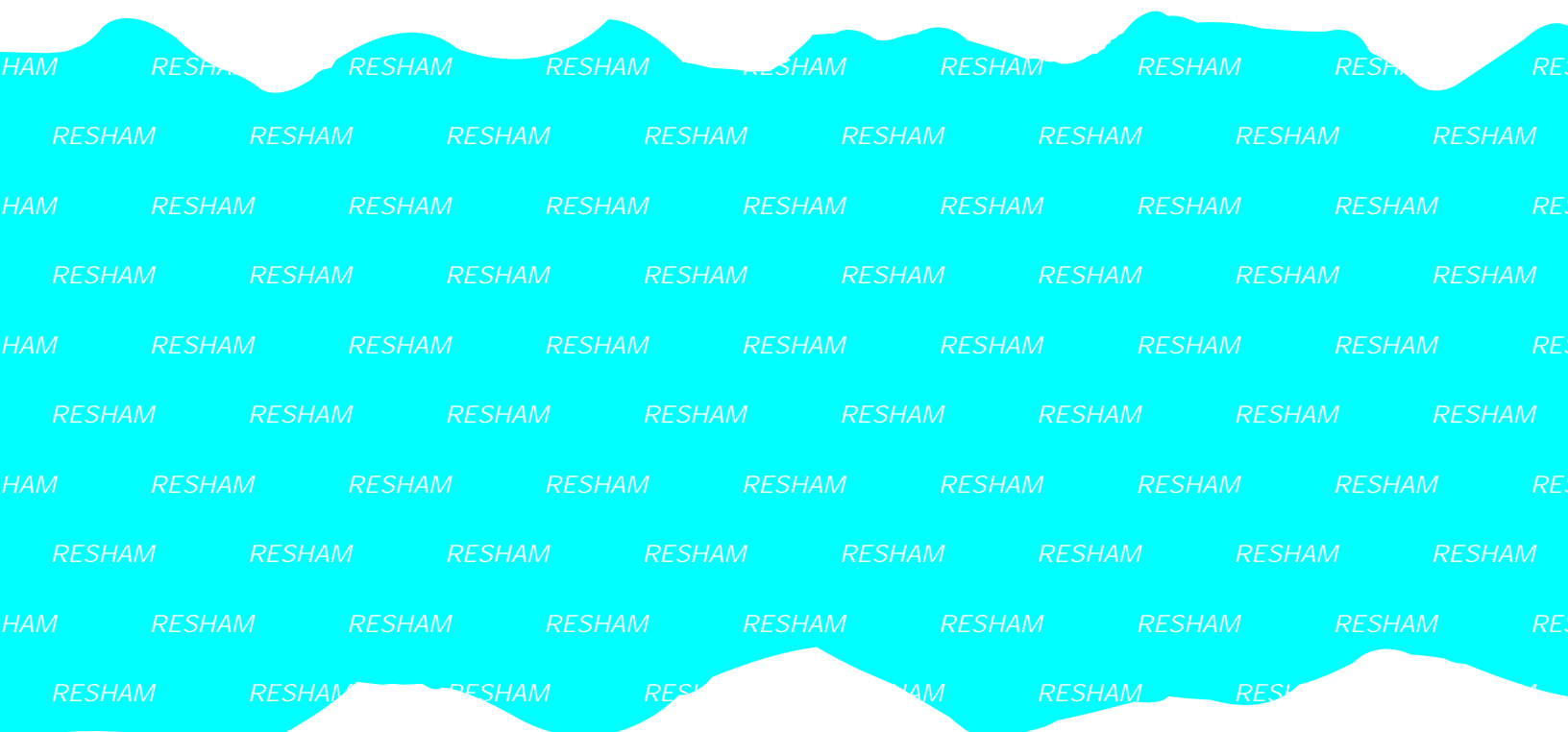
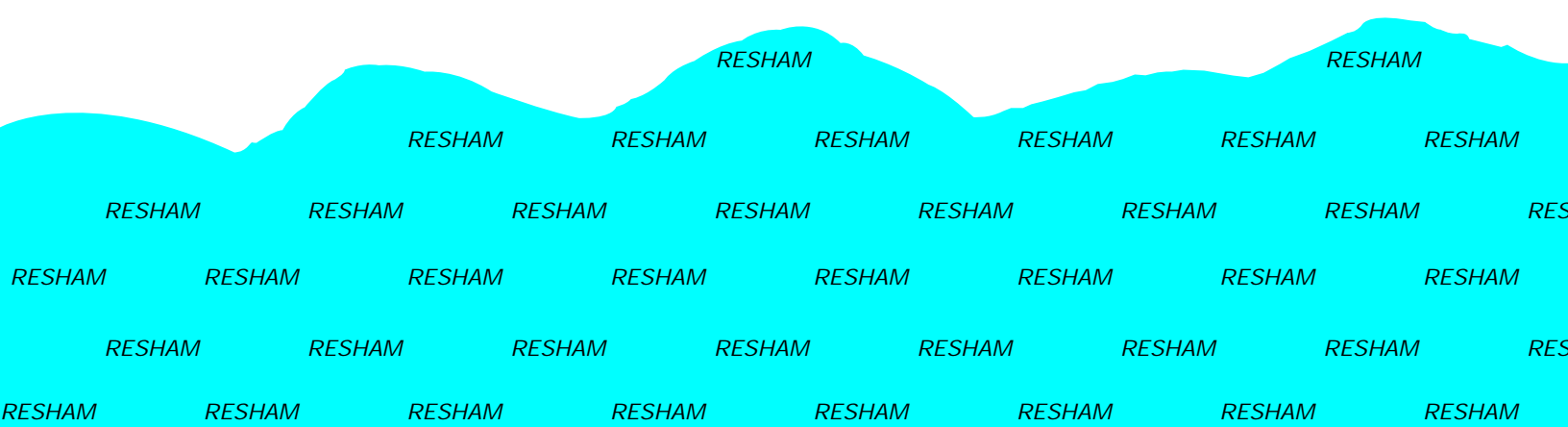




RESHAM TEXTILE INDUSTRIES LIMITED



ANNUAL REPORT 2011



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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Annual Report

COMPANY INFORMATION

CHIEF EXECUTIVE OFFICER	:	Ch. Muhammad Khurshid
DIRECTORS	:	Ch. Rahman Bakhsh Mrs. Salma Aziz Mr. Kamran Ilyas Mr. Azhar Khurshid Chaudhry Ms. Kiran A. Chaudhry Mr. Muhammad Ali Chaudhry
CHIEF FINANCIAL OFFICER	:	Mr. Abid Murtaza
COMPANY SECRETARY	:	Mr. Abid Murtaza
AUDITORS	:	M/s Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants Lahore.
AUDIT COMMITTEE	:	Mr. Kamran Ilyas Chairman Mr. Azhar Khurshid Chaudhry Member Mrs. Salma Aziz Member
BANKERS	:	National Bank of Pakistan Faysal Bank Limited Al Baraka Bank (Pakistan) Ltd. Orix Leasing Pakistan Limited Bank Alfalah Limited First National Bank Modaraba The Bank of Punjab
SHARE REGISTRAR	:	Corplink (Pvt.) Ltd.
LEGAL ADVISORS	:	Mr. Shaukat Haroon (Advocate) Barrister Salman Rahim (Advocate High Court)
REGISTERED OFFICE	:	314-Upper Mall, Lahore.
MILLS	:	1.5 Kilometer Habibabad, Chunian Road, Tehsil Chunian, District Kasur.

MISSION

The management is committed to excellence in operations with the aim of achieving highest standards in product quality, customer satisfaction, Company growth, employees welfare and social responsibilities and is constantly striving to meet these objectives.



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 22nd Annual General Meeting of the Shareholders of Resham Textile Industries Limited will be held on Saturday 29 October 2011 at 11:00 a.m. at the Registered Office of the Company i.e. 314 Upper Mall, Lahore to transact the following business.

1. To confirm the minutes of the last Meeting.
2. To receive and adopt the audited accounts of the Company for the year ended 30 June 2011 and reports of the Directors' and Auditors' thereon.
3. To appoint auditors and to fix their remuneration for the year ending 30 June 2012. The auditors M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, Lahore retire and being eligible, offer themselves for reappointment.
4. To approve Final Cash Dividend @ 15% as recommended by the Board of Directors.
5. To elect 7 Directors as fixed by the Board of Directors for a term of 3 years commencing from 29 October 2011 in accordance with the provisions of the section 178 of the Companies Ordinance, 1984. The following retiring Directors are eligible and offer themselves for re-election:-
 1. Ch. Muhammad Khurshid
 2. Ch. Rahman Bakhsh
 3. Mrs. Salma Aziz
 4. Mr. Kamran Ilyas
 5. Mr. Azhar Khurshid Chaudhry
 6. Ms. Kiran A. Chaudhry
 7. Mr. Muhammad Ali Chaudhry
6. To transact such other business as may be placed before the meeting with the permission of the Chair.

By Order of the Board

(**ABID MURTAZA**)

Company Secretary

Lahore: 07 October 2011.

NOTES:

1. The Share Transfer Books of the Company will remain closed from 23 October 2011 to 29 October 2011 (both days inclusive).
2. A member entitled to attend and vote at the meeting may appoint another member of the Company as a proxy to attend and vote instead of him. A proxy form duly signed and stamped must be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the meeting.
3. The account holders of CDC are requested to bring their original CNIC/ Passport for the purpose of identification at the meeting.
4. Shareholders are requested to immediately notify the Company any changes in address.

DIRECTORS' REPORT

It is my pleasure to present the Directors' Report and the audited accounts for the financial year ended June 30, 2011 alongwith the Auditors' Report.

Performance Review

By the grace of Allah, s,w,t, the Company operations during the year under review remained satisfactory when compared with other companies of similar size. The Company made a profit after tax of Rs. 65.792 (M) as against profit after tax of Rs. 173.765 (M) (s.p.l.y.). The sales increased to Rs.3,704.951 (M) as against Rs. 2,232.455 (M) (s.p.l.y.). The results would have been outstanding but unfortunately the increase in cotton and yarn prices, which was abnormal by any standards and led to good profits in the industry over the first three quarters, dramatically reversed in the 4th quarter as cotton and yarn prices crashed worldwide. This major development led to closure of several mills and significantly reduced profitability in others, including your Company. It is, however, a matter of satisfaction that we sailed through the crisis of the 4th quarter and operationally performed well.

The summarized financial results are given below and details may be perused in other sections of this report.:-

	2011	2010
	(Rupees in Million)	
Sales	3,704.951	2,232.455
Cost of sales	<u>3,409.780</u>	<u>1,811.714</u>
Gross profit	295.171	420.741
Administrative expenses	<u>21.663</u>	<u>17.941</u>
Distribution cost	<u>23.923</u>	<u>17.109</u>
	<u>45.586</u>	<u>35.050</u>
	249.585	385.691
Other operating expenses	<u>12.855</u>	<u>20.543</u>
	236.730	365.148
Other operating income	<u>6.325</u>	<u>10.352</u>
Operating profit	<u>243.055</u>	<u>375.500</u>
Finance cost	<u>100.721</u>	<u>98.324</u>
Profit before taxation	142.334	277.176
Income tax Expense	<u>76.542</u>	<u>103.408</u>
Profit for the period	<u><u>65.792</u></u>	<u><u>173.768</u></u>
Earning per share - <i>Basic & diluted (Rupees)</i>	<u><u>1.83</u></u>	<u><u>4.83</u></u>

Changes in Accounting Policies

There have been no changes in the accounting policies of the Company during the year.

Future Prospects

The world economy is in a state of turmoil and there is absence of consumer confidence in the major economies of the 1st world. People have adopted wait and see attitude which has hurt demand for cotton and yarn like everything else. In addition, heavy rains and floods have affected the earlier expected bumper cotton crop in Pakistan, both in terms of quality and quantity. There is also turmoil in the middle-east and Pak US relations are also at the lowest ebb. Massive world resources are being diverted to military uses and in our assessment the current year is likely to be one of the most difficult years in the short life of the Company spreading over 20 years or so. However, with micro-management, stress on economy and other required measures, we do hope to sail through the year without any major difficulty.

Corporate Social Responsibilities

The Management is well aware of the social responsibilities and is sensitive to the needs of the employees, industry and society at large. A school is run for children of the employees at mill premises while transport and other facilities are provided for senior students. A dispensary provides health care in addition to the social security medical facilities and medicines are provided free. In cases of hardship financial help is provided to the employees on case to case basis. Also under a scheme of provision of transport, middle level employees have been provided with motorcycles which are for use by them during service in the Company. Liberal rewards and bonuses are given to the employees in recognition of their outstanding work.

The Management has also taken note of the hardship being faced due to floods and rains and the affectees are being provided help in terms of food and medicines through different NGOs of repute after ascertaining their credentials. This effort is in addition to the efforts through APTMA and other organizations. We also hope and plan that these efforts will be increased in future years as the financial health of the Company improves.

Corporate and Financial Reporting Framework

As required by the code of corporate governance, Directors are pleased to report that:

- The financial statements, prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Accounting policies have been consistently applied in preparation of financial statements and the accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.
- The system of internal control, which is in place, is being continuously reviewed by internal audit. The process of review will continue and any weakness in controls will be removed.
- There are no doubts about the Company's ability to continue as a going concern.
- There has been no departure from the best practices of corporate governance as detailed in the listing regulations.
- Outstanding taxes and other Government levies are given in related note(s) to the audited accounts.
- During the last financial year, four (4) meetings of the Board of Directors were held.
- Key operations and financial data for last seven (7) years is annexed.

Annual Report

- No trade in the shares of the Company was carried out by the Directors, CEO, CFO, Company Secretary, Executives, their spouses and minor children.

Pattern of Shareholding

A statement reflecting the pattern of shareholding is attached to the Annual report.

Acknowledgements

The Directors take this opportunity to thank the Company's Bankers, particularly National Bank of Pakistan, Al Baraka Islamic Bank, Bank Alfalah Limited, Faysal Bank Limited, First National Bank Modaraba, Orix Leasing Pakistan Limited, The Bank of Punjab and other financial Institutions for their confidence in the Company and strong financial support. The Directors feel pleasure in expressing appreciation for the continued interest and support of all the shareholders of the Company. The Directors would also like to particularly mention the dedication and devotion displayed by the employees while performing their duties during the period and hope that the same spirit will prevail in the future as well.

For and on behalf of the Board

Lahore: 07 October 2011.

CH. MUHAMMAD KHURSHID
(Chief Executive Officer)

Financial Summary

	2011	2010	2009	2008	2007	2006	2005
BALANCE SHEET							
(Rupees in thousand)							
Paid up Share Capital	360,000	360,000	360,000	360,000	300,000	245,177	245,177
Unappropriated Profit & (Loss)	154,507	110,821	(69,104)	(61,475)	(34,962)	(5,715)	2,430
Total Equity	514,507	470,821	290,896	298,525	265,038	239,462	247,607
Surplus on Revaluation of Fixed Assets	156,914	173,150	89,422	96,544	117,693	158,071	189,623
Long Term Liabilities	166,327	195,436	219,139	243,794	145,520	186,600	246,564
Liabilities against assets subject to finance lease	30,325	72,986	136,744	164,481	157,132	128,312	50,227
Deferred Liabilities	210,580	163,777	23,716	26,662	46,331	42,363	22,035
Long Term Advances	143	79	53	65	46	66	53
Current Liabilities	454,080	207,819	420,836	339,082	308,427	293,206	236,325
	1,532,876	1,284,068	1,180,806	1,169,153	1,040,187	1,048,081	992,434
Represented by:							
Fixed Assets	925,417	898,508	821,228	882,840	768,566	723,221	374,220
Capital work in progress	-	8,631	-	-	1,340	51,830	377,966
Other Assets	3,668	3,673	3,682	3,682	7,668	7,648	3,725
Current Assets	603,791	373,256	355,896	282,631	262,613	265,382	236,523
	1,532,876	1,284,068	1,180,806	1,169,153	1,040,187	1,048,081	992,434
PROFIT AND LOSS							
(Rupees in thousand)							
Sales-net	3,704,951	2,232,455	1,542,141	1,302,115	1,198,893	973,118	601,077
Cost of Sales	3,409,780	1,811,714	1,419,120	1,261,697	1,152,020	920,847	541,298
Gross Profit	295,171	420,741	123,021	40,418	46,873	52,270	59,779
Operating Profit	249,585	385,690	99,728	19,039	31,558	38,348	37,990
Profit / (Loss) Before Taxation	142,334	277,176	(13,737)	(54,187)	(31,191)	(6,332)	21,444
Profit / (Loss) After Taxation	65,792	173,768	(15,047)	(34,702)	(39,675)	(15,313)	37,998
Earning / (Loss) Per Share Rs.	1.83	4.83	(0.42)	(1.15)	(1.54)	(0.59)	1.72
Dividend % age	15.00	10.00	-	-	-	-	5.00
PERCENTAGE TO SALES							
Gross Profit % age	7.97	18.85	7.98	3.10	3.91	5.37	9.95
Profit / (Loss) Before Taxation % age	3.84	12.42	(0.89)	(4.17)	(2.60)	(0.65)	3.57
Profit / (Loss) After Taxation % age	1.78	7.78	(0.98)	(2.67)	(3.31)	(1.57)	6.32
Admin & Selling Expenses % age	1.23	1.57	1.51	1.33	1.28	1.63	3.74

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulation of Karachi and Lahore Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors. At present the Board includes four (4) independent non-executive 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 any banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as defaulter by that stock exchange.
4. The board has developed a mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended is being maintained.
5. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, determination of remuneration and terms and conditions of employment of the CEO and other executive directors have been taken by the Board.
6. The meetings of the Board were presided over by the Chairman and the Board met at least once every quarter. Written notices of the Board meetings along-with agenda were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
7. 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.
8. The CEO and CFO duly endorsed the financial statements of the Company before approval by the Board.
9. The Company has complied with all the corporate and financial reporting requirements of the Code.
10. The Board has formed an audit committee comprising three members, of whom all are non-executive directors including the Chairman of the committee.

11. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
12. The Board has set-up an effective internal audit function. The staff is considered to be suitably qualified and experienced for the purpose and is fully conversant with the policies and procedures of the Company.
13. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review Programme 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.
14. The statutory auditors or the persons associated with them have not been appointed to provide the other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
15. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

CH. MUHAMMAD KHURSHID
(Chief Executive Officer)

Lahore : 07 October 2011.

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 (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended 30 June 2011 prepared by the Board of Directors of **Resham Textile Industries Limited** to comply with the Listing Regulations No. 35 (chapter XI) of the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code 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 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, sub regulation (xiii a) of Listing Regulation No. 35 notified By The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 and sub regulation (xiii a) of Listing Regulation No. 35 notified by Lahore Stock Exchange (Guarantee) Limited requires the Company to place before the Board of Directors for their consideration and approval of 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 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 audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's 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, for the year ended 30 June 2011.

(ERNST & YOUNG FORD RHODES SIDAT HYDER)
CHARTERED ACCOUNTANTS

Audit Engagement Partner: Farooq Hameed

LAHORE : 07 October 2011.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Resham Textile Industries Limited (the Company)** as at **30 June 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 account 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 **30 June 2011** and of the profit, its comprehensive income, 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.

(ERNST & YOUNG FORD RHODES SIDAT HYDER)
CHARTERED ACCOUNTANTS

Audit Engagement Partner: Farooq Hameed

LAHORE : 07 October 2011.

BALANCE SHEET AS AT

	Note	2011 Rupees	2010 Rupees
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorized share capital 36,000,000 (2010: 36,000,000) ordinary shares of Rupees 10 each		<u>360,000,000</u>	<u>360,000,000</u>
Issued, subscribed and paid up share capital	5	360,000,000	360,000,000
Unappropriated profit		<u>154,506,563</u>	<u>110,820,632</u>
Total equity		514,506,563	470,820,632
Surplus on revaluation of property, plant & equipment	6	156,914,450	173,149,759
Non-current liabilities			
Long term financing	7	166,326,500	195,436,000
Liabilities against assets subject to finance lease	8	30,325,460	72,985,896
Long term deposits	9	142,716	79,438
Deferred liabilities	10	<u>210,580,543</u>	<u>163,776,897</u>
		407,375,219	432,278,231
Current liabilities			
Trade and other payables	11	140,765,206	82,468,175
Accrued mark-up on financing	12	21,817,866	14,524,702
Short term borrowings	13	226,035,230	48,472,040
Current portion of non-current liabilities	14	<u>65,461,424</u>	<u>62,354,708</u>
		454,079,726	207,819,625
Total liabilities		<u>861,454,945</u>	<u>640,097,856</u>
TOTAL EQUITY AND LIABILITIES		<u><u>1,532,875,958</u></u>	<u><u>1,284,068,247</u></u>
CONTINGENCIES AND COMMITMENTS	15		

The annexed notes from 1 to 39 form an integral part of these financial statements.

(Chief Executive Officer)

30 JUNE 2011

	Note	2011 Rupees	2010 Rupees
ASSETS			
Non-current assets			
Property, plant and equipment	16	925,417,226	907,139,942
Long term deposits		3,667,560	3,672,560
		929,084,786	910,812,502
Current assets			
Stores and spare parts	17	33,178,442	21,780,877
Stock in trade	18	358,597,423	249,701,683
Trade debts	19	84,639,352	45,371,493
Advances	20	4,805,976	6,539,696
Trade deposits and short term prepayments	21	2,350,620	2,438,271
Other receivables		-	120,660
Taxation - net		3,151,799	6,924,907
Tax refunds due from the Government	22	14,971,001	12,939,990
Cash and bank balances	23	102,096,559	27,438,168
		603,791,172	373,255,745
TOTAL ASSETS		<u><u>1,532,875,958</u></u>	<u><u>1,284,068,247</u></u>

(Director)

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	2011 Rupees	2010 Rupees
Sales	24	3,704,951,003	2,232,454,945
Cost of sales	25	3,409,779,924	1,811,714,288
Gross profit		295,171,079	420,740,657
Operating expenses:			
Distribution cost	26	23,922,849	17,108,796
Administrative expenses	27	21,663,625	17,941,438
		45,586,474	35,050,234
Operating profit		249,584,605	385,690,423
Other operating expenses	28	12,855,166	20,542,579
		236,729,439	365,147,844
Other operating income	29	6,324,877	10,352,046
		243,054,316	375,499,890
Finance cost	30	100,720,719	98,323,938
Profit before taxation		142,333,597	277,175,952
Taxation	31	76,541,547	103,408,294
Profit after taxation		65,792,050	173,767,658
Earnings per share - basic and diluted	32	1.83	4.83

The annexed notes from 1 to 39 form an integral part of these financial statements.

(Chief Executive Officer)

(Director)



STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	2011 Rupees	2010 Rupees
Profit after tax for the year	65,792,050	173,767,658
Other comprehensive income	-	-
Total comprehensive income transferred to equity	65,792,050	173,767,658

The annexed notes from 1 to 39 form an integral part of these financial statements.

(Chief Executive Officer)

(Director)

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	2011 Rupees	2010 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	142,333,597	277,175,952
Adjustment for:		
Depreciation	73,053,166	65,999,250
Gain on disposal of property, plant and equipment	(58,310)	(6,715,744)
Gain on sale of assets held for sale	-	(125,000)
Provision for gratuity	7,044,991	5,680,775
Property, plant and equipment written off	624,639	-
Exchange gain	(37,200)	(920,874)
Creditors written back	-	(44,842)
Sales tax refundable written off	1,681,636	-
Provision against Workers' Profit Participation Fund	7,644,124	14,885,927
Provision against Workers' Welfare Fund	2,904,767	5,656,652
Finance cost	100,720,719	98,323,938
Profit before working capital changes	<u>193,578,532</u>	<u>182,740,082</u>
Effect on cash flows due to working capital changes (Increase) / decrease in current assets		
Stores and spare parts	(11,397,565)	(3,165,299)
Stock in trade	(108,895,740)	39,269,737
Trade debts	(39,230,659)	(20,791,316)
Advances	1,733,720	(5,640,778)
Trade deposits and short term prepayments	87,651	(367,798)
Tax refunds due from the Government	(3,712,647)	(4,482,901)
Other receivables	120,660	(113,538)
Increase / (decrease) in current liabilities		
Trade and other payables	47,639,244	(76,691)
	<u>(113,655,336)</u>	<u>4,631,416</u>
Cash generated from operations	222,256,793	464,547,450
Finance cost paid	(93,427,557)	(129,244,953)
Income tax paid	(33,276,401)	(11,882,685)
Gratuity paid	(2,074,812)	(1,628,894)
Net cash flow from operating activities	93,478,023	321,790,918
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure incurred on property, plant and equipment	(93,238,776)	(20,014,909)
Proceeds from sale of property, plant and equipment	1,342,000	8,955,440
Proceeds from assets held for sale	-	1,025,000
Decrease in long term deposits	5,000	10,000
Net cash used in investing activities	(91,891,776)	(10,024,469)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term financing - net	(25,609,500)	(27,525,000)
Repayment of liabilities under finance lease - net	(43,053,720)	(68,265,244)
Increase / (decrease) in short term borrowings - net	177,563,190	(194,186,845)
Dividend paid	(35,891,104)	-
Increase in long term deposits	63,278	26,000
Net cash flow from / (used in) financing activities	73,072,144	(289,951,089)
Net increase in cash and cash equivalents	74,658,391	21,815,360
Cash and cash equivalents at the beginning of the year	27,438,168	5,622,808
Cash and cash equivalents at the end of the year	102,096,559	27,438,168

The annexed notes from 1 to 39 form an integral part of these financial statements.

(Chief Executive Officer)

(Director)

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

	Share capital	(Accumulated loss) / Un-appropriated profit	Total equity
	----- Rupees -----		
Balance as on 01 July 2009	360,000,000	(69,104,217)	290,895,783
Total comprehensive income for the year	-	173,767,658	173,767,658
Transferred from surplus on revaluation of fixed assets			
- incremental depreciation net of deferred tax	-	6,157,191	6,157,191
Balance as at 30 June 2010	360,000,000	110,820,632	470,820,632
Final dividend paid for the year 2010 at the rate of Rs. 1 per share	-	(36,000,000)	(36,000,000)
Total comprehensive Income for the year	-	65,792,050	65,792,050
Transferred from surplus on revaluation of fixed assets			
- incremental depreciation net of deferred tax	-	13,893,881	13,893,881
Balance as on 30 June 2011	360,000,000	154,506,563	514,506,563

The annexed notes from 1 to 39 form an integral part of these financial statements.

(Chief Executive Officer)

(Director)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1. THE COMPANY AND ITS OPERATIONS

Resham Textile Industries Limited (the Company) is a public limited company incorporated in Pakistan on 06 June 1990 under the Companies Ordinance, 1984 and quoted on the Lahore and Karachi stock exchanges. The registered office of the Company is situated at 314- Upper Mall, Lahore. The Company is principally engaged in the business of manufacturing and selling of yarn.

2. 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.

2.1 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (accounting periods beginning on or after)
IAS 1 – Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	01-July-2012
IFRS 7 – Financial Instruments : Disclosures - Amendments enhancing disclosures about transfers of financial assets (see note 3 below)	01-July-2011
IAS 12 – Income Tax (Amendment) – Deferred Taxes : Recovery of Underlying Assets	01-January-2012
IAS 19 – Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	01-January-2013
IAS 24 – Related Party Disclosures (Revised)	01-January-2011
IFRIC 14 – Prepayments of a Minimum Funding Requirement (Amendment)	01-January-2011

The Company expects that the adoption of the above revisions, amendments and interpretations of the standards will not materially affect the Company's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2011. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

Further, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard or Interpretation	IASB Effective Date (annual periods beginning on or after)
IFRS 9 - Financial Instruments	01-January-2013
IFRS 10 - Consolidated Financial Statements	01-January-2013
IFRS 11 - Joint Arrangements	01-January-2013
IFRS 12 - Disclosure of Interests in Other Entities	01-January-2013
IFRS 13 - Fair Value Measurement	01-January-2013

2.2 Standards, interpretations and amendments to published approved accounting standards effective in 2010-2011

New and amended standards and interpretations

The company has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

- IFRS 2 - Group Cash-settled Share-based Payment Arrangements
- IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

Improvements to various standards issued by IASB

Issued in 2009

- IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations
- IFRS 8 - Operating Segments
- IAS 1 - Presentation of Financial Statements
- IAS 7 - Statement of Cash flows
- IAS 17 - Leases
- IAS 36 - Impairment of Assets
- IAS 39 - Financial Instruments: Recognition and Measurement

Issued in April 2010

- IFRS 3 - Business Combinations
- IAS 27 - Consolidated and Separate Financial Statements

The adoption of the above standards, amendments / improvements and interpretations did not have any significant effect on the financial statements.

3 BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention, except for recognition of certain employee benefits at present value, certain items of property, plant and equipment measured at revalued amounts and financial instruments carried at fair value.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectation of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

- Employee benefits (Note 4.6);
- Taxation (Note 4.9);
- Useful lives and residual value of property, plant and equipment (Note 4.11)

4.2 Surplus on revaluation of property, plant and equipment

This represents the surplus arising on the revaluation of operating property, plant and equipment of the Company. Revaluation surplus is credited to the "surplus on revaluation of property, plant and equipment" presented below equity (in accordance with the requirements of section 235 of Companies Ordinance, 1984) except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss and in which case the increase is recognized in profit and loss account. An annual transfer from the surplus on revaluation of property, plant and equipment (net of deferred tax) to un-appropriated profit is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

This surplus is not free for setting-off or reducing any deficit of the Company. However, it can only be utilized:

- i) to the extent actually realized on disposal of the assets which are revalued;
- ii) to the extent of incremental depreciation arising out of revaluation of property, plant and equipment; or
- iii) setting-off or in diminution of any deficit arising from the revaluation of any other property, plant and equipment of the Company.

4.3 Interest bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value of amount the received less directly attributable transaction costs. After initial recognition, long term interest-bearing loans and borrowings are measured at amortized cost using the effective interest method while short term borrowings are measured at fair value. Gains and losses are recognized in profit and loss account when the liabilities are derecognized as well as through the amortization process.

4.4 Liabilities against assets subject to finance lease

Leases, where the Company has substantially all the risks and rewards of ownership of assets, are classified as finance leases. At inception, finance leases are recorded at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets. The related rental obligations, net of finance cost, are included in liabilities against assets subject to finance lease as in Note 8. The liabilities are classified as current and non-current depending upon the timing of the payment. Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit and loss account over the lease term.

4.5 Ijarah assets

The Company recognizes ijarah payments under an Ijarah agreement as an expense in the profit and loss account on a straight line basis over the Ijarah term.

4.6 Employee benefits

The Company operates an unfunded gratuity scheme for its permanent employees. The latest valuation was carried out as at 30 June 2010 using the projected unit credit method. Actuarial gains and losses on defined benefit plans are recognized on the basis corridor approach as per IAS 19. The future contribution rates of this plan include allowances for deficit and surplus. Following significant assumptions are used for valuation of this scheme:

- Expected rate of increase in salary level is 11 % (2010: 11 %) per annum.
- Discount rate of 12% (2010: 12%) per annum.

Actuarial gains / losses in excess of corridor limit as at the balance sheet date are recognized over the remaining service lives of employees.

4.7 Provisions

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

4.8 Dividend

Dividend distribution to the Company's shareholders and appropriation to reserve are recognized in the period in which these are approved.

4.9 Taxation

Current

Provision for current tax is based on taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing current tax rates or tax rates after taking into account rebates and tax credits, if any, expected to apply to the profit for the year, if enacted or minimum tax at the rate of 1 percent of the turnover, whichever is higher. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for by using the liability method on all timing differences between carrying amounts of assets and liabilities in the financial statements and their tax base. Deferred tax liabilities are recognized for all taxable temporary differences. The Company recognizes deferred tax assets on all deductible temporary differences to the extent it is probable that future taxable profits will be available against which these deductible temporary differences can be utilized.

Deferred tax asset is also recognized for the carry forward of unused tax losses and unused tax credits to the extent it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized. Deferred tax is charged to / credited in the profit and loss account except in case of items credited or charged to equity in which case it is included in equity.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and adjusted to the appropriate extent, if it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or liability is settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

4.10 Trade and other payables

Liabilities for trade and other amounts payable are initially recognized at fair value which is normally the transaction cost.

4.11 Property, plant and equipment

4.11.1 Operating fixed assets and depreciation

a) Cost

Operating fixed assets except land, building and plant and machinery are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing a part of such assets when that cost is incurred if the recognition criteria are met. Capital work-in-progress is stated at cost. Building and plant & machinery are stated at revalued amount less accumulated depreciation, while land is stated at revalued amount.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to profit and loss account during the period in which they are incurred.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

b) Depreciation

Depreciation is charged to profit and loss account on reducing balance method to write off the cost of operating fixed assets less their residual values over their expected useful lives at the rates mentioned in Note 16.1.

Depreciation on 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.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

c) Derecognition

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in profit and loss account in the year the asset is derecognized.

4.11.2 Assets subject to finance lease

These are stated at lower of present value of minimum lease payments under the lease agreements and fair value of assets. Assets so acquired are depreciated over their expected useful lives at the rates mentioned in Note 16.1 Depreciation of leased assets is charged to current year's profit and loss account.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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.

4.12 Stores and spare parts

These are valued at lower of moving average cost and net realizable value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon. Provision is made for slow moving items.

4.13 Stock in trade

These are valued at lower of cost and net realizable value. Basis of determining cost is as follows: -

Raw material	-	First in first out (FIFO)
Raw material in transit	-	Invoice value plus other charges paid thereon
Work in process	-	Average manufacturing cost
Finished goods	-	Average manufacturing cost
Waste	-	Net realizable value

Average manufacturing cost in relation to work in process and finished goods signifies cost including a portion of related direct overheads.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make such sale.

4.14 Trade debts

Trade debts originated by the Company are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. Known bad debts are written off and provision is made against debts considered doubtful when collection of the full amount is no longer probable.

4.15 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks in current, saving and deposit accounts and other short term highly liquid instruments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.16 Financial instruments

Financial instruments comprise long term deposits, trade debts, loans and advances, cash and bank balances, long term financings, short term borrowings and trade and other payables.

Financial assets and liabilities are recognized at the time the Company becomes a party to contractual provisions of the instruments.

The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets are derecognized when the Company loses control of the contractual rights that comprise the financial asset. The Company loses such control if it realizes the rights to benefits specified in contract, the rights expire or the Company surrenders those rights. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

4.17 Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss account.

4.18 Revenue recognition

- a) Sale of goods
Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer which generally coincides with the delivery of goods to customers. Export goods are considered dispatched when shipped on board.
- b) Interest income
Return on bank deposit is accrued on a time proportion basis by reference to the principal outstanding on the applicable rate of return.

4.19 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to profit and loss account whenever incurred.

4.20 Foreign currencies

The financial statements are presented in Pak Rupees, which is the Company's functional currency. Transactions in foreign currency during the year are initially recorded in the functional currency at the rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at functional currency rate of exchange prevailing at the balance sheet date. All differences are taken to the profit and loss account.

4.21 Related party transactions

Transactions and contracts with related parties are carried out at arms length prices determined in accordance with comparable uncontrolled price method. Parties are said to be related if they are able to influence the operating and financial decision of the Company and vice versa.

5. ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL	2011 Rupees	2010 Rupees						
<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">2011</td> <td style="text-align: center;">2010</td> </tr> <tr> <td colspan="2" style="text-align: center;">(Number of shares)</td> </tr> <tr> <td colspan="2" style="text-align: center;"><hr/></td> </tr> </table>	2011	2010	(Number of shares)		<hr/>			
2011	2010							
(Number of shares)								
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<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>36,000,000</u></td> <td style="text-align: center;"><u>36,000,000</u></td> </tr> </table>	<u>36,000,000</u>	<u>36,000,000</u>	Ordinary shares of Rs. 10 each fully paid in cash	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>360,000,000</u></td> <td style="text-align: center;"><u>360,000,000</u></td> </tr> </table>	<u>360,000,000</u>	<u>360,000,000</u>		
<u>36,000,000</u>	<u>36,000,000</u>							
<u>360,000,000</u>	<u>360,000,000</u>							

6. SURPLUS ON REVALUATION OF FIXED ASSETS	2011 Rupees	2010 Rupees
Surplus on revaluation of fixed assets as at 01 July	247,419,902	122,515,437
Surplus on revalued assets disposed off	-	(4,970,950)
Additions during the year	-	139,107,417
Surplus relating to incremental depreciation charge on related assets - transferred to unappropriated profit	<u>(21,165,500)</u>	<u>(9,232,002)</u>
Surplus on revaluation of fixed assets as at 30 June	226,254,402	247,419,902
Less: Related deferred tax liability on:		
- Balance as at 01 July	(74,270,142)	(33,093,270)
- Decrease / (increase) due to change in proportionate local sales	(2,341,429)	(2,435,446)
- Additional surplus arised during the year	-	(43,471,863)
- Fixed assets disposed off during the year	-	1,655,625
- Incremental depreciation charged during the year	7,271,619	3,074,811
	<u>(69,339,952)</u>	<u>(74,270,143)</u>
	<u>156,914,450</u>	<u>173,149,759</u>

The Company had revalued its freehold land, factory building, office building and plant and machinery on 30 June 2010. The revaluation exercise was carried out by M/s Harvest (Pvt.) Ltd to replace the carrying amount of freehold land with current market value and other assets with their depreciated market values. The surplus arisen on the revaluation aggregating to Rs. 136,707,417 was credited to this account to comply with the requirements of section 235 of the Companies Ordinance, 1984.

7. LONG TERM FINANCING	Note	2011 Rupees	2010 Rupees
From banking companies and other financial institution - Secured			
National Bank of Pakistan	7.1	123,057,500	130,032,500
Orix Investment Bank Pakistan Limited	7.2	12,500,000	13,500,000
Faysal Bank Limited	7.3	<u>52,903,500</u>	<u>70,538,000</u>
		188,461,000	214,070,500
Less: Current portion	14	<u>22,134,500</u>	<u>18,634,500</u>
		<u>166,326,500</u>	<u>195,436,000</u>

7.1 This loan was obtained to undertake Balancing, Modernization and Replacement (BMR) and expansion of the production facilities. This is repayable in nine years, in quarterly installments which started from 01 October 2009. The rate of mark-up is 3 months KIBOR plus 1.5% per annum (2010: 3 months KIBOR plus 1.5%) with no floor and no cap. This loan is secured against first exclusive charge of Rs. 295 million on fixed assets of the Company including land, building, plant and machinery and personal guarantees of all directors of the Company.

7.2 This facility, obtained for expansion of production facilities, is repayable in six years, including two years grace period, in 16 quarterly installments which started from 20 September 2009. The rate of mark-up is 6 month KIBOR plus 3% (2010: 6 month KIBOR plus 3%) per annum with no floor and no cap. The loan is secured against first pari passu charge over all the present and future fixed assets (excluding land and building) amounting to Rs. 40 million inclusive of 25% margin, which is to be maintained at all times. The loan is further secured by demand promissory note amounting to Rupees 49.592 million duly signed by directors of the Company.

7.3 The facility was obtained for purchase of gas generators. The loan is repayable in six years, including two years grace period, in 8 equal half yearly principal installments which started from 26 October 2010. The rate of mark-up is 7% per annum (5% State Bank of Pakistan rate plus 2% Faysal bank spread). Security of the loan is ranking charge on fixed assets of the Company amounting to Rupees 92 million. The loan is further secured by personal guarantee of the directors.

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8. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The amount of future rentals and periods during which they fall due are as under:

	Note	2011 Rupees	2010 Rupees
Not later than one year		51,760,295	57,282,996
Later than one year and not later than five years		33,201,158	83,207,742
Later than five years		-	-
		<u>84,961,453</u>	<u>140,490,738</u>
Less: Future financial charges		(11,309,069)	(23,784,634)
Present value of minimum lease payments	8.1	73,652,384	116,706,104
Less: Current portion taken as current liability	14	(43,326,924)	(43,720,208)
		<u>30,325,460</u>	<u>72,985,896</u>

8.1 Break up of net lease obligation

Within one year	43,326,924	43,720,208
Within two to five years	30,325,460	72,985,896
Due after five years	-	-
	<u>73,652,384</u>	<u>116,706,104</u>

8.2 The value of the minimum lease payments has been discounted at an implicit interest rate ranging from 6 month KIBOR plus 2.50% to 4.00% (2010: 6 month KIBOR plus 2.50% to 4.00%) per annum. The lease liability and interest charge are repriced every six months and the balance rentals are payable in quarterly installments. In case of default of any payment, an additional charge at the rate of 1 to 2 percent per annum is payable. In case of termination of the agreement, the Company shall pay entire amount of rentals for un-expired period of lease agreement.

8.3 The Company has an option to purchase the assets at the end of lease term.

9. LONG TERM DEPOSITS

These represent deposits taken from employees against future transfer of Company owned vehicles to them.

10. DEFERRED LIABILITIES

	Note	2011 Rupees	2010 Rupees
Deferred taxation	10.1	197,547,641	155,714,175
Post employment benefits- unfunded	10.2	13,032,902	8,062,722
		<u>210,580,543</u>	<u>163,776,897</u>

10.1 Deferred taxation

Taxable timing differences

Surplus on revaluation of fixed assets	69,339,953	74,270,143
Accelerated tax depreciation	108,873,820	88,481,343
Assets subject to finance lease	52,590,026	69,100,182
	230,803,799	231,851,668

Deductible timing differences

Unapproved gratuity	(4,477,584)	(2,685,370)
Liabilities against assets subject to finance lease	(25,304,013)	(38,870,135)
Unused tax losses	(3,474,561)	(34,581,988)
	<u>(33,256,158)</u>	<u>(76,137,493)</u>
	<u>197,547,641</u>	<u>155,714,175</u>

10.2 Post employment benefits- unfunded	Note	2011 Rupees	2010 Rupees
These are composed of:			
Present value of defined benefit obligation		14,465,338	9,612,943
Unrecognized actuarial losses		<u>(1,432,436)</u>	<u>(1,550,221)</u>
Liability recognized in the balance sheet		<u><u>13,032,902</u></u>	<u><u>8,062,722</u></u>

10.3 Movement in net liability			
Liability at the beginning of the year		8,062,722	4,010,841
Charge for the year	10.4	<u>7,044,991</u>	<u>5,680,775</u>
		15,107,713	9,691,616
Paid during the year		<u>(2,074,811)</u>	<u>(1,628,894)</u>
Liability at the end of the year		<u><u>13,032,902</u></u>	<u><u>8,062,722</u></u>

10.4 Charge for the year			
Current service cost		5,773,653	5,155,047
Interest cost		1,153,553	525,728
Actuarial losses recognized		117,785	-
Charge for the year		<u><u>7,044,991</u></u>	<u><u>5,680,775</u></u>

10.5 The charge for the year has been allocated as follows:			
Cost of sales	25	5,801,441	4,678,031
Distribution cost	26	543,983	438,644
Administrative expenses	27	<u>699,567</u>	<u>564,100</u>
		<u><u>7,044,991</u></u>	<u><u>5,680,775</u></u>

	2011	2010	2009	2008	2007
10.6 Present value of defined benefit obligations at the end of the year	<u>13,032,902</u>	<u>8,062,722</u>	<u>4,010,841</u>	<u>5,303,452</u>	<u>4,714,637</u>
Experience adjustment arising on plan liabilities gain / (losses)	<u>-11%</u>	<u>-19%</u>	<u>-9%</u>	<u>-7%</u>	<u>8%</u>

11. TRADE AND OTHER PAYABLES	Note	2011 Rupees	2010 Rupees
Creditors		1,866,868	4,184,224
Morabaha finance	11.1	10,000,000	10,000,000
Accrued liabilities		46,816,948	34,229,204
Advances from customers	11.2	63,924,132	7,181,478
Advance from brokers against customers		3,240,165	826,665
Ijarah rental payable		3,055,728	4,300,447
Unclaimed WPPF		783,523	783,523
Workers' Profit Participation Fund	11.3	7,644,124	14,885,927
Workers' Welfare Fund	11.4	2,904,767	5,656,652
Unclaimed dividend		428,951	320,055
Others		<u>100,000</u>	<u>100,000</u>
		<u><u>140,765,206</u></u>	<u><u>82,468,175</u></u>

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11.1 This facility has been obtained against sanctioned limit of Rupees 10 million (2010: Rupees 10 million) to finance working capital requirements of the Company for purchase of raw material and is renewable quarterly. The rate of mark up is 3 months KIBOR plus 2.75% per annum (2010: 3 months KIBOR plus 3.25% per annum). This is secured against first pari passu charge on all current assets of the Company amounting to Rs.134 million and personal guarantees of all the directors except employee directors of the Company.

11.2 These represent advances against sale of yarn and carry no mark-up.

	Note	2011 Rupees	2010 Rupees
11.3 Workers' Profit Participation Fund			
Balance at the beginning of the year		14,885,927	-
Charge for the year		7,644,124	14,885,927
		<u>22,530,051</u>	<u>14,885,927</u>
Less: Payments made during the year		14,885,927	-
Closing balance		<u>7,644,124</u>	<u>14,885,927</u>
11.4 Workers' Welfare Fund			
Balance at the beginning of the year		5,656,652	-
Charge for the year		2,904,880	5,656,652
		<u>8,561,532</u>	<u>5,656,652</u>
Less: Payments made during the year		5,656,652	-
Closing balance		<u>2,904,880</u>	<u>5,656,652</u>
12. ACCRUED MARK-UP ON FINANCING			
Long term finances		5,913,196	5,824,525
Short term borrowings & morabaha finance		12,651,158	4,956,571
Lease rental payable		3,253,512	3,743,606
		<u>21,817,866</u>	<u>14,524,702</u>
13. SHORT TERM BORROWINGS			
From financial institutions:			
Secured:			
Cash finance	13.1	222,571,187	48,461,201
Unsecured:			
Bank overdrawn	13.2	3,464,043	10,839
		<u>226,035,230</u>	<u>48,472,040</u>

13.1 The aggregate facility of short term finances from commercial banks available at year end is Rupees 615 million (2010: Rupees 725 million). The rates of mark up range from 3 months KIBOR plus 1.5% to 3 months KIBOR plus 3.25% per annum (2010: 3 months KIBOR plus 2% to 3 months KIBOR plus 4.25% per annum). These facilities are secured against pledge of cotton bales (with 10% and 5% margin for local and imported cotton respectively), yarn bags, first pari passu charge of 25 million on all current assets of the Company and personal guarantee of the directors of the Company.

13.2 This overdrawn balance is due to issuance of cheques near the balance sheet date. However, bank statement shows a favourable balance amounting to Rupees 812,900 (2010: Rupees 815,160).

	Note	2011 Rupees	2010 Rupees
14. CURRENT PORTION OF LONG TERM LIABILITIES			
Long term financing	7	22,134,500	18,634,500
Liabilities against assets subject to finance lease	8	43,326,924	43,720,208
		<u>65,461,424</u>	<u>62,354,708</u>

15. CONTINGENCIES AND COMMITMENTS

Contingencies:

- Claim of damages lodged by a creditor amounting to Rupees 987,298 (2010: Rupees 987,298) against violation of contract has not been acknowledged by the Company. The Company has also filed a counter suit for the recovery of claims, compensation and damages amounting to Rupees 3,721,012 (2010: Rupees 3,721,012) for violation of contracts. Therefore, no provision in this respect has been made in these financial statements as the management and the legal advisor are confident of a favourable outcome of the case.
- The bank guarantees aggregating to Rupees 39,868,000 (2010: Rupees 39,868,000) issued on behalf of the Company were outstanding on balance sheet date against which margins amounting to Rupees 1,011,365 (2010: Rupees 1,467,615) have been deposited with the respective banks.

Commitments:

Ijarah commitments

- The Company has entered into ijarah arrangement for plant & machinery with an Islamic Bank. These arrangements have remaining terms of less than three years. Such arrangements also include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future Ijarah payments due under these arrangements, as at 30 June are as follows:

	Note	2011 Rupees	2010 Rupees
Within one year		10,712,298	10,587,684
After one year but not more than five years		13,374,767	23,322,316
		<u>24,087,065</u>	<u>33,910,000</u>

16. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	16.1	925,417,226	898,508,445
Capital work-in-progress	16.5	-	8,631,497
		<u>925,417,226</u>	<u>907,139,942</u>

16.1 Operating assets (owned)

PARTICULARS	2011						BALANCE AS AT 01 JULY 2010				RECONCILIATION				BALANCE AS AT 30 JUNE 2011				RATE (%)
	Cost/ revalued amount		Accumulated depreciation		Net book value		Additions/ Transfers	DELETIONS		Adjustments	Transfers		Depreciation charge for the year	Cost / revalued amount	Accumulated depreciation	Net book value			
					(Cost / revalued amount) / Accumulated Depreciation	(Cost) / Accumulated Depreciation		(Cost) / Accumulated Depreciation	Cost/ (Accumulated Depreciation)										
Owned assets																			
Free hold land	30,455,100	-	-	30,455,100	-	-	-	-	-	-	-	-	-	30,455,100	-	30,455,100			
Building																			
-Factory	120,308,586	-	-	120,308,586	11,342,530	289,500 (10,760)	-	-	-	-	-	-	13,021,420	131,940,616	13,032,180	118,908,436	10		
-Residential	30,349,849	-	-	30,349,849	-	-	-	-	-	-	-	-	1,517,495	30,349,849	1,517,495	28,832,354	5		
Plant and machinery	458,338,700	-	-	458,338,700	87,234,227	(942,485) 54,367	-	-	-	-	37,388,698	-	36,773,834	582,019,140	36,719,467	545,299,673	10		
Electric installations	27,038,850	8,781,605	18,257,245			(629,206) 465,572	-	-	-	-	-	-	1,245,648	26,409,644	9,561,681	16,847,963	10		
Mills equipment	6,347,142	2,506,948	3,840,194			(23,060) 2,865	-	-	-	-	-	-	290,649	7,536,782	2,794,732	4,742,050	10		
Office equipment	2,127,511	1,136,459	991,052			(1,129,344) 2,865	-	-	-	-	-	-	116,287	1,736,947	451,032	1,285,915	10		
Furniture and fixtures	1,295,368	609,297	686,071			(405,858) 99,693	-	-	-	-	-	-	62,295	1,085,360	571,899	513,461	10		
Vehicles	15,423,490	4,728,968	10,694,522			(759,780) (160,564)	-	-	-	-	-	-	1,306,580	15,456,733	5,403,932	10,052,801	20		
Arms and ammunition	43,620	18,909	24,711			503,645 127,971	-	-	-	-	-	-	1,584	43,620	20,493	23,127	10		
	691,728,216	17,782,186	673,946,030	101,870,273	(1,894,865) 611,175	(2,058,531) 1,433,892	37,388,698	-	-	-	-	54,335,792	827,033,791	70,072,911	756,960,880				
Assets subject to finance lease																			
- Plant and machinery	249,185,806	41,685,735	207,500,071	-	-	-	(37,388,698)	-	-	-	-	-	17,011,137	211,797,108	58,696,872	153,100,236	10		
- Electric Installation	21,241,646	4,179,302	17,062,344	-	-	-	-	-	-	-	-	-	1,706,234	21,241,646	5,885,536	15,356,110	10		
	270,427,452	45,865,037	224,562,415	-	-	-	(37,388,698)	-	-	-	-	-	18,717,371	233,038,754	64,582,408	168,456,346			
	962,155,668	63,647,223	898,508,445	101,870,273	(1,894,865) 611,175	(2,058,531) 1,433,892	-	-	-	-	-	73,053,163	1,060,072,545	134,655,319	925,417,226				

PARTICULARS	BALANCE AS AT 01 JULY 2009				RECONCILIATION				BALANCE AS AT 30 JUNE 2010			RATE (%)	
	Cost/ revalued amount	Accumulated depreciation	Net book value	Additions	DELETIONS		Revaluation Adjustment	Accumulated Depreciation Adjustment	Depreciation charge for the year	Cost / revalued amount	Accumulated depreciation		Net book value
					(Cost / revalued amount) / Accumulated Depreciation	R U P E E S							
Owned assets													
Free hold land	21,870,300	-	21,870,300	-	-	-	8,584,800	-	-	30,455,100	-	30,455,100	
Building													
-Factory	163,248,560	54,824,020	108,424,540	-	-	-	22,726,502	65,666,476	10,842,456	120,308,586	-	120,308,586	10
-Residential	33,517,992	6,675,576	26,842,416	-	-	-	4,849,549	8,017,692	1,342,116	30,349,849	-	30,349,849	5
Plant and machinery	518,856,726	116,064,845	402,791,881	3,903,024	(9,857,980)	3,169,633	85,854,823	140,417,893	27,522,681	458,338,700	-	458,338,700	10
Electric installations	26,774,412	7,406,726	19,367,686	264,438	-	-	-	-	1,374,879	27,038,850	8,781,605	18,257,245	10
Mills equipment	5,602,651	2,245,353	3,357,298	744,491	-	-	-	-	261,595	6,347,142	2,506,948	3,840,194	10
Office equipment	2,299,137	1,301,397	997,740	205,624	(377,250)	275,178	-	-	110,240	2,127,511	1,136,459	991,052	10
Furniture and fixtures	832,193	563,579	268,614	463,175	-	-	-	-	45,718	1,295,368	609,297	686,071	10
Vehicles	11,153,310	4,395,709	6,757,601	5,802,658	(1,532,478)	-	-	-	1,445,513	15,423,490	4,728,968	10,694,522	20
Arms and ammunition	43,620	17,157	26,463	-	-	-	-	-	1,752	43,620	18,909	24,711	10
	784,198,901	193,494,362	590,704,539	11,383,410	(11,767,708)	4,557,065	122,015,674	214,102,061	42,946,950	691,728,216	17,782,186	673,946,030	
Assets subject to finance lease													
- Plant and machinery	283,749,434	82,184,626	211,564,808	-	-	-	17,091,743	61,655,371	21,156,480	249,185,806	41,685,735	207,500,071	10
- Electric Installation	21,241,646	2,283,482	18,958,164	-	-	-	-	-	1,895,820	21,241,646	4,179,302	17,062,344	10
	314,991,080	84,468,108	230,522,972	-	-	-	17,091,743	61,655,371	23,052,300	270,427,452	45,865,037	224,562,415	
	1,099,189,981	277,962,470	821,227,511	11,383,410	(11,767,708)	4,557,065	139,107,417	275,757,432	65,999,250	962,155,668	63,647,223	898,508,445	

16.2 Depreciation charge for the year has been allocated as follows:

	2011	2010
	Rupees	Rupees
Cost of sales	71,566,419	64,396,027
Distribution cost	71,422	87,079
Administrative expenses	1,415,325	1,603,223
	73,053,166	65,999,250

16.3 Had there been no revaluation, the related figures of land, building and plant and machinery at 30 June would have been as follows:

Particulars	Balance As at 30 June 2011		Balance As at 30 June 2010			
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Owned Assets:						
Free hold Land	6,028,479	-	6,028,479	6,028,479	-	6,028,479
Building						
Factory	140,334,382	77,774,293	62,560,089	128,702,352	64,742,113	63,960,239
Residential	11,001,164	4,416,200	6,584,964	11,001,164	3,141,185	7,859,979
Plant and Machinery	788,638,642	365,220,044	423,418,598	664,958,202	328,500,577	336,457,625
	946,002,667	447,410,537	498,592,130	810,690,197	396,383,875	414,306,322
	136,504,929	76,957,334	59,547,595	173,893,627	61,655,371	112,238,256

Assets Subject to Finance lease:

Plant and Machinery	136,504,929	76,957,334	59,547,595	173,893,627	61,655,371	112,238,256
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16.4 Detail of the assets disposed off during the year is as follows:

Description	Cost/ revalued amount	Rupees		Sale Proceeds	Mode of Disposal	Particulars of Purchaser
		Accumulated Depreciation	Book Value			
Plant and Machinery						
Compressor	942,485	54,367	888,118	900,000	Market (Negotiation)	Chaudary Sugar Mills
Office Equipment						
Air Conditioners (2 units)	70,600	52,143	18,457	10,000	Market (Negotiation)	Ramzan Refrigerators
Laptop	122,000	1,020	120,980	60,000	Market (Negotiation)	Bit Flow
Vehicles						
Suzuki Baleno	759,780	503,645	256,135	372,000	Market (Negotiation)	Mr. Rafeeq Qureshi
	1,894,865	611,175	1,283,690	1,342,000		

	Note	2011 Rupees	2010 Rupees
16.5 Capital work in progress			
Opening		8,631,497	-
Additions		2,711,033	8,631,497
Transfers		(11,342,530)	-
Closing		<u>-</u>	<u>8,631,497</u>
17. STORES AND SPARE PARTS			
Stores		904,377	992,750
Spares parts		32,274,065	20,759,027
Stores in transit		-	29,100
		<u>33,178,442</u>	<u>21,780,877</u>
18. STOCK IN TRADE			
Raw material		267,296,912	202,228,322
Work in process		24,131,087	11,084,974
Finished goods		64,742,135	32,424,264
Packing material		2,043,954	3,235,640
Waste		383,335	728,483
		<u>358,597,423</u>	<u>249,701,683</u>
19. TRADE DEBTS - considered good			
These represent unsecured trade debts against the local sales.			
20. ADVANCES - considered good - unsecured			
Suppliers		3,533,279	5,653,599
Employees		1,272,697	886,097
		<u>4,805,976</u>	<u>6,539,696</u>
20.1	No advances were given to the Chief Executive Officer, Directors and Executives of the Company (2010: Nil)		
21. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Bank guarantee margin		1,011,365	1,467,615
Prepayments		1,339,255	970,656
		<u>2,350,620</u>	<u>2,438,271</u>
22. TAX REFUNDS DUE FROM THE GOVERNMENT			
This represents sales tax refundable			
23. CASH AND BANK BALANCES			
Cash in hand		31,054	23,300
Cash at bank:			
- Current accounts		6,293,837	726,975
- Deposit accounts	23.1	95,771,668	26,687,893
		<u>102,065,505</u>	<u>27,414,868</u>
		<u>102,096,559</u>	<u>27,438,168</u>

23.1 It carries profit at the rate ranging from 5% to 10.75% (2010: 5% to 10.75%) per annum.

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	Note	2011 Rupees	2010 Rupees
24. SALES			
Local		3,629,981,428	2,097,240,051
Export		15,744,900	97,672,754
Waste		59,224,675	37,542,140
		<u>3,704,951,003</u>	<u>2,232,454,945</u>
25. COST OF SALES			
Opening raw material		202,228,322	265,961,615
Add: Purchases		3,072,252,405	1,398,530,506
Available for consumption		<u>3,274,480,727</u>	<u>1,664,492,121</u>
Less: Closing stock		(267,296,912)	(202,228,322)
Raw material consumed		3,007,183,815	1,462,263,799
Salaries, wages and benefits	25.1	120,040,449	107,632,256
Fuel and power		166,453,368	126,392,887
Packing material consumed		26,973,989	24,719,675
Stores and spares consumed		42,390,868	28,965,838
Ijarah rentals		8,391,951	10,350,087
Insurance		3,859,038	4,365,360
Repairs and maintenance		6,728,007	3,543,408
Depreciation	16.2	71,566,419	64,396,027
Others		1,210,856	1,085,079
		<u>447,614,945</u>	<u>371,450,617</u>
		3,454,798,760	1,833,714,416
Add: Opening work in process		11,084,974	10,389,966
Less: Closing work in process		(24,131,087)	(11,084,974)
		<u>(13,046,113)</u>	<u>(695,008)</u>
Cost of goods manufactured		3,441,752,647	1,833,019,408
Add: Opening finished goods		33,152,747	11,847,627
Less: Closing finished goods		(65,125,470)	(33,152,747)
		<u>(31,972,723)</u>	<u>(21,305,120)</u>
		<u>3,409,779,924</u>	<u>1,811,714,288</u>

25.1 This includes an amount of Rs. 5,801,441 (2010: Rs. 4,678,031) representing gratuity expense for the year.

26. DISTRIBUTION COST

Salaries and other benefits	26.1	2,879,876	2,236,966
Commission on sales		17,634,264	10,214,328
Freight and forwarding		2,552,595	3,691,260
Export development surcharge		39,137	234,497
Depreciation	16.2	71,422	87,079
Other expenses		745,555	644,666
		<u>23,922,849</u>	<u>17,108,796</u>

26.1 This includes an amount of Rs. 543,983 (2010: Rs. 438,644) representing gratuity expense for the year.

	Note	2011 Rupees	2010 Rupees
27. ADMINISTRATIVE EXPENSES			
Directors' remuneration		4,059,236	3,881,120
Salaries and other benefits	27.1	7,668,902	6,042,944
Electricity, gas and water		617,984	478,039
Postage, telephone and telex		916,012	806,528
Rent, rates and taxes		842,188	913,218
Insurance		347,907	320,724
Advertisement		44,622	39,692
Traveling and conveyance		85,101	42,771
Auditors' remuneration	27.2	630,000	630,000
Legal and professional		355,000	460,800
Fee and subscription		956,904	351,535
Printing and stationery		286,520	243,201
Entertainment		639,279	468,886
Charity and donations	27.3	900,000	-
Books and periodicals		63,482	39,077
Repairs and maintenance		187,284	264,956
Vehicle running and maintenance		1,390,174	1,211,130
Depreciation	16.2	1,415,325	1,516,144
Others		257,705	230,673
		<u>21,663,625</u>	<u>17,941,438</u>

27.1 This includes an amount of Rs. 699,567 (2010: Rs. 564,100) representing gratuity expense for the year.

27.2 Auditors' remuneration

Statutory audit	500,000	500,000
Half yearly review	75,000	75,000
Other certifications	25,000	25,000
Out of pocket expenses	30,000	30,000
	<u>630,000</u>	<u>630,000</u>

27.3 Donations

None of the directors or their spouses had any interest in any of the donees.

28. OTHER OPERATING EXPENSES

Workers' Profit Participation Fund	7,644,124	14,885,927
Workers' Welfare Fund	2,904,767	5,656,652
Sales tax refundable written off	1,681,636	-
Property, plant and equipment written off	624,639	-
	<u>12,855,166</u>	<u>20,542,579</u>

	Note	2011 Rupees	2010 Rupees
29. OTHER OPERATING INCOME			
Income from financial assets	29.1	2,766,256	1,238,165
Income from assets other than financial assets	29.2	<u>3,558,621</u>	<u>9,113,881</u>
		<u>6,324,877</u>	<u>10,352,046</u>
29.1 Income from financial assets:			
Return on bank deposits		2,729,056	272,449
Creditors written back		-	44,842
Exchange gain		37,200	920,874
		<u>2,766,256</u>	<u>1,238,165</u>
29.2 Income from assets other than financial assets:			
Net gain on disposal of property, plant and equipment		58,310	6,840,744
Sale of scrap and miscellaneous Income		<u>3,500,311</u>	<u>2,273,137</u>
		<u>3,558,621</u>	<u>9,113,881</u>
30. FINANCE COST			
Interest / mark-up on:			
Finance lease liabilities		12,746,475	27,658,438
Long term financing		25,235,765	29,104,302
Short term borrowings and morabaha finance		60,015,699	39,201,785
Mark up charged on WPPF		876,958	-
		98,874,897	95,964,525
Bank charges and commission		<u>1,845,822</u>	<u>2,359,413</u>
		<u>100,720,719</u>	<u>98,323,938</u>
31. TAXATION			
Charge for the year			
Current	31.1	37,049,510	11,650,639
Deferred	31.2	<u>39,492,037</u>	<u>91,757,655</u>
		<u>76,541,547</u>	<u>103,408,294</u>
31.1	This represents final tax on export sales under Section 169 of Income Tax Ordinance, 2001 and minimum tax under section 113 of the Ordinance. Reconciliation of tax expense and accounting profit is not meaningful in view of presumptive taxation and minimum tax.		
31.2	Deferred tax expense relates to origination and reversal of following temporary differences :		
Tax depreciation allowance		20,392,477	4,954,933
Leased assets		(16,510,156)	(2,414,773)
Unapproved gratuity		(1,792,214)	(1,441,090)
Unused tax losses		31,107,427	75,220,020
Finance lease arrangements		13,566,122	18,513,376
Deferred tax on incremental depreciation		<u>(7,271,619)</u>	<u>(3,074,811)</u>
		<u>39,492,037</u>	<u>91,757,655</u>

	2011	2010
32. EARNING PER SHARE - BASIC AND DILUTED		
Net profit for the year	Rupees <u>65,792,050</u>	<u>173,767,658</u>
Weighted average number of shares	No. <u>36,000,000</u>	<u>36,000,000</u>
Basic earning per share	Rupees <u>1.83</u>	<u>4.83</u>

No figure for diluted earnings per share has been presented as the Company has not issued any instrument carrying options which would have an impact on the basic earnings per share, when exercised.

33. REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

	2011			2010		
	Chief Executive Officer	Directors	Executives	Chief Executive Officer	Directors	Executives
Managerial remuneration	738,264	1,967,892	2,479,999	671,146	1,916,266	2,079,999
Utilities	73,826	196,789	247,999	67,114	191,626	207,999
House rent	295,306	787,159	992,002	268,459	766,509	832,002
	<u>1,107,396</u>	<u>2,951,840</u>	<u>3,720,000</u>	<u>1,006,719</u>	<u>2,874,401</u>	<u>3,120,000</u>
Number of persons	1	2	4	1	2	4

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33.1 In addition, the above persons have been provided with the Company maintained cars.

33.2 No fee is paid to the Chief Executive Officer or any director of the Company for attending the meetings.

34. TRANSACTIONS WITH RELATED PARTIES

The related parties include directors of the Company and key management personnel. There are no transactions with key management except those in accordance with the terms of their employment.

<u>Relationship with the Company</u>	<u>Nature of transaction</u>	2011 Rupees	2010 Rupees
Directors	Loan received during the year	-	2,000,000
	Long term loan repaid	-	2,000,000
	Interest on loans	-	142,351

35. FINANCIAL RISK MANAGEMENT

35.1 Financial risk factors

The Company's financial liabilities comprise long term financing, liabilities against assets subject to finance lease, short term borrowings and trade and other payables. The main purpose of these financial liabilities is to raise finances for Company's operations. The Company has trade debts, short term loans and advances, other receivables and short term bank deposits that arrive directly from its operations. The Company's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks 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, 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 has no significant transactions in foreign currency therefore, it is not exposed to currency risk.

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 instruments traded in the market. The Company is not exposed to equity price risk however there is a significant commodity price risk. Following analysis shows the impact of change in commodity price.

		Change in Commodity Price	Effects on Profit Before Tax
Raw material consumed	2011	+10%	(300,718,382)
		-10%	300,718,382
	2010	+10%	(146,226,380)
		-10%	146,226,380

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 interest-bearing assets. The Company's interest rate risk arises from long term financing, short term borrowings and liabilities against assets subject to finance lease. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk. Borrowings obtained at fixed rate expose the Company to fair value interest rate risk.

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

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	2011 Rupees	2010 Rupees
Fixed rate instruments		
Financial liabilities		
Long term financing	52,903,500	70,538,000
Floating rate instruments		
Financial assets		
Bank balances - deposit accounts	95,771,668	26,687,893
Financial liabilities		
Long term financing	135,557,500	143,532,500
Liabilities against assets subject to finance lease	73,652,384	116,706,104
Short term borrowings	222,571,187	48,461,201

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

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

		Changes Interest Rate	Effects on Profit Before Tax
Bank balances - deposit accounts			
	2011	+1.00	957,717
		-1.00	(957,717)
	2010	+1.00	266,879
		-1.00	(266,879)
Long term financing			
	2011	+1.50	(2,033,363)
		-1.50	2,033,363
	2010	+1.50	(2,152,988)
		-1.50	2,152,988
Liabilities against assets subject to finance lease			
	2011	+1.50	(1,104,786)
		-1.50	1,104,786
	2010	+1.50	(1,750,592)
		-1.50	1,750,592
Short term borrowings			
	2011	+1.50	(3,338,568)
		-1.50	3,338,568
	2010	+1.50	(726,918)
		-1.50	726,918

b) Credit risk

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

	2011 Rupees	2010 Rupees
Trade debts	84,639,352	45,371,493
Advances	1,272,697	886,097
Other receivables	-	120,660
Bank balances	<u>102,065,505</u>	<u>27,414,868</u>
	<u>187,977,554</u>	<u>73,793,118</u>

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rate. The table below shows the bank balances held with some major counterparties at the balance sheet date:

Banks	Rating			2011 Rupees	2010 Rupees
	Short Term	Long Term	Agency		
	A1	A	JCR - VIS	-	147,399
	A-1	A	JCR - VIS	25,888	-
	P1	A1	Moody's	14,009	14,009
	A1+	AA	PACRA	71,275,359	26,714,965
	A-1+	AA	PACRA	24,547,160	5,338
	A1+	AA-	PACRA	34,572	71,586
	A1+	AA+	PACRA	2,828,693	50,177
	A-1+	AAA	JCR - VIS	287,984	35,654
	A1+	AAA	PACRA	-	31,106
	A-1+	AA+	JCR - VIS	3,051,840	344,634
				<u>102,065,505</u>	<u>27,414,868</u>

Trade debts

Credit risk related to trade receivables is managed by established policies, procedures and controls relating to customers credit risk management. Outstanding receivables are regularly monitored and shipments to foreign customers are covered by letters of credit.

The age of trade receivables at balance sheet date was:

	2011 Rupees	2010 Rupees
Not past due	-	-
Past due 0 - 180 days	84,610,935	45,321,754
Past due 180 - 365 days	9,383	6,435
1 - 2 years	-	36,269
More than 2 years	19,034	7,035
	<u>84,639,352</u>	<u>45,371,493</u>

At 30 June 2011 Company had 12 customers (2010: 8 customers) that owed the Company more than Rs. 2 million each and accounted for approximately 94 % (2010: 61%) of all receivables owing.

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly the credit risk is minimal.

c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The management believes the liquidity risk to be low.

The table below analysis the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equate to their carrying balances as the impact of discounting is not significant.

	Carrying Amount	Contractual cash flows	Less than 1 year	Between 1 and 5 years	Over 5 years
30 June 2011	Rupees				
Long term financing	188,461,000	266,702,150	40,706,016	225,996,134	-
Liabilities against assets					
subject to finance lease	73,652,384	84,961,453	51,760,295	33,201,158	-
Trade and other payables	73,600,909	73,600,909	73,600,909	-	-
Accrued markup on financing	21,817,866	21,817,866	21,817,866	-	-
Post employment benefits					
- Gratuity	13,032,902	13,032,902	-	13,032,902	-
Short term borrowings	222,571,187	222,571,187	222,571,187	-	-
	<u>593,136,248</u>	<u>682,686,467</u>	<u>410,456,273</u>	<u>272,230,194</u>	<u>-</u>

	Carrying Amount	Contractual cash flows	Less than 1 year	Between 1 and 5 years	Over 5 years
30 June 2010	Rupees				
Long term financing	214,070,500	332,485,600	25,302,600	307,183,000	-
Liabilities against assets					
subject to finance lease	116,706,104	140,490,738	57,282,996	83,207,742	-
Trade and other payables	74,460,032	74,460,032	74,460,032	-	-
Accrued markup on financing	14,524,702	14,524,702	14,524,702	-	-
Post employment benefits					
- Gratuity	8,062,722	8,062,722	-	8,062,722	-
Short term borrowings	48,461,201	52,338,097	52,338,097	-	-
	<u>476,285,261</u>	<u>622,361,891</u>	<u>223,908,427</u>	<u>398,453,464</u>	<u>-</u>

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

35.2 Fair values of financial assets and liabilities

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

35.3 Financial instruments by categories

	Cash and cash equivalents	Loans and advances	Available for sale	Assets at fair value through profit and loss	Total
As at 30 June 2011	Rupees				
Assets as per balance sheet					
Long term deposits	-	3,667,560	-	-	3,667,560
Trade debts	-	84,639,352	-	-	84,639,352
Advances	-	1,272,697	-	-	1,272,697
Trade deposits	-	1,011,365	-	-	1,011,365
Cash and bank balances	102,096,559	-	-	-	102,096,559
	<u>102,096,559</u>	<u>90,590,974</u>	<u>-</u>	<u>-</u>	<u>192,687,533</u>

	Financial liabilities at amortized cost
Liabilities as per balance sheet	Rupees
Long term financing	188,461,000
Liabilities against assets subject to finance lease	73,652,384
Trade and other payables	73,600,909
Accrued mark-up on financing	21,817,866
Post employment benefits- Gratuity	13,032,902
Short term borrowings	222,571,187
	<u>593,136,248</u>

	Cash and cash equivalents	Loans and advances	Available for sale	Assets at fair value through profit and loss	Total
----- Rupees -----					
As at 30 June 2010					
Assets as per balance sheet					
Long term deposits	-	3,672,560	-	-	3,672,560
Trade debts	-	45,371,493	-	-	45,371,493
Short term advances	-	886,097	-	-	886,097
Trade deposits	-	1,467,615	-	-	1,467,615
Other receivables	-	120,660	-	-	120,660
Cash and bank balances	27,438,168	-	-	-	27,438,168
	<u>27,438,168</u>	<u>51,518,425</u>	<u>-</u>	<u>-</u>	<u>78,956,593</u>

Liabilities as per balance sheet

	Financial liabilities at amortized cost
----- Rupees -----	
Long term financing	214,070,500
Liabilities against assets subject to finance lease	116,706,104
Trade and other payables	74,460,032
Accrued mark-up on financing	14,524,702
Post employment benefits- Gratuity	8,062,722
Short term borrowings	48,461,201
	<u>476,285,261</u>

35.4 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide return for shareholders and benefits for other stakeholders and to maintain healthier capital ratios in order to support its business and maximize shareholders value. The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payments to the shareholders or issue new shares.

No changes were made in the objectives, policies or processes from the previous year. The Company monitors capital using gearing ratio, which is debt divided by equity plus net debt. Debt represent long-term financing (including current portion), liabilities against assets subject to finance lease and short term borrowings obtained by the Company as referred to in Note 7, 8 and Note 13. Total capital employed includes 'total equity' as shown in the balance sheet plus debt. The Company's strategy, which was unchanged from last year, was to maintain optimal capital structure in order to minimize cost of capital.

The gearing ratio as at year ended 30 June 2011 and 30 June 2010 is as follows:

	Note	2011 Rupees	2010 Rupees
Debt	7, 8,13	484,684,571	379,237,805
Equity		671,421,013	643,908,500
Total capital employed		<u>1,156,105,584</u>	<u>1,023,146,305</u>
Gearing ratio		<u>42%</u>	<u>37%</u>

36. PLANT CAPACITY AND ACTUAL PRODUCTION

Spindles installed/ worked	Nos.	38,448	38,448
Production at normal capacity in 20/S count based on 3 shifts per day	Kgs	14,102,609	14,102,609
Actual production converted to 20/S count based on 3 shifts per day	Kgs	12,275,920	12,553,199

36.1 Reason for Low Production

Under utilization of available capacity is due to normal maintenance down time and change over in production mix.

37. DATE OF AUTHORIZATION

These financial statements have been authorized for issue by Board of Directors of the Company on 07 October 2011.

38. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors have proposed a final dividend of Rs. 1.50 Per share, amounting to Rs. (thousand) 54,000 for the year ended 30 June 2011 (2010: Rs. (thousand) 36,000) at their meeting held on 07 October 2011 for the approval of the members at the Annual General Meeting to be held on 29 October 2011.

39. GENERAL

- Figures have been rounded off to the nearest rupee.
- Corresponding figures have been rearranged or reclassified, wherever necessary, for the purpose of comparison. However, no significant reclassification has been made in these financial statements.

(Chief Executive Officer)

(Director)

**PATTERN OF SHAREHOLDING
AS AT 30 JUNE 2011**

No. of Shareholders	-----Shareholding-----		Total Shares Held
	From	To	
6	1	100	41
37	101	500	18,167
6	501	1,000	5,234
12	1,001	5,000	25,750
5	5,001	10,000	38,190
1	15,001	20,000	19,300
1	20,001	25,000	20,219
1	25,001	30,000	29,100
3	30,001	35,000	100,500
2	35,001	40,000	72,000
2	40,001	45,000	89,450
1	65,001	70,000	66,000
3	70,001	75,000	214,800
4	85,001	90,000	346,000
3	140,001	145,000	428,246
1	165,001	170,000	168,350
3	285,001	290,000	863,073
1	390,001	395,000	390,624
1	425,001	430,000	426,539
1	735,001	740,000	738,350
1	750,001	755,000	751,998
1	795,001	800,000	798,800
1	815,001	820,000	820,000
1	1,010,001	1,015,000	1,010,600
1	1,145,001	1,150,000	1,145,793
1	1,195,001	1,200,000	1,197,363
1	1,210,001	1,215,000	1,213,896
1	1,435,001	1,440,000	1,436,766
1	1,390,001	1,395,000	1,391,975
1	2,155,001	2,160,000	2,158,952
1	2,265,001	2,270,000	2,269,560
1	3,045,001	3,050,000	3,045,023
1	3,380,001	3,385,000	3,381,455
1	4,175,001	4,180,000	4,178,465
1	7,135,001	7,140,000	7,139,421
109			36,000,000

Categoriis of Shareholders	Number	Shares Held	% Age
Individuals	94	17,459,727	48.4992
Chief Executive Officer, Director, their Spouse and Minor Children	13	18,517,279	51.4369
Bank, DFIs, NBFI, etc.	2	22,994	0.0639
Public Sector Companies and Croporations	0	0	0.0000
Others	0	0	0.0000
	109	36,000,000	100.0000

**CATEGORIES OF SHAREHOLDERS REQUIRED UNDER C.C.G.
AS AT 30 JUNE 2011**

Category No.	Categories of Share Holders	Number of Shares Held	Number of Share Holders	Percentage
1	Individuals	17,459,727	94	48.4992%
2	Chief Executive Officer, Director, their Spouse and Minor Children	18,517,279	13	51.4369%
	Ch. Muhammad Khurshid	1,436,766		3.9910%
	Ch. Muhammad Khurshid (CDC)	2,158,952		5.9971%
	Ch. Rahman Bakhsh	3,381,455		9.3929%
	Ch. Rahman Bakhsh (CDC)	9,158		0.0254%
	Ms. Kiran A. Chaudhry	2,269,560		6.3043%
	Ms. Kiran A. Chaudhry (CDC)	820,000		2.2778%
	Mr. Muhammad Ali Chaudhry	168,350		0.4676%
	Mrs. Salma Aziz	1,010,600		2.8072%
	Mrs. Salma Aziz (CDC)	1,391,975		3.8666%
	Mr. Azhar Khurshid Ch.	751,998		2.0889%
	Mr. Kamran Ilyas	4,178,465		11.6068%
	Mrs. Razia Sultana Begum	141,200		0.3922%
	Mrs. Razia Sultana Begum (CDC)	798,800		2.2189%
3	Banks, DFIs, NBFIs, etc.	22,994	2	0.0639%
		36,000,000	109	100.0000%
4	Others above 10% Share Holding	11,317,886	2	31.4386%



FORM OF PROXY

Folio No. _____

No. of Shares Held _____

The Company Secretary,
Resham Textile Industries Limited,
314-Upper Mall,
Lahore.

I/We _____

of _____ (full address)

Being a member of RESHAM TEXTILE INDUSTRIES LIMITED hereby appoint

(Name)

of _____ (full address)

as my/our Proxy in my/our absence to attend and vote for me/us and on my/our behalf at the 22nd Annual General Meeting of Share Holders of the Company to be held on Saturday 29 October 2011 at 11.00 a.m. and at any adjournment thereof.

Signed this _____ day of _____ 2011.

(Signature should agree with the specimen signature registered with the Company)

In the presence of witness :

Name _____

Signature _____

Address _____

Revenue
Stamp

IMPORTANT :

1. A member entitled to attend and vote at the General Meeting is entitled to appoint another member as his/her proxy to attend and vote on his/her behalf. Proxies in order to be effective must be received at the Company's Head Office at least 48 hours before the time of holding the meeting.
2. The instrument appointing a proxy should be signed by the member or by his/her attorney duly authorised in writing. If the member is a corporation, its Common Seal should be affixed to the instruments.