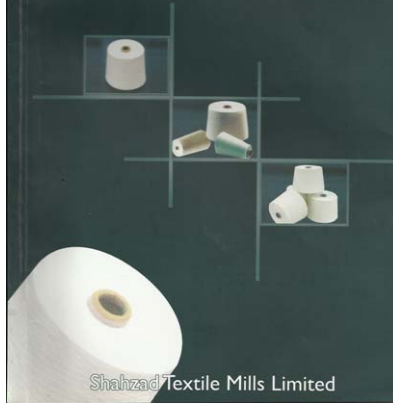


Annual Report 2011



Shahzad Textile Mills Limited



Certificate SG05/00526, continued

# 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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Certificate SG05/00526



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  
Rossmore Business Park, Ellesmere Port, Cheshire, CH65 3EN UK  
t +44 (0)151 350-6666 f +44 (0)151 350-6600 www.sgs.com

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Page 1 of 2



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FOR THE YEAR ENDED JUNE 30, 2011

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## COMPANY INFORMATION

Board of Directors	Mian Parvez Aslam	Chairman
	Mr. Imran Aslam	Chief Executive
	Mr. Humayun Bakht	
	Chaudhary Hakim Ali	
	Mr. Rashid Ahmed	
	Lt.Col. (R) Abdul Qayyum	
	Mr. Hassan-ud-Din Ansari	
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. 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	34th KM Lahore Sheikhpura Road, Sheikhpura
	Unit # 2	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 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

	2011	2010	2009	2008	2007	2006
	Rupees in Thousand					
Sales	4,513,244	3,116,385	2,223,397	1,190,419	1,100,181	909,784
Gross Profit	389,170	346,644	125,216	52,107	62,474	104,684
Profit/(Loss) before taxation	200,474	164,838	(55,491)	4,178	(27,954)	29,178
Taxation	(68,359)	(22,447)	(2,539)	(4,847)	1,535	(5,622)
Profit/(Loss) after taxation	132,115	142,391	(58,030)	(669)	(26,149)	23,556
Total Assets	1,971,948	1,857,692	1,675,246	1,146,849	977,927	1,052,512
Current liabilities	413,192	367,594	326,444	383,904	235,258	245,563
	<b>1,558,756</b>	<b>1,490,098</b>	<b>1,348,802</b>	<b>762,945</b>	<b>742,669</b>	<b>806,949</b>
Represented By :						
Equity & Surplus	1,108,167	981,374	798,867	504,919	410,731	436,448
Long Term Loans & leases	190,162	282,750	334,641	152,225	230,742	275,342
Deferred Liabilities	260,427	225,974	215,294	105,801	101,196	95,159
	<b>1,558,756</b>	<b>1,490,098</b>	<b>1,348,802</b>	<b>762,945</b>	<b>742,669</b>	<b>806,949</b>

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of stock exchanges in Pakistan 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 Code in the following manner:

1. The company encourages the representation of non-executive directors on its Board of Directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year.
5. The company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the company.
6. The Board has developed a vision/mission statement. Overall corporate strategy and significant policies of the company are under process of approval.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and fixation of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
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 Chief Executive recommends that members of the Board should approach him, should they feel any necessity to conduct other orientation courses in this regard.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by 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 Code.
15. The Board has formed an audit committee which comprises three members who are directors of the company.
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 as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set up an effective internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have substantially complied with.

Lahore  
Dated: October 03, 2011

**(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, 2011.

**HORWATH HUSSAIN CHAUDHURY & CO.**  
Chartered Accountants

LAHORE

Dated: October 03, 2011

(Engagement Partner: Muhammad Nasir Muneer)

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Thirty Third 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 Saturday, October 29, 2011 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, 2011 together with the Directors' and Auditors' Report thereon.
2. To approve and declare the payment of Final Cash Dividend @ 5.00% i.e. Rs.0.50 per share of Rs.10/- each as recommended by the Board of Directors.
3. To appoint auditors for the year ending June 30, 2012 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 to make investment to the extent of Rs.100.000 million (Rupees one hundred million only) as loans and advances to be adjustable/repayable within a period of one year to Sargodha Jute Mills Limited, an associated company at the mark up of 1% above the average cost of short term borrowing from banks which shall not be less than the borrowing cost of the Company.”

“RESOLVED FURTHER that the Chief Executive of the Company be and is hereby authorized to take all necessary actions including signing of any documents for carrying out the purposes aforesaid and giving full effect to the above resolution.”

By order of the Board

Place: Lahore  
Dated: October 03, 2011

**(HASSAN-UD-DIN ANSARI)**  
Company Secretary

### NOTES:

1. The Share Transfer Books of the Company will remain closed from October 22, 2011 to October 29, 2011 (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 21st October, 2011, 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.

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 Third Annual General Meeting of the Company to be held on October 29, 2011.

### Investment in Associated Company

Sargodha Jute Mills Limited is a Public Limited Company having assets of Rs.1,475.522 million with Paid-up Capital of Rs.224.5698 million. The Company has reserves/un-appropriated profits amounting Rs.273.528 million as on 30th June, 2010. The Company manufactures and deals in all types of Jute Products. The Directors of the Company discussed the issue at length and resolved that the investment in the form of loans and advances in the Associated Company would be beneficial for the company. The investment would be made at such time as the Chief Executive may think appropriate in the interest of the Company. The information required under Notification No. SRO 865(1)/2000, Dated December 06, 2000 is given below:-

- |  |   |           |                  |         |            |                |         |                           |               |         |                |                |         |              |                  |         |
|--|---|-----------|------------------|---------|------------|----------------|---------|---------------------------|---------------|---------|----------------|----------------|---------|--------------|------------------|---------|
| (i) Name of Investee Company together with the amount and purpose of loan or advance; in case may loan had already been provided or loan has been written off to the said investee company, the complete details of said loan; | Loans and advances of upto an amount of Rs.100.000 million to be extended to Sargodha Jute Mills Limited. No loan is outstanding as of the date of notice. No loan has been written off to the said investee company.   |           |                  |         |            |                |         |                           |               |         |                |                |         |              |                  |         |
| (ii) A brief about the financial position of the investee company on the basis of last published financial statements;   | <table border="0"> <tbody> <tr> <td>Net Sales</td> <td>Rupees 2,196.278</td> <td>Million</td> </tr> <tr> <td>Equity-Net</td> <td>Rupees 498.098</td> <td>Million</td> </tr> <tr> <td>Long Term Loans and Lease</td> <td>Rupees 32.668</td> <td>Million</td> </tr> <tr> <td>Current Assets</td> <td>Rupees 551.579</td> <td>Million</td> </tr> <tr> <td>Total Assets</td> <td>Rupees 1,475.522</td> <td>Million</td> </tr> </tbody> </table> | Net Sales | Rupees 2,196.278 | Million | Equity-Net | Rupees 498.098 | Million | Long Term Loans and Lease | Rupees 32.668 | Million | Current Assets | Rupees 551.579 | Million | Total Assets | Rupees 1,475.522 | Million |
| Net Sales  | Rupees 2,196.278  | Million   |                  |         |            |                |         |                           |               |         |                |                |         |              |                  |         |
| Equity-Net   | Rupees 498.098  | Million   |                  |         |            |                |         |                           |               |         |                |                |         |              |                  |         |
| Long Term Loans and Lease  | Rupees 32.668   | Million   |                  |         |            |                |         |                           |               |         |                |                |         |              |                  |         |
| Current Assets   | Rupees 551.579  | Million   |                  |         |            |                |         |                           |               |         |                |                |         |              |                  |         |
| Total Assets   | Rupees 1,475.522  | Million   |                  |         |            |                |         |                           |               |         |                |                |         |              |                  |         |
| (iii) Rate of mark-up to be charged;   | 1% above the average cost of short term borrowing from banks which shall not be less than the borrowing cost of the company.  |           |                  |         |            |                |         |                           |               |         |                |                |         |              |                  |         |
| (iv) Particulars of collateral security to be obtained from borrower and; if not needed justification thereof;   | No security is considered necessary as both the companies are associated companies.   |           |                  |         |            |                |         |                           |               |         |                |                |         |              |                  |         |
| (v) Source of funds from where loan or advance will be given;  | Loans and advances are adjust able/repayable within a period of twelve months.  |           |                  |         |            |                |         |                           |               |         |                |                |         |              |                  |         |

- |   |   |
|---|---|
| (vi) Repayment Schedule;  | The loans and advances are adjustable within a period of twelve months.   |
| (vii) Purpose of loans and advances; and  | The purpose of short term loans and advances is to earn income on financial assistance required for working capital of the borrowing company.                                       |
| (viii) Benefits likely to accrue to the company and the shareholders from loans and advances. | The Investing Company and its shareholders will be benefited in a manner that their investment will fetch a return of 1% above the average cost of short term borrowing from banks. |

(B) The Directors of Shahzad Textile Mills Limited have no interest in the above investment except that they and some of their relatives are Shareholders in the investee company.

(C) Statement under paragraph 3 of SRO 865(1)2000 dated 6 December 2000 Status of pending decisions:

In the annual general meeting held on October 28, 2010 the shareholders approved investments of Rs. 100.000 milli on (Rupees one hundred million only) in the following associated companies. However, to date no investments have been made.

- i) Funds were not required by Sargodha Jute Mills Limited any time during the year 2010-2011.
- ii) No major change in the financial position of the company. The company is operating efficiently and profitably.

**CHIEF EXECUTIVE**

**DIRECTOR**

## DIRECTORS' REPORT

On behalf of the directors, it is my pleasure to present the thirty third (33rd) annual report together with audited financial statements of the company and auditors' report thereon for the year ended June 30, 2011 which reflects the affairs of the company.

### Financial Results

The financial results of the company for the year under review are as under:

	2011	2010
	Rupees	Rupees
Profit before Taxation	178,706,526	149,861,229
Share of Profit of Associated Undertaking	21,767,126	14,976,701
	200,473,652	164,837,930
Taxation	(68,359,107)	(22,446,943)
Profit after Taxation	132,114,545	142,390,987

With the blessing and grace of Almighty Allah the company has earned appreciable profit during the year i.e. pre-tax profit Rs.178,706,- million as compared to last year's pre- tax profit of Rs.149.861 million. If percentage wise compared company's Current year's profit before taxation is 19.25% higher than previous year's profit before taxation.

The main factor which contributed to achieve encouraging results is the untiring efforts of the management for procuring good quality cotton and attaining best sale rates of yarn by utilizing all available resources in local as well as in international market. Though cotton prices touched its crest and reached to Rs.14000/- per maund but management successfully fetched good corresponding selling rates of yarn in local and international market. However an element which curtailed the current profitability of the company was the incorporation of inventories at net realizable value due to sharp decline of the cotton prices at end of the year and subsequent to the year. This adjustment was made in accordance with the accounting policy of the company. The profitability could have been much favorable if inventories were taken at its purchase price.

On the contrary, flood disaster in the country paralyzed all the economic activities of the people. A large area of cotton belt in Southern Punjab and different areas of Sindh where cotton crops standing in the fields were badly damaged. The prices of raw materials which are the main constituents of our product like cotton, polyester and viscose demonstrated upward trend through out the year and there came a period when management was forced to close two units temporarily for three months due to heavy foreseeable losses which eventually affected the profitability of the company.

### Merger

During the year 2010 pursuant to the approval of the Honorable Lahore High Court, the entire undertaking of Shaheen Cotton Mills Limited was merged into Shahzad Textile Mills Limited in accordance with an approved Scheme of Amalgamation and since then the management is successfully handling and smoothly running all the related matters on consolidated platform which resulted in commendable financial position of the company.

### Earning Per Share

Earning per share for the year is Rs.7.59 as compared to earning per share of Rs.7.92 in the preceding period.

### **Dividend**

According to Dividend payout strategy the management wish to pay return on investment in the company to its shareholders keeping in view the profitability of the year. Therefore, Board of Directors has recommended payment of 5% cash dividend.

### **Future Prospects**

Heavy rains and flood water have badly effected the routine life of the people in rural areas of Punjab and Sindh Province likewise previous year. The cotton crops standing in the fields are almost ruined and there is probable threat of acute shortage of the raw cotton in the coming period.

Furthermore, Pakistani industry is still under the black shadow of the power crises like , Load Shedding of Electricity and Sui Gas. There is another factor which is negatively effecting the industry is practice of unexpectedly sudden increase in power tariff. These all things are clubbed to cast a gloom over economy of the country.

In spite of all these unfavorable circumstances of the country management is determined to meet the challenges through continuous improvement in quality , reduction in costs, better marketing and promise to come with better results on this occasion in the coming year.

### **Expansion Plan**

The management has further added four ring frames in the existing machinery of Shahzad Textile Mills Unit 2 subsequent to the year end in September 2011 which were imported from China and enhanced its installed capacity to 24,576/- spindles. This is done to meet the increasing demand of our yarn in the market due to good quality.

### **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 an extensive verification which ensures the customers that proper quality control system is being effectively implemented . This 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. These transactions were placed before Audit Committee and BOD for approval.

### Corporate and Financial Reporting Framework

- a) The financial statement prepared by the management of the Company, presents 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 has been no material departure from the best practices of the Code of Corporate Governance as detailed in the listing regulations.
- g) Six years financial summary is annexed.
- h) There are no overdue taxes and levies as on June 30, 2011..
- i) The Form 34 and Pattern of Shareholding as on June 30, 2011 as required by the section of 236 of the Companies Ordinance 1984 and Code of Corporate Governance in annexed with this report.
- j) The role of Chairman and Chief Executive are separate and have been clearly defined.
- k) There are no significant doubts upon the company's ability to continue as going concern.
- l) The company has adopted best practices of Corporate Governance as per listing regulations of stock exchanges.
- m) No material change or commitment affecting financial position occurred between June 30, 2011 and the date of directors report.
- n) No trade in the shares of the company carried out by the Directors, CEO, CFO, Company Secretary, their spouses and minor children.

**Board of Directors Meeting**

During the period under review, twelve(12) meetings of the Board of Directors were held from July 01, 2010 to June 30, 2011. 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	12
Mr. Rashid Ahmed	12
Chaudhry Hakim Ali	12
Mr. Humayun Bakht	11
Lt.Col.(R) Abdul Qayyum	12
Mr. Hassan-ud-Din –Ansari	12

**Audit Committee 2011**

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

Chaudhry Hakim Ali	Chairman
Mr. Rashid Ahmad	Member
Lt.Col.(R).Abdul Qayyum	Member

The Audit Committee actively reviews the adequacy and effectiveness of internal control system and suggests improvements for strengthening it.

**Corporate Governance**

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

**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, 2012.

In the end we express our profound gratitude for the devotion and hard work by the executives, staff members and workers of the company. We are equally thankful to our customers and share holders who have extended their cooperation in smooth running of company affairs.

For and on behalf of the Board

Lahore  
Dated: October 03, 2011

**(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, 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the 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, 2011 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: October 03, 2011

(Engagement Partner: Muhammad Nasir Muneer)

	Note	2011 Rupees	2010 Rupees
<b>CAPITAL AND LIABILITIES</b>			
<b>Share Capital and Reserves</b>			
Authorized capital: 21,000,000 (2010: 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	135,525,690
Reserve for issue of shares pursuant to Scheme of Amalgamation		-	44,188,030
Reserves	7	408,397,733	269,766,175
		588,111,453	449,479,895
<b>Surplus on Revaluation of Property, Plant and Equipment</b>	8	520,056,243	531,893,811
<b>Non Current Liabilities</b>			
Long term financing	9	188,429,047	279,472,616
Liabilities against assets subject to finance lease	10	1,732,969	3,277,290
Deferred liabilities	11	260,426,543	225,974,276
		450,588,559	508,724,182
<b>Current Liabilities</b>			
Trade and other payables	12	106,416,663	133,153,035
Accrued mark up	13	12,979,537	12,616,741
Short term borrowings	14	190,800,579	153,072,615
Current portion of non current liabilities	15	57,525,139	48,329,763
Provision for taxation	16	45,470,369	20,421,980
		413,192,287	367,594,134
<b>Contingencies and Commitments</b>	17	-	-
		1,971,948,542	1,857,692,022

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

## CHIEF EXECUTIVE

JUNE 30, 2011

	Note	2011 Rupees	2010 Rupees
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Property, plant and equipment	18	1,348,330,672	1,290,313,370
Long term investment	19	204,167,850	180,110,073
Long term deposits		1,626,829	1,633,329
		1,554,125,351	1,472,056,772
<b>Current Assets</b>			
Stores and spares	20	47,828,892	57,729,861
Stock in trade	21	225,497,637	195,228,618
Trade debts	22	75,631,218	53,847,849
Advances, trade deposits, prepayments	23	35,923,041	30,554,261
Short term investments	24	747,050	453,079
Tax refunds due from Government	25	23,411,761	26,375,096
Cash and bank balances	26	8,783,592	21,446,486
		417,823,191	385,635,250
		<u>1,971,948,542</u>	<u>1,857,692,022</u>

DIRECTOR

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 Rupees	2010 Rupees
Sales	27	4,513,244,278	3,116,384,541
Cost of sales	28	(4,124,074,613)	(2,769,740,494)
<b>Gross Profit</b>		<b>389,169,665</b>	<b>346,644,047</b>
Operating expenses:			
- Selling and distribution costs	29	(46,835,820)	(41,626,536)
- Administrative expenses	30	(74,372,733)	(64,881,163)
- Other operating charges	31	(13,049,731)	(14,115,104)
- Other operating income	32	3,063,940	4,253,051
		(131,194,344)	(116,369,752)
<b>Operating Profit</b>		<b>257,975,321</b>	<b>230,274,295</b>
Finance and other costs	33	(79,268,795)	(80,413,066)
<b>Profit before Taxation and Share of Associated Undertaking</b>		<b>178,706,526</b>	<b>149,861,229</b>
Share of net profit of associated undertaking		21,767,126	14,976,701
<b>Profit before Taxation</b>		<b>200,473,652</b>	<b>164,837,930</b>
Taxation	34	(68,359,107)	(22,446,943)
<b>Profit after Taxation</b>		<b>132,114,545</b>	<b>142,390,987</b>
<b>Earnings per Share - Basic</b>	35.1	<b>7.59</b>	<b>10.51</b>
<b>Earnings per Share - Diluted</b>	35.2	<b>7.59</b>	<b>7.92</b>

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

CHIEF EXECUTIVE

DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED  
JUNE 30, 2011

	<b>2011</b> Rupees	<b>2010</b> Rupees
<b>Profit after Taxation</b>	132,114,545	142,390,987
Transfer from surplus on revaluation of property, plant and equipment on incremental depreciation charged in current year - net of deferred tax	13,441,113	16,861,271
Surplus realized on disposal of revalued property, plant and equipment (net of deferred tax) transferred to retained earnings	-	587,409
Share of associated undertaking's other comprehensive income	2,061,586	2,214,004
Other Comprehensive Income for the year	15,502,699	19,662,684
<b>Total Comprehensive Income for year</b>	<u>147,617,244</u>	<u>162,053,671</u>

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

**CHIEF EXECUTIVE**

**DIRECTOR**

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	Rupees	Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation and share of associated undertaking	178,706,526	149,861,229
Adjustments for:		
- Depreciation	57,758,254	57,123,993
- Inventories written down to net realizable value	73,870,515	-
- Gain on disposal of property, plant and equipment - Net	(783,783)	(3,670,871)
- Surplus on revaluation of investments - at fair value through profit or loss	(293,971)	(68,772)
- Excess liabilities written back	(1,804,450)	(211,514)
- Provision for gratuity	15,439,960	11,329,728
- Loss on disposal of financial asset held for disposal	-	1,399,989
- Bad debts written off	213,244	400,992
- Provision for workers' (profit) participation fund	9,546,335	7,962,723
- Provision for workers' welfare fund	2,295,098	3,701,400
- Interest on workers' (profit) participation fund	362,748	260,002
- Finance cost	78,906,047	80,153,064
	235,509,997	158,380,734
<b>Operating profit before working capital changes</b>	414,216,523	308,241,963
Decrease / (increase) in current assets:		
- Stores and spares	9,900,969	(27,321,650)
- Stock in trade	(104,139,534)	(28,533,348)
- Trade debts	(21,783,369)	(37,375,936)
- Advances, trade deposits, prepayments and other receivables	622,869	(11,951,678)
- Tax refunds due from Government	2,963,335	(5,670,329)
(Decrease) / increase in current liabilities:		
- Trade and other payables	(26,957,184)	(10,065,183)
	(139,392,914)	(120,918,124)
<b>Cash generated from operations</b>	274,823,609	187,323,839
Income tax paid	(21,840,555)	(7,814,894)
Gratuity paid	(7,404,969)	(6,644,292)
Finance cost paid	(66,114,725)	(55,007,143)
Workers' welfare fund paid	(1,896,950)	-
Workers' (profit) participation fund paid	(8,325,471)	(1,914,732)
<b>Net Cash from Operating Activities</b>	169,240,939	115,942,778
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Property, plant and equipment	(41,121,316)	(11,340,820)
Capital work in progress	(75,877,457)	(7,285,459)
Long term investment	-	(40,600,000)
Sale proceeds from disposal of financial asset held for sale	-	3,686,001
Long term deposits	(32,500)	(1,312,412)
Proceeds from disposal of property, plant and equipment	2,007,000	7,929,000
<b>Net Cash used in Investing Activities</b>	(115,024,273)	(48,923,690)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Loan (repaid to) / from related parties	(37,476,881)	21,500,000
Repayment of long term financing from banking companies	(56,650,000)	(47,501,867)
Dividends paid	(8,942,184)	-
Liabilities against assets subject to finance lease	(1,538,459)	(11,970,096)
Short term borrowings	37,727,964	(12,899,574)
<b>Net Cash used in Financing Activities</b>	(66,879,560)	(50,871,537)
<b>Net (Decrease) / Increase in Cash and Cash Equivalents</b>	(12,662,894)	16,147,551
Cash and cash equivalents at the beginning of the year	21,446,486	5,298,935
<b>Cash and Cash Equivalents at the End of Year</b>	8,783,592	21,446,486

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

**CHIEF EXECUTIVE**

**DIRECTOR**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED  
JUNE 30, 2011

	Share Capital	Reserve for Issue of Shares	Share Premium	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Balance as at June 30, 2009</b>	135,525,690	44,188,030	5,796,000	101,916,504	287,426,224
Total comprehensive income for the year	-	-	-	162,053,671	162,053,671
<b>Balance as at June 30, 2010</b>	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)
<b>Balance as at June 30, 2011</b>	<b>179,713,720</b>	<b>-</b>	<b>5,796,000</b>	<b>402,601,733</b>	<b>588,111,453</b>

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, 2011

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.

During the previous year, pursuant to the approval of the scheme of amalgamation by the Honorable Lahore High Court, the entire undertaking of Shaheen Cotton Mills Limited was merged into the Company.

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.

*Note 3 - Use of Estimates and Judgments .... Contd.*

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.

The Judgments made by the 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:

**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.

**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 Inventories**

The Company has recorded its inventories using lower of cost and net realizable value. Valuation of this inventory is reviewed at regular intervals for determination of possible impairment, if any. Any possible impairment may change the future value of inventories.

**3.5 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:

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

There are certain new approved accounting standards, amendments to approved accounting standards and interpretations that are mandatory for accounting periods beginning on or before January 1, 2010 but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

**4.2 Amendments to published standards effective in current year but not applicable to the Company**

*IFRS 3 – Business Combinations*

*Annual periods beginning on or after July 1, 2010*

IASB has amended IFRS 3 – Business Combinations. The amendments include transition requirements for contingent consideration from a business combination that occurs before the effective date of revised IFRS, measurement on non-controlling interests and un-replaced and voluntarily replaced share based payment awards.

**4.3 Amendments to published standards applicable to the Company but not yet effective**

- *IAS 1 – Presentation of Financial Statements*

*Annual periods beginning on or after July 1, 2012*

IASB has made amendments to IAS 1 in presentation of items of other comprehensive income. The amendments have not only given equal prominence to statement of other comprehensive income and the profit and loss account but also focused on improved presentation of items to be included in the statement of comprehensive income. The amendments require an entity to group items presented in the statement of other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently or not. Further, the requirement to present tax separately, in respect of items presented before tax, has been laid down. Amendments in IAS 1 have resulted in editorial and other cross-referencing changes in certain other standards.

- *IAS 12 – Income Taxes*

*Annual periods beginning on or after January 1, 2012*

IASB has amended 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 in 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 incorporate SIC 21 – Income Taxes - Recovery of Revalued Non-Depreciable Assets in the amended IAS 12.

*Note 4 - Amendments to Existing Standards ... Contd.*

- *IAS 19 – Employee Benefits* *Annual periods beginning on or after January 1, 2013*

IASB has revised IAS 19 that has given specific guidance on classification of multi-employer plans, state plans and plans with insured benefits. The revised Standard has elaborated defined contribution and defined benefit plans and laid down detailed requirements for an entity following defined benefit plan. The revised Standard has defined other long-term employee benefits and requires that all changes in the carrying amount of liabilities for these benefits to be recognized in the profit and loss account. The Standard has also defined termination benefits and laid down criteria for recognizing these termination benefits.

- *IAS 24 – Related Party Disclosures* *Annual periods beginning on or after January 1, 2011*

IASB has amended IAS 24 – Related Party Disclosures. The amendments simplifies the disclosure requirements for government related entities and clarifies 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 28 – Investments in Associates and Joint Ventures* *Annual periods beginning on or after January 1, 2013*

IASB has revised IAS 28 - Investment in Associates (as revised in 2003) and introduced a revised standard that prescribes the accounting treatment for investments in associates and sets out the requirements for application of the equity method when accounting for investments in associates and joint ventures. The Standard defines significant influence and establishes principles for the financial reporting of parties to joint arrangements.

The revised IAS prescribes an entity to determine the type of joint arrangement in accordance with IFRS 11 and recognize the investment and accounts for it using the equity method in accordance with IAS 28 unless the entity is exempted from applying the equity method. The disclosure requirements for entities with joint control of, or significant influence over, an investee are specified in IFRS 12 - Disclosure of Interests in Other Entities.

- *IAS 34 – Interim Financial Reporting* *Annual periods beginning on or after January 1, 2011*

IASB has amended IAS 34 – Interim Financial Reporting. The revised standard includes amendments in significant events and transactions.

- *IFRS 1 – First-time Adoption of International Financial Reporting Standards* *Annual periods beginning on or after July 1, 2011*

IASB has amended IFRS 1. The amendments in this IFRS provide relief for first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs. Amendments in respect of severe hyperinflation have also been introduced that require entities emerging from severe hyperinflation to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

*Note 4 - Amendments to Existing Standards ... Contd.*

- *IFRS 7 – Financial Instruments: Disclosures* *Annual periods beginning on or after July 1, 2011*

The requirements of IFRS 7 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.

- *IFRS 9 – Financial Instruments* *Annual periods beginning on or after July 1, 2013*

IASB has revised IFRS 9 – Financial Instruments and withdrawn IFRIC 9 – Reassessment of Embedded Derivatives by adding the requirements for classification and measurement of financial liabilities to IFRS. In the revisions to IFRS 9, most of the requirements in IAS 39 for classification and measurement of financial liabilities have been carried forward unchanged. Consistent with the requirements in IFRS 9 for investments in unquoted equity instruments, the exception from fair value measurement has been eliminated for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument. Moreover, the requirements related to the fair value option for financial liabilities have also been changed to address own credit risk.

- *IFRS 12 – Disclosures of Interest in Other Entities* *Annual periods beginning on or after January 1, 2013*

IASB has introduced IFRS 12 - Disclosure of Interests in Other Entities that applies to entities having an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The IFRS requires an entity to disclose information about the nature of interests in other entities and risks associated with those interests in its financial statements. IFRS 12 specifies minimum disclosures that an entity must provide and requires an entity to consider the level of detail necessary to satisfy the disclosure objective for better understanding of the users of financial statements.

- *IFRS 13 – Fair Value Measurement* *Annual periods beginning on or after January 1, 2013*

IASB has introduced IFRS 13 on fair value measurement that sets out the framework for measuring fair values. The Standard has defined fair value and requires disclosures about fair value measurements. This Standard is applicable on all the other IFRSs that require measurement or disclosures about fair value measurements with certain exceptions. The IFRS explains how to measure fair value for financial reporting and does not establish valuation standards or affect valuation practices outside financial reporting.

The Company expects that the adoption of above standards, amendments and interpretations will have no material impact on the Company's financial statements in the period of initial application.

**4.4 Amendments to published standards not applicable to the Company and not yet effective**

- *IAS 27 – Separate Financial Statements* *Annual periods beginning on or after January 1, 2013*

IASB has withdrawn IAS 27 - Consolidated and Separate Financial Statements (as amended in 2008) and issued revised IAS 27. The revised Standard prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates while preparing separate financial statements. The revised Standard requires that an entity shall comply with the requirements of IFRS 9 to account for its investments at cost while preparing separate financial statements.

*Note 4 - Amendments to Existing Standards ... Contd.*

- *IFRS 10 – Consolidated Financial Statements* *Annual periods beginning on or after July 1, 2013*

IASB has issued IFRS by superseding IAS 27 - consolidated and Separate Financial Statements and SIC 12 - Consolidation - Special Purpose Entities. The standard has redefined the principle of control and set requirements for the preparation of consolidated financial statements. The disclosure requirements for interest in subsidiaries are specified in IFRS 12 - Disclosure of Interests in Other Entities.

- *IFRS 11 – Joint Arrangements* *Annual periods beginning on or after January 1, 2013*

The new Standard supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. The new Standard caters for shortcomings in IAS 31 and establishes principles that are applicable to accounting for all joint arrangements.

IFRS 11 requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The new IFRS defines joint ventures; joint controls; joint arrangements and further classifies joint arrangements.

IFRS 11 requires a joint venturer to recognize an investment and to account for that investment using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures, unless the entity is exempted from applying the equity method as specified in that standard. The disclosure requirements for parties with joint control of a joint arrangement are specified in IFRS 12 - Disclosure of Interests in Other Entities.

**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.

*Note 5 - Summary of Significant Accounting Policies .... Contd.***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.

**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.

*Note 5 - Summary of Significant Accounting Policies ... Contd.***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.

**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.

*Note 5.7 - Investments .... Contd.*

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.

*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.

#### **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**

2011	2010		2011	2010
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	-	Ordinary shares of Rs. 10 each issued for consideration otherwise than in cash	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>13,552,569</u>		<u>179,713,720</u>	<u>135,525,690</u>

- 6.1** 14,990 (2010: 14,990) ordinary shares of the Company are held by Sargodha Jute Mills Limited, an associated undertaking, as at the balance sheet date.
- 6.2** There are no rights, preferences and restrictions attached to any class of shares including restrictions on the distribution of dividends and the repayment of capital.
- 6.3** There are no shares reserved for issue under options and contracts for the sale of the shares, including terms and amounts.

**6.4 Movement in number of shares during the year**

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

## Note 7

**Reserves**

	<b>2011</b>	<b>2010</b>
	Rupees	Rupees
<b>Capital</b>		
Share premium reserve	5,796,000	5,796,000
<b>Revenue</b>		
Unappropriated profit	402,601,733	263,970,175
	<u>408,397,733</u>	<u>269,766,175</u>

## Note 8

**Surplus on Revaluation of Property, Plant and Equipment**

	<b>2011</b>	<b>2010</b>
Note	Rupees	Rupees
Land - freehold		
- Opening balance	180,886,920	176,735,670
- Revaluation during the year	-	4,151,250
	180,886,920	180,886,920
Buildings on freehold land:		
- Opening balance	49,638,346	30,059,268
- Revaluation during the year	-	27,060,994
	49,638,346	57,120,262
Plant and machinery		
- Opening balance	301,368,545	304,646,478
- Revaluation during the year	-	10,466,103
	301,368,545	315,112,581
	8.1	531,893,811
Deferred tax relating to surplus on property, plant and equipment arising during the year transferred to deferred tax (refer to Note 11.1)	-	(8,915,622)
	531,893,811	544,204,142
Deferred tax relating to export	8.2	1,603,545
Incremental depreciation (net of deferred tax) charged on revalued property, plant and equipment during the year transferred to retained earnings	(13,441,113)	(16,861,271)
Surplus realized on disposal of revalued property, plant and equipment (net of deferred tax) transferred to retained earnings	-	(587,409)
	<u>520,056,243</u>	<u>531,893,811</u>

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

- 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

- 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**

		<b>2011</b>	<b>2010</b>
	Note	Rupees	Rupees
<b>Loans from banking company - Secured</b>			
NIB Bank Limited	9.1	183,429,047	236,995,735
<b>Loans from related parties - Unsecured</b>			
<b>Directors</b>	9.3	5,000,000	33,100,000
<b>Others</b>		-	9,376,881
		5,000,000	42,476,881
		<u>188,429,047</u>	<u>279,472,616</u>
<b>9.1 Loans from banking company - NIB Bank Limited</b>			
Term finance - I		142,824,253	174,985,488
Term finance - II		-	15,340,632
State Bank of Pakistan's LTF - EOP Scheme		63,807,482	63,807,482
Freezed mark up (refer to Note 13)		89,442,526	77,014,000
		<u>296,074,261</u>	<u>331,147,602</u>
Payments / adjustments during the year		<u>(56,650,000)</u>	<u>(47,501,867)</u>
		239,424,261	283,645,735
Current portion transferred to current liabilities		<u>(55,995,214)</u>	<u>(46,650,000)</u>
		<u>183,429,047</u>	<u>236,995,735</u>

**9.2** This represents long term financing obtained from NIB Bank Limited. During 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; the payment of its principal and mark up, both overdue and not yet due, were frozen. 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 & II.
- Overdue mark up accruing upto December 31, 2009 would be frozen 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 frozen 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.

**9.3** 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 (2010: Nil) 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

	2011	2010
	Rupees	Rupees
Future gross minimum lease payments and the period in which they will become due are as under:		
2010-11	-	2,032,502
2011-12	1,834,815	1,826,557
2012-13	1,079,834	1,079,834
	2,914,649	4,938,893
Security deposits	747,300	903,000
Gross minimum lease payments	3,661,949	5,841,893
Financial charges not currently due	(399,055)	(884,840)
Present value of minimum lease payments	3,262,894	4,957,053
Current portion shown under current liabilities	(1,529,925)	(1,679,763)
	1,732,969	3,277,290

Finance lease arrangements have been entered into with various leasing companies 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. 0.747 million (2010: Rs. 0.903 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.

Note 10 - Liabilities Against Assets Subject to Finance Lease .... Contd.

	2011	2010
	Rupees	Rupees
Reconciliation between total of minimum lease payments and their present value is as under:		
Gross minimum lease payments:		
- Due not later than one year	1,873,815	2,188,202
- Due later than one year but not later than five years	1,788,134	3,653,691
	<u>3,661,949</u>	<u>5,841,893</u>
Present value of minimum lease payments:		
- Due not later than one year	1,529,925	1,679,763
- Due later than one year but not later than five years	1,732,969	3,277,290
	<u>3,262,894</u>	<u>4,957,053</u>

Note 11

#### Deferred Liabilities

		2011	2010
	Note	Rupees	Rupees
Deferred tax - net	11.1	230,477,750	204,060,474
Staff retirement benefits - Gratuity	11.2	29,948,793	21,913,802
		<u>260,426,543</u>	<u>225,974,276</u>

#### 11.1 Deferred tax - Net

Credit / (Debit) balance arising in respect of:

- Share of net profit of associated undertakings	13,856,784	11,451,006
- Accelerated tax depreciation	115,843,864	115,662,078
- Surplus on revaluation of property, plant and equipment	105,023,002	110,735,778
- Recognized losses	(2,122,950)	(28,996,864)
- Staff retirement benefits and others	(2,122,950)	(4,791,524)
	<u>230,477,750</u>	<u>204,060,474</u>

#### 11.2 Staff retirement benefits - Gratuity

11.2.1 Latest actuarial valuation of retirement benefits payable was carried out as at June 30, 2011 by an independent actuary using the following significant assumptions:

Discount rate	14%	12%
Expected rate of salary increase in future years	13%	11%
Average expected remaining working life time of employees	5 years	5 years
Actuarial valuation method	Projected Unit Credit Method	

	2011 Rupees	2010 Rupees
<b>11.2.2</b> Based upon the actuarial valuation, the Company's liability works out to be as under:		
Balance sheet liability as previously reported	21,913,802	17,228,366
Expense for the year	15,439,960	11,329,728
	<u>37,353,762</u>	<u>28,558,094</u>
Benefits paid to employees	(7,404,969)	(6,644,292)
	<u>29,948,793</u>	<u>21,913,802</u>
<b>Reconciliation</b>		
Present value of defined benefit obligation	30,953,297	20,730,830
Unrecognized actuarial (loss) / gain	(1,004,504)	1,252,223
Liability recognized in financial statements	<u>29,948,793</u>	<u>21,983,053</u>
<b>Charge for the year</b>		
Current service cost	12,952,260	9,419,529
Interest cost	2,487,700	1,910,199
Amount charged in the profit and loss account	<u>15,439,960</u>	<u>11,329,728</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:

	2011 Rupees	2010 Rupees	2009 Rupees	2008 Rupees	2007 Rupees
Present value of defined defined benefit obligation	29,948,793	21,983,053	17,228,366	14,212,994	7,892,326
Less: Plan assets	-	-	-	-	-
Deficit	<u>29,948,793</u>	<u>21,983,053</u>	<u>21,983,053</u>	<u>21,983,053</u>	<u>7,892,326</u>

Note 12

#### Trade and Other Payables

	Note	2011 Rupees	2010 Rupees
Creditors for:			
- Goods supplied		17,581,821	16,810,762
- Services		31,231,449	32,604,782
Accrued liabilities		42,202,499	65,690,282
Advances from customers		641,386	4,173,280
Workers' (profit) participation fund	12.1	9,546,335	7,962,723
Workers' welfare fund		2,295,098	3,701,400
Unclaimed dividend		280,274	236,772
Unclaimed wages		2,637,801	1,272,849
Other payables		-	700,185
		<u>106,416,663</u>	<u>133,153,035</u>

#### 12.1 Workers' (profit) participation fund

Balance at the beginning of the year	7,962,723	1,654,730
Provision during the year	9,546,335	7,962,723
Interest on funds utilized in the Company's business	362,748	260,002
	<u>17,871,806</u>	<u>9,877,455</u>
Paid during the year	(8,325,471)	(1,914,732)
	<u>9,546,335</u>	<u>7,962,723</u>

## Note 13

**Accrued Mark-up**

	<b>2011</b>	<b>2010</b>
	Rupees	Rupees
Long term financing	13,541,262	81,878,081
Freezed mark up (refer to Note 9.1)	(12,428,526)	(77,014,000)
	1,112,736	4,864,081
Short term borrowings	11,866,801	7,752,660
	<u>12,979,537</u>	<u>12,616,741</u>

## Note 14

**Short Term Borrowings**

		<b>2011</b>	<b>2010</b>
	Note	Rupees	Rupees
<b>From banking companies - Secured</b>			
Cash / packing finances	14.1	<u>190,800,579</u>	<u>153,072,615</u>

**14.1** These represent utilized portion of funded and unfunded short term finance facilities of Rs. 885 million (2010: Rs. 885 million) available from various banks under mark up arrangements. These facilities shall expire on various dates latest by December 31, 2011. Mark up on these facilities is charged upto 3 months KIBOR plus 2%, (2010: 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**

		<b>2011</b>	<b>2010</b>
	Note	Rupees	Rupees
Long term financing	9.1	55,995,214	46,650,000
Liabilities against assets subject to finance lease	10	1,529,925	1,679,763
		<u>57,525,139</u>	<u>48,329,763</u>

## Note 16

**Provision for Taxation - Net**

	<b>2011</b>	<b>2010</b>
	Rupees	Rupees
Opening balance	20,421,980	7,761,493
Provision:		
- Current year	45,470,369	20,421,980
- Prior years	(4,722,116)	-
	40,748,253	20,421,980
Payments / adjustments against advance tax and refunds	(15,699,864)	(7,761,493)
	<u>45,470,369</u>	<u>20,421,980</u>

**16.1** In view of accumulated tax losses, provision for minimum taxation has been incorporated in these financial statements. Assessments upto assessment year 2002-2003 are finalized and for tax years 2003 onward are deemed to be accepted under the self assessment scheme.

Note 17

### Contingencies and Commitments

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#### Contingencies

- The Company has provided bank guarantees in favour of Sui Northern Gas Pipeline Limited amounting to Rs. 36.788 million (2010: Rs. 36.638 million) on account of payment of dues against consumption of natural gas.
- The Company is contingently liable for Rs. 1.795 million (2010: Nil) on account of electricity duty on self generation not acknowledged as debt as the case is pending before the Supreme Court of Pakistan.
- The Company has filed a suit against a foreign debtor for the recovery of Rs. 6.279 million. The Company expects a favourable outcome of the suit, therefore, no provision has been made in these financial statements.

#### Commitments

- Commitments / contracts for capital expenditure outstanding as at the balance sheet date amount to Rs. 5.913 million (2010: 13.213 million).
- Letters of credit and commitments / contracts for other than capital expenditure outstanding as at the balance sheet date amount to Rs. Nil (2010: Rs. 10.709 million).

Note 18

**Property, Plant and Equipment**

	2011	2010
	Rupees	Rupees
Operating fixed assets	1,297,510,857	1,267,475,970
Capital work in progress	50,819,815	22,837,400
	<u>1,348,330,672</u>	<u>1,290,313,370</u>

**18.1 Operating fixed assets****Year ended June 30, 2011**

Description	Cost / Revalued Amounts			Depreciation			Book Value as at 30-06-2011		
	As at 01-07-2010	Additions / (Disposal)	Adjustment	Total as at 30-06-2011	Rate %	Upto 01-07-2010		For the year	Adjustment
	Rupees	Rupees	Rupees	Rupees	%	Rupees	Rupees	Rupees	Rupees
<b>Owned</b>									
Land - freehold	185,688,750	-	-	185,688,750	-	-	-	-	185,688,750
Buildings on freehold land	137,839,058	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	103,091	-	927,817
Vehicles	14,493,046	7,627,446	1,557,000	19,732,296	20	5,200,293	2,519,253	(2,765,113)	14,015,141
		(3,945,196)	-					762,722	
Electric installations	24,166,114	-	-	24,166,114	10	17,551,016	664,510	-	5,953,588
Computers and equipment	2,575,655	1,080,646	-	3,577,524	20	1,789,133	212,141	(35,643)	1,611,893
		(78,777)	-						
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)	1,293,716,529
		(4,023,973)	-						
<b>Leased</b>									
Vehicle	6,859,500	-	(1,557,000)	5,302,500	20	1,291,486	979,408	(762,722)	1,508,172
	6,859,500	-	(1,557,000)	5,302,500		1,291,486	979,408	(762,722)	3,794,328
<b>June 30, 2011</b>	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)	-						

**18.1.1** The title of the land transferred from the merged entity pursuant to the scheme of amalgamation is in process of being transferred in the Company's name as at the balance sheet date.

## Note 18 - Property, Plant and Equipment ..... Contd.

## 18.2 Operating fixed assets

## Year ended June 30, 2010

Description	Cost / Revalued Amounts			Rate %	Depreciation			Book Value as at 30-06-2010 Rupees
	As at 01-07-2009 Rupees	Additions / (Disposal) Rupees	Revaluation Adjustment Rupees		Total as at 30-06-2010 Rupees	Upto 01-07-2009 Rupees	For the Year Rupees	
<b>Owned</b>								
Land - freehold	181,537,500	-	4,151,250		-	-	-	185,688,750
Buildings on freehold land	205,603,260	5,152,317	27,060,994 (99,977,513)	5	94,418,263	5,559,250	(99,977,513)	137,839,058
Plant and machinery	1,647,547,258	26,054,329 (3,781,200)	10,466,103 (878,525,202)	5-10	836,951,191	41,144,714 (1,899,693)	2,328,990 (878,525,202)	801,761,288
Power house	159,183,835	-	-	5	34,329,277	6,242,728	-	118,611,830
Furniture and fixtures	5,867,172	-	-	10	4,721,719	114,545	-	1,030,908
Vehicles	12,194,148	9,385,015 (7,086,117)	-	20	7,927,485	1,380,635 (4,709,495)	601,668	9,292,753
Electric installations	24,126,365	39,749	-	10	16,816,741	734,275	-	6,615,098
Computers and equipment	2,575,655	-	-	20	1,670,715	118,418	-	786,522
Arms and ammunition	410,775	-	-	7	107,819	21,207	-	281,749
Fire fighting equipment	24,225	(24,225)	-	10	24,225	-	(24,225)	-
	2,239,070,193	40,631,410 (10,891,542)	(936,824,368)		996,967,435	55,315,772 (6,609,188)	(975,596,282)	1,261,907,956
<b>Leased</b>								
Plant and machinery	23,000,000	(23,000,000)	-	5	1,241,042	1,087,948	(2,328,990)	-
Vehicle	3,105,775	4,892,000 (1,138,275)	-	20	1,172,881	720,273	(601,668)	1,291,486
	26,105,775	(19,246,275)	-		2,413,923	1,808,221	(2,930,658)	1,291,486
<b>June 30, 2010</b>	2,265,175,968	45,523,410 (35,029,817)	(936,824,368)		999,381,358	57,123,993 (6,609,188)	(978,526,940)	1,267,475,970
<b>June 30, 2009</b>	2,267,002,509	1,970,997 (3,797,538)	-		942,740,865	58,961,435	(465,452)	1,265,794,610

18.2.1 Surplus on revaluation of property, plant and equipment was incorporated using depreciation elimination method as allowed under IAS 16 (Property, Plant and Equipment).

**Note 18 - Property, Plant and Equipment .... Contd.**

**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, 2011		
	Cost Rupees	Accumulated Depreciation Rupees	Book value Rupees
Land - freehold	4,801,830	-	4,801,830
Buildings on freehold land	140,255,236	68,910,040	71,345,196
Plant and machinery	970,593,842	535,867,574	434,726,268
	<u>1,115,650,908</u>	<u>604,777,614</u>	<u>510,873,294</u>
		<b>2011</b>	<b>2010</b>
		Rupees	Rupees

**18.4** Depreciation charge for the year has been allocated as under:

Cost of sales	Note
Administrative expenses	28
	31
	<u>53,924,639</u>
	<u>3,833,615</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	Mode of disposal	Particulars of buyer
	Rupees	Rupees	Rupees	Rupees	Rupees		
Suzuki Alto	512,090	376,590	135,500	300,000	164,500	Negotiation	Mr. Sohail Rehman, Dharam pura, Lahore
Honda Civic	1,035,118	766,029	269,089	500,000	230,911	Negotiation	Mrs. Safia Khan, Islampura, Lahore
Suzuki Alto	528,275	288,903	239,372	340,000	100,628	Negotiation	Mr. Khalid Mehmood, Mustafaabad, Lahore.
Suzuki Mehran	407,400	305,275	102,125	155,000	52,875	Negotiation	Mrs. Alvina Fatima, DHA, Lahore.
Suzuki Mehran	386,320	289,479	96,841	155,000	58,159	Negotiation	Mr. Saifulah, Johar Town, Lahore
Honda Civic	1,075,993	738,837	337,156	500,000	162,844	Negotiation	Mr. Umair, Bastami Road, Lahore.
Computer and equipment	78,777	35,643	43,134	57,000	13,866	Negotiation	Mr. Khalid Parvez, Hall Road, Lahore.
<b>Total 2011</b>	<u>4,023,973</u>	<u>2,800,756</u>	<u>1,223,217</u>	<u>2,007,000</u>	<u>783,783</u>		
<b>Total 2010</b>	<u>10,867,317</u>	<u>6,609,188</u>	<u>4,258,129</u>	<u>7,929,000</u>	<u>3,670,871</u>		

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

### 18.6 Capital Work in Progress

#### Buildings on freehold land

	2011 Rupees	2010 Rupees
Opening balance	-	2,271,056
Additions during the year	4,211,628	2,881,259
	4,211,628	5,152,315
Transferred to buildings on freehold land	(4,211,628)	(5,152,315)
	-	-

#### Plant and machinery

Opening balance	-	-
Additions during the year	68,377,457	-
	68,377,457	-
Transferred to plant and machinery	(47,895,042)	-
	20,482,415	-

#### Advance for purchase of office

	30,337,400	22,837,400
	50,819,815	22,837,400

Note 19

### Long Term Investment

#### Associated undertaking - Unquoted

Sargodha Jute Mills Limited:

	2011 Rupees	2010 Rupees
- 8,120,000 (2010: 8,120,000) fully paid ordinary shares of Rs. 10 each	180,110,073	162,673,367
- Equity held 36.16% (2010: 36.16%)		
- Cost of investment Rs. 65,600,000 (2010: Rs. 65,000,000)		
- Share in net profit of associated undertaking	21,767,126	14,976,701
- Share in realized surplus on revaluation of property, plant and equipment of associated undertaking	2,289,599	2,468,773
- Share in appreciation on revaluation of investments available for sale of associated undertaking	1,052	(8,768)
	204,167,850	180,110,073

- 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 as at June 30, 2011 are as follows:

Equity	564,629,617	498,098,154
Total assets	1,769,879,807	1,475,557,780
Revenue	2,427,902,871	2,196,277,780
Profit after tax	60,196,698	41,417,869

## Note 20

**Stores and Spares**

		<b>2011</b>	<b>2010</b>
	Note	Rupees	Rupees
Stores and spares	20.1	<u>47,828,892</u>	<u>57,729,861</u>

- 20.1** This includes stores in transit amounting to Rs. 0.877 million (2010: Rs. 16.090 million) as at the balance sheet date.

## Note 21

**Stock in Trade**

		<b>2011</b>	<b>2010</b>
		Rupees	Rupees
Raw materials		143,886,442	112,393,712
Work in process		32,095,429	23,792,563
Finished goods		49,515,766	59,042,343
		<u>225,497,637</u>	<u>195,228,618</u>

- 21.1** Stocks amounting to Rs. 140.106 (2010: Rs. 106.608 million) approximately are pledged against short term borrowings (refer to Note 14).

- 21.2** Inventories recognized as an expense during the year include Rs. 73.870 million (2010: Nil) in respect of write-down of inventories to net realizable value.

## Note 22

**Trade Debts**

		<b>2011</b>	<b>2010</b>
	Note	Rupees	Rupees
Local debts (Unsecured - considered good)		23,921,147	16,858,584
Local debts (Unsecured - considered doubtful)		-	2,938,586
		23,921,147	19,797,170
Foreign debts (Secured - considered good)		51,710,071	36,989,265
Provision for doubtful debts	22.1	-	(2,938,586)
		<u>75,631,218</u>	<u>53,847,849</u>
<b>22.1</b> Provision for doubtful debts			
Opening balance		2,938,586	-
Provision made during the year		-	2,938,586
		<u>2,938,586</u>	<u>2,938,586</u>
Bad debts written off		(2,938,586)	-
		<u>-</u>	<u>2,938,586</u>

## Note 23

**Advances, Trade Deposits, Prepayments and Other Receivables**

	Note	2011 Rupees	2010 Rupees
Advances - Considered good:			
- Employees	23.1	623,022	563,253
- Suppliers and others		11,639,762	12,115,285
- Income tax deducted at source		21,362,264	15,040,671
Margins:			
- Letters of credit		-	29,312
- Export margin deposit		180,000	331,500
- Letters of guarantee		394,611	394,611
- Leased assets		39,000	155,700
Prepayments		1,534,726	303,399
Insurance and cotton claims receivable		-	1,489,544
Others		149,656	130,986
		<b>35,923,041</b>	<b>30,554,261</b>

23.1 Amount due from chief executive, directors and executives as at the balance sheet date was Nil (2010: Nil).

## Note 24

**Short Term Investments**

	Note	2011 Rupees	2010 Rupees
<b>At fair value through profit or loss</b>			
<b>Related party - Quoted</b>	24.1		
Sajjad Textile Mills Limited			
- 26,000 (2010: 26,000) fully paid ordinary shares of Rs. 10 each		23,400	19,500
- Market value per share Rs. 0.9 (2010: Rs. 0.75)			
- Cost of investment Rs. 0.147 million (2010: Rs. 0.147 million)			
Sargodha Spinning Mills Limited			
- 42,000 (2010: 42,000) fully paid ordinary shares of Rs. 10 each		120,120	42,000
- Market value per share Rs. 2.86 (2010: Rs. 1.00)			
- Cost of investment Rs. 0.09 million (2010: Rs. 0.09 million)			
Nishat (Chunian) Mills Limited			
- 69 (2010: 69) fully paid ordinary shares of Rs.10 each including 30 (2010: 30) bonus shares		1,538	1,089
- Market value per share Rs. 22.29 (2010: Rs. 15.78)			
- Cost of investment Rs. 908 (2010 : Rs. 908)			
Crescent Fibres Limited			
- 45,675 (2010: 45,675) fully paid ordinary shares of Rs. 10 each including 2,175 (2010 : 2,175) ordinary shares received as bonus shares.		591,491	376,819
- Market value per share Rs. 12.95 (2010: Rs. 8.25)			
- Cost of investment Rs. 0.122 million (2010: Rs. 0.122 million)			
<i>Balance c/f</i>		<b>736,549</b>	<b>439,408</b>

## Note 24 - Short Term Investments ... Contd.

	2011	2010
	Rupees	Rupees
<i>Balance b/f</i>	736,549	439,408
Crescent Textile Mills Limited		
- 302 (2010: 302) fully paid ordinary shares of Rs. 10 each received as bonus shares	4,702	6,514
- Market value per share is Rs. 15.57 (2010: Rs. 21.57)		
First Equity Modaraba		
- 1,005 (2010: 1,005) fully paid ordinary shares of Rs. 10 each	1,256	1,256
- Market value per share is Rs. 1.25 (2010: Rs. 1.25)		
- Cost of investment Rs. 6,049 (2010: Rs. 6,049)		
NIB Bank Limited		
- 317 (2010: 317) fully paid ordinary shares of Rs. 10 each including 36 (2010: 36) ordinary shares of Rs. 10 each received as bonus shares and 3 bonus shares of PICIC Insurance Limited	514	948
Market value Rs. 1.51 per share (2010: Rs. 2.99)		
- Market value per share is Rs. 13.26 (2010: Rs. 3.1)		
- Cost of investment Rs. 750 (2010: Rs. 750)		
Adamjee Insurance Company Limited		
- 62 (2010: 62) fully paid ordinary shares of Rs. 10 each received as bonus shares	4,029	4,953
- Market value per share is Rs. 64.99 (2010: Rs. 79.88)		
	<u>747,050</u>	<u>453,079</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**

	2011	2010
	Rupees	Rupees
Sales tax	5,434,699	7,364,781
Income tax	17,977,062	19,010,315
	<u>23,411,761</u>	<u>26,375,096</u>

## Note 26

**Cash and Bank Balances**

		2011	2010
	Note	Rupees	Rupees
Cash in hand		528,545	737,178
With banks in:			
- Current accounts		8,099,878	20,054,163
- Deposit account	26.1	150,000	650,000
- Foreign currency account		5,169	5,145
		<u>8,255,047</u>	<u>20,709,308</u>
		<u>8,783,592</u>	<u>21,446,486</u>

**Note 26 - Short Term Investments ... Contd.**

**26.1** It carries interest at the rates ranging from 3% to 5% per annum approximately.

**Note 27****Sales - Net**

	<b>2011</b>	<b>2010</b>
	Rupees	Rupees
Yarn:		
- Local	2,910,152,108	2,160,650,338
- Export	1,579,637,078	944,494,397
Duty draw back	-	71,161
Wastes	57,247,731	34,756,994
	<u>4,547,036,917</u>	<u>3,139,972,890</u>
Less: Commission to selling agents	(33,792,639)	(23,588,349)
	<u><u>4,513,244,278</u></u>	<u><u>3,116,384,541</u></u>

**Note 28****Cost of Sales**

		<b>2011</b>	<b>2010</b>
	Note	Rupees	Rupees
Raw materials consumed	28.1	3,376,388,035	2,132,366,577
Stores and spares consumed		67,494,716	59,636,657
Packing materials consumed		60,499,222	52,950,873
Salaries, wages and other benefits	28.2	219,215,137	212,282,456
Fuel and power		301,830,626	272,471,948
Insurance		10,519,938	8,695,344
Repairs and maintenance		5,383,060	5,243,122
Other manufacturing expenses		7,227,529	7,039,937
Depreciation	18.4	53,924,639	54,768,915
		<u>4,102,482,902</u>	<u>2,805,455,829</u>
Opening work in process		23,792,563	14,634,050
Closing work in process		(32,095,429)	(23,792,563)
		<u>(8,302,866)</u>	<u>(9,158,513)</u>
		<u>4,094,180,036</u>	<u>2,796,297,316</u>
Cost of goods manufactured :			
- Opening finished goods		59,042,343	32,485,521
- Purchase of yarn		20,368,000	-
- Closing finished goods		(49,515,766)	(59,042,343)
		<u>29,894,577</u>	<u>(26,556,822)</u>
		<u><u>4,124,074,613</u></u>	<u><u>2,769,740,494</u></u>

**28.1** Inventories recognized as an expense during the year include Rs. 73.870 million (2010: Nil) in respect of write-down of inventories to net realizable value.

**28.2** Salaries and benefits include Rs. 10.485 million (2010: Rs. 9.050 million) on account of staff retirement benefits.

**Note 29****Selling and Distribution Costs**

	<b>2011</b>	<b>2010</b>
	Rupees	Rupees
Freight and octroi	10,720,711	8,913,547
Export sale expenses	36,115,109	32,712,989
	<u>46,835,820</u>	<u>41,626,536</u>

## Note 30

**Administrative Expenses**

		<b>2011</b>	<b>2010</b>
	Note	Rupees	Rupees
Salaries, wages and other benefits	30.1	44,852,158	36,269,659
Printing and stationery		1,111,967	1,327,077
Telephones, telegrams and postage		1,527,208	1,617,821
Traveling and conveyance		834,590	1,137,895
Repairs and maintenance		1,703,095	2,347,697
Vehicles' running and maintenance		5,357,734	4,844,749
Rent, rates and taxes		1,528,460	1,467,183
Insurance		1,573,114	1,508,871
Legal and professional charges		2,479,958	2,836,055
Fees and subscription		1,532,206	1,302,495
Utilities		5,432,014	4,581,580
Entertainment		1,991,879	1,804,045
Advertisement		93,370	1,174,180
Donations	30.2	315,000	100,000
Miscellaneous		206,365	206,778
Depreciation	18.4	3,833,615	2,355,078
		<u>74,372,733</u>	<u>64,881,163</u>

**30.1** Salaries and benefits include Rs. 4.955 million (2010: Rs. 2.208 million) on account of staff retirement benefits.

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

## Note 31

**Other Operating Charges**

	<b>2011</b>	<b>2010</b>
	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 financial asset held for sale	-	1,399,989
Provision for workers' profit participation fund	9,546,335	7,962,723
Provision for workers' welfare fund	2,295,098	3,701,400
Bad debts written off	213,244	400,992
Exchange loss	345,054	-
	<u>13,049,731</u>	<u>14,115,104</u>

## Note 32

**Other Operating Income**

	<b>2011</b>	<b>2010</b>
	Rupees	Rupees
Income from financial assets:		
- Gain on value of investments at fair value through profit or loss	293,971	68,772
- Profit on bank account	91,280	63,870
- Dividend income	66,675	-
- Exchange gain	-	238,024
	<u>451,926</u>	<u>370,666</u>
Income from non - financial assets:		
- Gain on disposal of property, plant and equipment - Net	783,783	3,670,871
Others	1,828,231	211,514
	<u>3,063,940</u>	<u>4,253,051</u>

## Note 33

**Finance and Other Costs**

	<b>2011</b>	<b>2010</b>
	Rupees	Rupees
Interest / mark-up on:		
- Long term financing	23,042,317	28,899,081
- Liabilities against assets subject to finance lease	512,673	1,340,209
- Short term borrowings	47,187,435	46,203,185
	<u>70,742,425</u>	<u>76,442,475</u>
Bank charges and commission	7,744,412	3,389,542
Bank guarantee commission	419,210	321,047
Interest on workers' (profit) participation fund	362,748	260,002
	<u>79,268,795</u>	<u>80,413,066</u>

## Note 34

**Taxation**

	<b>2011</b>	<b>2010</b>
	Rupees	Rupees
Current:		
- Current year	45,470,369	20,421,980
- Prior years	(4,903,018)	53,400
	<u>40,567,351</u>	<u>20,475,380</u>
Deferred	27,791,756	1,971,563
	<u>68,359,107</u>	<u>22,446,943</u>

**34.1** Minimum tax charge for the year has been incorporated in these financial statements due to brought forward tax losses.

**34.2** Reconciliation of tax charge for the year:

Profit before tax	200,473,652	164,837,930
Tax @ 35% on profit before taxation	70,165,778	57,693,276
Prior year tax charge	(4,903,018)	53,400
Tax effect of exports under final tax regime	(5,932,507)	(6,332,288)
Tax effect on income taxed at reduced rates	(7,618,494)	(5,241,845)
Minimum taxation	(11,144,408)	(25,697,161)
Deferred taxation	27,791,756	1,971,563
	<u>68,359,107</u>	<u>22,446,943</u>

## Note 35

**Earnings per Share**

		<b>2011</b>	<b>2010</b>
		Rupees	Rupees
Basic	35.1	7.37	10.51
Diluted	35.2	7.92	7.92
<b>35.1 Basic</b>			
Profit after taxation for the year attributable to ordinary shareholders	Rupees	132,114,545	142,390,987
Weighted average number of ordinary shares outstanding during the year	Number	17,414,482	13,552,569
Earnings per share - Basic	Rupees	7.59	10.51
<b>35.2 Diluted</b>			
Profit after taxation for the year attributable to ordinary shareholders	Rupees	132,114,545	142,390,987
Weighted average number of ordinary shares outstanding during the year	Number	17,414,482	13,552,569
Effect of dilutive reserve arising as per Scheme of Amalgamation	Number	-	4,418,803
		17,414,482	17,971,372
Earnings per share - Diluted	Rupees	7.59	7.92

## Note 36

**Transactions with Related Parties**

Related parties and associated undertakings comprise related group companies, local associated companies, staff retirement funds, 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:

	<b>2011</b>	<b>2010</b>
	Rupees	Rupees
- Purchase of materials, goods and services	162,500	278,400
- Sale of materials, goods and services	288,105	161,342
- Loan from directors (repaid) / received	(28,100,000)	21,500,000
- Mark up on loan from directors	1,112,736	-
- Loans from related parties repaid	(9,376,881)	-
- Purchase of shares in Sargodha Jute Mills Limited	-	40,600,000
- Sale of plant and machinery	-	4,200,000

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 executive of the Company are as follows:

	2011			2010		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Managerial remuneration	3,818,182	6,153,272	6,705,069	3,818,182	6,491,455	3,441,059
Medical	381,818	615,328	670,507	381,818	649,145	344,105
Bonus	350,000	511,550	545,573	350,000	391,550	356,680
Staff retirement benefits	350,000	511,550	676,383	350,000	391,550	400,917
	<u>4,900,000</u>	<u>7,791,700</u>	<u>8,597,532</u>	<u>4,900,000</u>	<u>7,923,700</u>	<u>4,542,761</u>
Number of persons	1	3	7	1	5	3

**37.1** The chief executive, two 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 segments, 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:	2011	2010
	Percentage	Percentage
- Yarn	98.74%	98.89%
Major customers: 2 customers (2010: 2 customers)	14.64%	21.19%
Revenue from external customers attributed to foreign countries	34.74%	30.08%

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

## Note 39

**Plant Capacity and Production**

	2011	2010
	Kilograms	Kilograms
Plant capacity converted into 20/S count based on three shifts per day for 365 days (2010: 365 days)	35,301,278	35,301,278
Actual production converted into 20/S count	31,284,077	32,663,699

**Reasons for shortfall**

Shut down of two units since April 13, 2011 due to predictable heavy losses is the main reason for eventual reduction in production of yarn. Other reasons attributable to under utilization of optimal production are power shutdown, cessation of gas for two days in a week and maintenance of machinery 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 uses to hedge its export bills discounting, when considered appropriate. The Company's exposure to currency risk was as follows:

	<b>2011</b>	<b>2010</b>
	Rupees in thousands	
Trade debts	51,710	36,989
Gross balance sheet exposure	51,710	36,989
Outstanding commitments against letters of credit	-	(10,709)
Net exposure	<u>51,710</u>	<u>26,280</u>

The following significant exchange rates were applied during the year:

**Rupees per US Dollar**

Average rate	86.24	83.37
Reporting date rate	86.05	85.40

**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 after taxation for the year would have been Rs. 2.586 million (2010: Rs. 1.850 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.

**Sensitivity analysis**

A change of 5% in the value of investments at fair value through profit or loss would have increased / decreased profit or loss by Rs. 37,353 (2010: Rs. 22,654) on the basis that all other variables remain constant.

**(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:

	<b>2011</b>	<b>2010</b>
	Rupees in thousands	
<b>Floating rate instruments</b>		
<b>Financial liabilities</b>		
Long term financing	211,632	283,646
Liabilities against assets subject to finance lease	3,263	4,957
Short term borrowings	190,801	153,073
 Financial assets		
<b>Bank balances - saving accounts</b>	150	650

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

If interest rates at the balance sheet date, fluctuate by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rs. 4.057 million (2010: Rs. 4.417 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of liabilities outstanding at balance sheet dates were outstanding for the whole year.

Note 40 - Financial Risk Management .... Contd.

**(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:

	<b>2011</b>	<b>2010</b>
	Rupees in thousands	
Long term deposits	919	886
Trade debts	75,631	53,848
Advances, trade deposits and other receivables	1,347	2,910
Short term investments	747	453
Bank balances	8,255	20,709

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

	<b>Rating</b>		<b>Rating Agency</b>	<b>2011</b>	<b>2010</b>
	<b>Short term</b>	<b>Long term</b>			
Allied Bank Limited	A1+	AA	PACRA	273,046	1,250,526
Habib Bank Limited	A1+	AA+	JCR-VIS	39,498	603,304
National Bank of Pakistan	A1+	AAA	JCR-VIS	1,082,044	751,559
MCB Bank Limited	A1+	AA+	PACRA	2,092,128	2,822,343
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	4,389,342	14,758,301
Bank Alfalah Limited	A1+	AA	PACRA	205,359	369,474
NIB Bank Limited	A1+	AA-	PACRA	129,072	109,118
United Bank Limited	A1+	AA+	JCR-VIS	44,557	44,683
				<u>8,255,046</u>	<u>20,709,308</u>

**(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. 694.20 million worth unavailed short term borrowing limits available (both funded and unfunded) from financial institutions and Rs. 8.784 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, 2011:

	<b>Carrying Amount</b>	<b>Contractual cash flows</b>	<b>Within 1 year</b>	<b>2-5 Years</b>	<b>More than 5 years</b>
			Rupees '000		
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	93,898	93,898	93,898	-	-
Accrued interest	12,980	12,980	12,980	-	-
Short term finances	190,801	221,329	221,329	-	-
	<u>542,102</u>	<u>615,674</u>	<u>393,962</u>	<u>215,913</u>	<u>5,800</u>

Contractual maturities of financial liabilities as at June 30, 2010:

	<b>Carrying Amount</b>	<b>Contractual cash flows</b>	<b>Within 1 year</b>	<b>2-5 Years</b>	<b>More than 5 years</b>
			----- Rupees '000 -----		
Long-term finances	326,123	378,927	59,887	199,549	119,491
Liabilities against leased assets	4,957	5,842	2,189	3,653	-
Trade and other payables	117,316	117,316	117,316	-	-
Accrued interest	12,617	12,617	12,617	-	-
Short term finances	153,073	153,073	153,073	-	-
	<u>614,085</u>	<u>667,775</u>	<u>345,082</u>	<u>203,202</u>	<u>119,491</u>

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.

#### 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 on the balance sheet date, the gearing ratio of the Company was as under:

	<b>2011</b>	<b>2010</b>
	Rupees in thousands	
Total borrowings	438,488	484,152
Cash and bank balances	(8,784)	(21,446)
Net Debt	<u>429,704</u>	<u>462,706</u>
Equity	582,220	449,480
Total Capital	<u>1,011,924</u>	<u>912,186</u>
<b>Gearing Ratio</b>	<u>42.46%</u>	<u>50.72%</u>

Note 42

**Subsequent Events**

The directors in their meeting held on October 03, 2011 have recommended a final dividend of Rs. 0.5 (2010: Rs. 0.5) per share in respect of the year ended June 30, 2011.

Note 43

**Authorization of Financial Statements**

These financial statements were authorized for issue by the Board of Directors of the Company on October 03, 2011.

Note 44

**General**

Figures have been rounded off to the nearest rupee.

Comparative figures have been re-arranged / reclassified, wherever necessary, to facilitate comparison. Following rearrangements have been made in these financial statements for better presentation of the financial statements:

<b>From</b>	<b>Amount (Rupees)</b>	<b>To</b>	<b>Amount (Rupees)</b>
Salaries, wages and other benefits (Note 28)	(5,179,893)	Other manufacturing expenses (Note 28)	5,179,893
Freight and octroi Export claims and others (Note 29)	(11,429,387) (51,104)	Export sale expenses (Note 29)	11,480,491

**CHIEF EXECUTIVE****DIRECTOR**

## FORM - 34

PATTERN OF HOLDING OF SHARES  
HELD BY THE SHAREHOLDERS AS AT 30TH JUNE, 2011

No. of Shareholders	Share Holding		Total Shares Held
	From	To	
466	1	100	13,225
248	101	500	58,891
52	501	1,000	36,964
47	1,001	5,000	94,219
3	5,001	10,000	23,570
4	10,001	15,000	50,974
4	15,001	20,000	69,321
2	35,001	40,000	75,715
1	75,001	80,000	79,706
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	385,001	390,000	386,710
1	430,001	435,000	432,131
1	445,001	450,000	448,289
2	450,001	455,000	903,015
1	545,001	550,000	548,531
1	615,001	620,000	617,991
1	735,001	740,000	739,954
1	760,001	765,000	760,382
1	830,001	835,000	835,000
1	835,001	840,000	837,470
1	1,070,001	1,075,000	1,074,917
1	1,680,001	1,685,000	1,682,217
2	3,585,001	3,590,000	7,175,729
<b>846</b>			<b>17,971,372</b>

## DETAIL OF PATTERN OF SHAREHOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE AS AT 30-06-2011

Shareholders' Category	No. of Shareholders	No. of Shares Held	Percentage %
<b>Associated Companies, Undertakings and Related Parties.</b>			
Sargodha Jute Mills Limited	1	14,990	0.083
<b>NIT and ICP</b>			
National Bank of Pakistan, Trustee Department (NIT)	1	410	0.002
Investment Corporation of Pakistan	1	8,900	0.050
<b>Directors, Chief Executive Officer and Their Spouse and Minor Children</b>			
Mr. Imran Aslam	Chief Executive Officer/Director	3,587,865	19.964
Mian Parvez Aslam	Director	1,074,917	5.981
Mr. Rashid Ahmad	Director	650	0.004
Chaudhry Hakim Ali	Director	650	0.004
Mr. Humayun Bakht	Director	650	0.004
Lt. Col. ® Abdul Qayyum	Director	650	0.004
Mr. Hassan-ud-Din Ansari	Director	650	0.004
Mrs. Fakhra Parvez	Spouse	837,470	4.660
<b>Executives</b>	-	-	-
<b>Public Sector Companies and Corporations</b>	-	-	-
Banks, Development Finance Institutions, Non-banking Finance Institutions, Insurance Companies Modaraba and Mutual Funds	21	10,646	0.059
<b>Shareholders holding 10% or more than voting interest</b>			
Mr. Irfan Aslam	1	3,587,864	19.964
Mian Shahzad Aslam	1	2,442,599	13.592

## CATEGORIES OF SHAREHOLDERS AS AT 30-06-2011

Shareholders' Category	No. of Shareholders	No. of Shares Held	Percentage %
General Public			
a) Local	808	6,399,770	35.611
b) Foreign	-	-	-
Others (to be specified)			
Crescent Jute Products Limited	1	60	0.000
Sarfraz Mahmood (Pvt.) Limited	1	21	0.000
Shakargung Mills Limited	1	2,310	0.013
Impex Corporation (Pvt.) Limited	1	300	0.002
Trade in the shares of the Company carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children.	-	-	-
<b>Total Number of Shares</b>	<b>846</b>	<b>17,971,372</b>	<b>100.000</b>

## 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 Saturday, October 29, 2011 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 \_\_\_\_\_ 2011

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 26<sup>th</sup> 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.