited	122	-	122	0.001
6	Banks, NBFC's, DFI's, Takaful, Pension Funds	30	-	30	0.000
7	Modarabas	-	-	-	-
8	Insurance Companies	600	2,763	3,363	0.019
9	Other Companies, Corporate Bodies, Trust etc.	11,070	-	11,070	0.062
10	General Public - Local	3,793,406	4,153,600	7,947,006	44.220
	Grand Total:	3,808,888	14,162,484	17,971,372	100.000

Shareholders more than 5% shareholding

Mian Parvez Aslam	-	1,074,917	1,074,917	5.981
Mian Shahzad Aslam	760,382	1,682,217	2,442,599	13.592
Mr. Imran Aslam	-	3,587,865	3,587,865	19.964
Mr. Irfan Aslam	-	3,587,864	3,587,864	19.964

PROXY FORM

I/We _____, being member(s) of **Shahzad Textile Mills Limited** and holder of _____ Shares as per Folio No. _____ CDC Participant ID # _____ and Sub Account # _____ do hereby appoint _____ of _____ or failing him/her _____ of _____ as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of **Shahzad Textile Mills Limited** scheduled to be held on **Tuesday, October 30, 2012 at 12.15 p.m.** at 19-A, Off. Zafar Ali Raod, Gulberg-V, Lahore and at any adjournment thereof.

As witness my/our hand this _____ day of _____ 2012

Please affix here Revenue Stamp of Rs.5/-

Members' Signature

Notes:

1. A member entitled to attend and vote at a General Meeting is entitled to appoint a proxy.
2. Proxies, in order to be effective, must be received at the Company's Registered Office, 19-A, Off. Zafar Ali Road, Gulberg-V, Lahore, not later than 48 hours before the time for holding the meeting and must be duly stamped, signed and witnessed.
3. CDC account holders will further have to follow the under-mentioned guidelines as laid down in circular #1, dated 26th January, 2000 of The Securities and Exchange Commission of Pakistan.
 - (iii) In case of individuals, the account holder and/or sub-account holder whose securities and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.
 - (iv) The proxy form shall be witnessed by two persons, whose names, addresses and CNIC numbers shall be mentioned on the form.
 - (v) Attested copies of the CNIC or the passport of beneficial owners and the proxy shall be furnished with the proxy form.
 - (vi) The proxy shall produce his original CNIC or original passport at the time of the Meeting.
 - (vii) In case of corporate entity, the Board's resolution/power of attorney with specimen signatures of the proxy holder shall be submitted (unless it has been provided earlier) alongwith proxy form to the Company.