

ALLWASAYA TEXTILE & FINISHING MILLS LIMITED

ANNUAL REPORT 2003

BOARD OF DIRECTORS

| | |
|----------------------------------|-----------------|
| Mian Muhammad Jamil | Chairman |
| Mian Maqbool Ahmad Sheikh | Chief Executive |
| Mrs. Nusrat Jamil | Director |
| Mian Tanvir Ahmad Sheikh | Director |
| Mian Sarfraz Ahmad Sheikh | Director |
| Mian Tauqir Ahmad Sheikh | Director |
| Mian Muhammad Bilal Ahmad Sheikh | Director |
| Mian Muhammad Alamgir Jamil Khan | Director |

CHIEF FINANCIAL OFFICER

Muhammad Ismail

AUDIT COMMITTEE.

| | |
|----------------------------------|----------|
| Mian Muhammad Jamil | Chairman |
| Mian Tanvir Ahmad Sheikh | Member |
| Mian Muhammad Alamgir Jamil Khan | Member |

COMPANY SECRETARY

Muhammad Ismail

AUDITORS

M. Yqusuf Adil Saleem & Co.
Chartered Accountants

BANKERS

M/s Habib Bank Limited
M/s Bank Al-Habib Limited
M/s Metropolitan Bank Limited

REGISTERED OFFICE

Mumtazabad Industrial Area,
Chowk Allawasaya,
Vehari Road, Multan.

DIRECTORS REPORT

In the name of flllph the Most Beneficent & the Merciful
Dear Shareholders

Your Directors are pleased to present the 47th Annual Report on the affairs of your Company along with the Audited Accounts for the financial year ended September 30,2004.

PERFORMANCE

The performance of the Company was satisfactory for the year under report. The Mills produced Polyester-Cotton blended yarn throughout the year. The total sales for the year amounted to Rs. 749,380,271 (6,437,219 Kgs) as compared to Rs. 618,842,889 (6,397,393 Kgs) last year. The increase in the sales amount is due to comparative increase in quantity. The gross profit increased from Rs. 20,082,846 last year to Rs. 41,126,465 for the year under report. Resultantly, the Net After Tax Profit for the year also stood increased to Rs. 17,807,262 as compared to the Net After Tax Profit of Rs. 2,603,536 last year. The financial results are summarized under the head of Accounts below:

ACCOUNTS

| | 2004 | 2005 |
|-------------------------|--------------|--------------|
| | Rupees | Rupees |
| Sales (Net) | 749,380,271 | 618,842,889 |
| Cost of Sales | -708,253,806 | -598,760,043 |
| Gross Profit | 41,126,465 | 20,082,846 |
| Administrative Expenses | (12,139,628) | -11,808,056 |
| Operating Profit | 28,986,837 | 8,274,790 |

| | | |
|--|------------|------------|
| Financial charges | -3,540,597 | -4,993,183 |
| | 25,446,240 | 3,281,607 |
| Other Charges | -295,851 | -47,425 |
| | 25,150,389 | 3,234,182 |
| Other Income | 1,605,714 | 1,336,277 |
| Profit before Taxation | 26,756,103 | 4,570,459 |
| Taxation | -8,948,841 | -1,966,923 |
| Profit after Taxation | 17,807,262 | 2,603,536 |
| Unappropriated Profit - Brought forward | 77,106,994 | 75,503,458 |
| Profit available for Appropriation | 94,914,256 | 78,106,994 |
| APPROPRIATION: | | |
| Transfer to General Reserve | 80,000,000 | |
| Proposed Dividend | | |
| (2003: Rs. 1.25 per share) | - | 1,000,000 |
| Unappropriated profit - Carried to Balance Sheet | 14,914,256 | 77,106,994 |
| Basic Earnings per share | 22.26 | 3.25 |

DIVIDEND

Your Directors propose distribution of final dividend @ 12.50%(Rs. 1.25 per share) to the shareholders of the Company out of the profit earned for the year ending 30.09.2004.

ISO 9001:2000 QMS AND ISO 14001:1996 EMS CERTIFICATION

Your Directors are pleased to report that your Company has successfully achieved the ISO 9001:2000 Certification of Quality Management System and the ISO 14001:1996 Certification for Environmental Management System from M/s S.G.S Pakistan (Pvt) Limited (Accreditation Certification Body) during the year under report. This certification has enhanced the image > goodwill and added to the prestige of your Company. With this certification the Company is geared up to meet the challenges of WTO Regime.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

Your Directors are pleased to report that the Company is complying with the requirements of the Code of Corporate Governance as introduced by the Securities and Exchange Commission of Pakistan. The various statements, as required by the code, are given below:

PRESENTATION OF FINANCIAL STATEMENTS:

The financial statements, prepared by the Company, fairly present its state of affairs, the results of operations, cash flows, and changes in equity;

BOOKS OF ACCOUNTS:

The Company has maintained proper books of accounts;

ACCOUNTING POLICIES:

Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement;

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS (IAS);

International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements;

INTERNAL CONTROL SYSTEM:

The system of internal control is sound in design and has been effectively implemented and monitored;

ON GOING CONCERN:

The Company's financial position is sound enough to ensure its continuity as an on going concern;

NO OUTSTANDING STATUTORY DUES:

There are no outstanding statutory dues on account of Taxes, Levies and charges except of normal and routine nature.

FINANCIAL HIGHLIGHTS:

Key operating and financial data of last six years is annexed.

BOARD MEETINGS

During the year three (3) meetings of the Board of Directors were held. Attendance by each Director is given below:

| Director Name | Meeting Attended |
|----------------------------------|------------------|
| Mian Muhammad Jamil | 3 |
| Mian Maqbool Ahmad Sheikh | 3 |
| Mrs. Nusrat Jamil | 2 |
| Mian Tanvir Ahmad Sheikh | 3 |
| Mian Sarfraz Ahmad Sheikh | 2 |
| Mian Tauqir" Ahmad Sheikh | 2 |
| Mian Muhammad Bilal Ahmad Sheikh | 3 |
| Mian Muhammad Alamgir Jamil Khan | 3 |

AUDITORS

Your Company's Auditors M/s M. Yousuf Adil Saleem sc Co., Chartered Accountants, Multan Retired and being eligible offer themselves for re-appointment for the next year.

PATTERN OF SHAREHOLDING

Pattern of holding of the shares by the Shareholders of the Company as on 30.09.2004 as required under section 236(2)(d) of the Companies Ordinance, 1984 is enclosed.

RELATIONS WITH LABOUR AND STAFF

Your Directors are happy to report that relations with labour and staff of the Company remained cordial throughout the year.

ACKNOWLEDGEMENT

Your Directors acknowledge the best cooperation as usual enjoyed by your Company from M/s Habib Bank Limited, M/s Bank Al-Habib Limited and M/s Metropolitan Bank Limited and wish to record their sincere appreciation for the same and hope they will continue their support to us in future. The dedicated hard work of all employees of the Company is also acknowledged.

STATEMENT OF ETHICS AND BUSINESS PRACTICES

Introduction:

Allwasaya Textile at Finishing Mills Ltd., Is committed to all round excellence in the sphere of business activity. As in the past, we strive to maintain sound ethical, business, and legal standards. Allwasaya Textile affirm to observe all prevailing and applicable laws fit regulations of the country.

Code of Conduct:

Allwasaya Textile 81 Finishing Mills Ltd., steadfastly adheres to implementing transparent, ethical and professional lines of conduct in all business interface with our stakeholders which include government departments, textile manufacturing associations, stockists and traders, and so forth.

Employees:

Allwasaya Textile 61 Finishing Mills Ltd., has a historical track record of outstanding employees management relations. In the past over thirty years, there has never been any incident of Employees-Management tension. The Company is committed to provide a safe, secure, and congenial working environment to all its employees, regardless of rank, caste or creed, thereby maximizing the employees' output and the Company's prosperity.

Community:

Allwasaya Textile at Finishing Mills Ltd.> observes and pursues good community relations. The Company provides Staff Residence within the Mills premises.

Quality Assurance:

Allwasaya Textile 61 Finishing Mills Ltd., produces good quality "Gumbad" brand (Yarn, 16 Count to 31 Count) which conforms to the high standards and quality. Our product is backed up with forty years of yarn manufacturing experience and continuous process of BMR.

Financial Reporting:

Our accounting practices and finance policies are guided by prevailing corporate regulations, Companies Ordinance, 1984 and the Code of Corporate Governance. Further, we aim to fully comply with International Accounting Standards (IAS) in the preparation of financial statements. Departure if any from the standards is adequately disclosed.

Conclusion:

Allwasaya Textile & Finishing Mills Ltd., shall ensure that this statement of ethics and business practices is understood and implemented by all concerned in letter and spirit.

SIX YEARS KEY OPERATING AND FINANCIAL DATA

| Year Ended | 2004 | 2005 | 2002 | 2001 | 2000 | 1999 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Sept. JO | | | | | | |
| BALANCE SHEET | | | | | | |
| Authorized Capital | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 |
| Issued, Subscribed & Paid up Capital | 8,000,000 | 8,000,000 | 8,000,000 | 8,000,000 | 8,000,000 | 8,000,000 |
| Capital Reserve | 2,668,746 | 2,668,746 | 2,668,746 | 2,668,746 | 2,668,746 | 2,668,746 |
| General Reserve | 80,000,000 | - | - | - | - | - |
| Unappropriated Profit | 14,914,256 | 77,106,994 | 75,503,458 | 66,971,795 | 42,227,174 | 7,691,528 |
| Total Equity | 105,583,002 | 87,775,740 | 86,172,204 | 77,640,541 | 52,895,920 | 18,360,274 |
| Long Term Liabilities | — | 477,910 | 5,909,856 | - | - | - |
| Deferred Liabilities | 17,087,138 | 19,228,616 | 12,717,514 | 6,106,104 | 5,167,163 | 5,189,885 |
| Short Term Liabilities | 85,865,488 | 77,490,375 | 108,226,930 | 104,375,273 | 100,403,042 | 92,485,576 |
| Total Liabilities | 102,952,626 | 97,196,901 | 126,854,300 | 110,481,377 | 105,570,205 | 97,675,461 |
| Total Equity N | | | | | | |
| Liabilities | 208,535,628 | 1,497,264 | 213,026,504 | 188,121,918 | 158,466,125 | 116,035,735 |
| Fixed Assets | 85,812,197 | 94,949,828 | 100,407,106 | 98,822,987 | 78,561,713 | 75,199,907 |
| Long Term Deposits | 3,558,616 | 1,819,312 | 1,752,512 | 1,718,012 | 1,708,012 | 1,708,012 |
| Current Assets | 119,164,815 | 88,203,501 | 110,866,886 | 87,580,919 | 78,196,400 | 39,127,816 |
| Total Assets | 208,535,628 | 184,972,641 | 213,026,504 | 188,121,918 | 158,466,125 | 116,035,735 |
| PROFIT & LOSS ACCOUNT | | | | | | |
| Turnover (Net) | 749,380,271 | 618,842,889 | 539,729,381 | 589,401,526 | 562,815,513 | 506,859,693 |
| Gross Profit | 41,126,465 | 20,082,846 | 46,706,208 | 54,439,793 | 107,056,539 | 46,195,884 |
| Operating Profit | 28,986,837 | 8,274,790 | 34,972,304 | 43,753,590 | 97,964,058 | 37,638,397 |
| Profit/(Loss) before Taxation | 26,756,103 | 4,570,459 | 29,189,502 | 39,254,621 | 84,934,973 | 17,866,281 |
| Profit/(Loss) after Taxation | 17,807,262 | 2,603,536 | 12,731,663 | 28,944,621 | 57,735,646 | 15,331,281 |
| DISTRIBUTION | | | | | | |
| Cash Dividend % | 12.5 | 12.5 | 52.50 | 52.5 | 290.00 | 77.5 |
| RATIOS | | | | | | |
| Break up value per share(Rs.) | 131.98 | 109.72 | 107.72 | 97.05 | 66.12 | 22.95 |
| Earning/(Loss) per share (Rs) | 22.26 | 3.25 | 15.91 | 36.18 | 72.17 | 19.16 |
| Current Ratio | 42:58 | 47:53 | 51:49 | 46:54 | 44:56 | 30:70 |
| Debt/equity ratio | 0.45:99.55 | 06:94 | 11:89 | 00:100 | 00:100 | 00:100 |
| CAPACITY & PRODUCTION | | | | | | |
| No. of Spindles Installed | 28,192 | 28,192 | 28,192 | 28,192 | 28,192 | 28,192 |
| Capacity of Yarn at 20's Count (Kgs) | 11,667,215 | 11,842,827 | 11,919,657 | 11,919,657 | 11,974,536 | 7,945,906 |
| Actual Production of Yamat20's Count(Kgs) | 10,656,712 | 10,718,915 | 10,165,183 | 10,731,414 | 11,130,250 | 10,229,596 |

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of ALLAWASAYA TEXTILE & FINISHING MILLS LIMITED to comply with the Listing Regulation No. 37 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited, Clause 40 (Chapter XIII) of the Listing Regulations of the Lahore Stock Exchange (Guarantee) Limited and Section 36 (Chapter XI) of the Listing Regulations of the Islamabad Stock Exchange (Guarantee) Limited where the Company is listed.

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

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

the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of ALLAWASAYA TEXTILE sc FINISHING MILLS LIMITED as at September 30, 2004 and the related profit and loss account, cash flow statement and statement of changes in equity together with the nfttes 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.

The financial statements of the Company as of September 30,2003 were audited by another auditors whose report dated December 29,2003 expressed an unqualified opinion on those statements.

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

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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, cash flow statement and statement of changes in equity together with the notes forming part thereof confirm 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 September 30, 2004 and of the profit, changes in equity and its cash flows 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.

BALANCE SHEET AS AT

Note 2004 2003

| | | Rupees | Rupees |
|--|----|-------------|-------------|
| SHARE CAPITAL AND RESERVES | | | |
| Authorised capital | | | |
| 1,000,000 ordinary shares | | | |
| of Rs. 10 each | | 10,000,000 | 10,000,000 |
| Issued, subscribed and | | | |
| paid up capital | 3 | 8,000,000 | 8,000,000 |
| Capital reserve | 4 | 2,668,746 | 2,668,746 |
| General reserve | | 80,000,000 | - |
| Unappropriated profit | | 14,914,256 | 77,106,994 |
| | | 105,583,002 | 87,775,740 |
| LIABILITY AGAINST ASSETS SUBJECT TO FINANCE LEASE | | | |
| DEFERRED INCOME | 5 | - | 477,910 |
| DEFERRED LIABILITIES | 6 | 35,764 | 464,932 |
| CURRENT LIABILITIES | 7 | 17,051,374 | 18,763,684 |
| Current portion of liability against assets subject to finance lease | 5 | 477,910 | 5,376,249 |
| Short term finances | 8 | 60,761,309 | 35,589,891 |
| Trade and other payables | 9 | 22,724,009 | 33,858,471 |
| Provision for taxation | 10 | 1,646,239 | 1,415,900 |
| Dividend | 27 | 256,021 | 1,249,864 |
| | | 85,865,488 | 77,490,375 |
| CONTINGENCIES AND COMMITMENTS | 11 | - | - |
| | | 208,535,628 | 184,972,641 |

SEPTEMBER 30, 2004

| | Note | 2004 Rupees | 2003 Rupees |
|---|------|----------------|----------------|
| FIXED CAPITAL EXPENDITURE | | | |
| Property, plant and equipment | 12 | 85,553,748 | 94,717,828 |
| Capital work in progress | 13 | 258,449 | 232,000 |
| | | 85,812,197 | 94,949,828 |
| LONG TERM INVESTMENTS | 14 | 1,739,304 | - |
| SECURITY DEPOSITS | | 1,819,312 | 1,819,312 |
| CURRENT ASSETS | | | |
| Stores, spares and loose tools | 15 | 4,590,527 | 6,953,063 |
| Stock in trade | 16 | 71,191,000 | 47,056,000 |
| Trade debts | 17 | 29,168,882 | 23,578,993 |
| Advances, deposits, prepayments and other receivables | 18 | 3,271,538 | 4,738,623 |
| Current portion of long term investments | 14 | 696 | - |
| Cash and bank balances | 19 | 10,942,172 | 5,876,822 |
| | | 119,164,815 | 88,203,501 |
| | | 208,535,628 | 184,972,641 |

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED SEPTEMBER 30, 2004

| | Note | 2004 Rupees | 2003 Rupees |
|-------------------------|------|----------------|----------------|
| SALES - Net | 20 | 749,380,271 | 618,842,889 |
| Cost of sales | 21 | 708,253,806 | 598,760,043 |
| Gross profit | | 41,126,465 | 20,082,846 |
| Administrative expenses | 22 | 12,139,628 | 11,808,056 |
| Operating profit | | 28,986,837 | 8,274,790 |
| Financial charges | 23 | 3,540,597 | 4,993,183 |
| | | 25,446,240 | 3,281,607 |
| Other charges | 24 | 295,851 | 47,425 |
| | | 25,150,389 | 3,234,182 |
| Other income | 25 | 1,605,714 | 1,336,277 |

| | | | |
|------------------------------------|----|------------|------------|
| Profit before taxation | | 26,756,103 | 4,570,459 |
| Taxation | 26 | 8,948,841 | 1,966,923 |
| Profit after taxation | | 17,807,262 | 2,603,536 |
| Unappropriated profit | | | |
| - Brought forward | | 77,106,994 | 75,503,458 |
| Profit available for appropriation | | 94,914,256 | 78,106,994 |
| Appropriation: | | | |
| Transfer to general reserve | | 80,000,000 | |
| Proposed dividend | | | |
| (2003: Rs. 1.25 per share) | 27 | - | 1,000,000 |
| Unappropriated profit | | | |
| - Carried to balance sheet | | 14,914,256 | 77,106,994 |
| Basic earnings per share | 28 | 22.26 | 3.25 |

CASH FLOW STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2004

| | Note | 2004 Rupees | 2003 Rupees |
|--|------|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 29 | 4,603,311 | -695,863 |
| Income tax paid | | -10,200,707 | -3,255,568 |
| Gratuity paid | | -2,822,060 | -2,365,670 |
| Long term security deposits | | - | -66,800 |
| Financial charges paid . | | -3,499,585 | -3,573,294 |
| Workers' (profit) participation fund paid | | -375,563 | -1,643,652 |
| Net cash used in operating activities | | -12,294,604 | -11,600,847 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Fixed capital expenditure | | -1,243,829 | -8,831,918 |
| Long term investment | | -1,740,000 | - |
| Sale proceeds of fixed assets | | 1,415,000 | 990,000 |
| Net cash outflow from investing activities | | -1,568,829 | -7,841,918 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Lease rentals repaid | | -5,376,249 | -5,920,320 |
| Short term finances - net | | 25,171,418 | 32,793,568 |
| Dividend paid | | -866,386 | -4,169,513 |
| Net cash inflow from financing activities | | 18,928,783 | 22,703,735 |
| Net increase in cash and bank balances during the year | | 5,065,350 | 3,260,970 |
| Cash and bank balances at the beginning of the year | | 5,876,822 • | 2,615,852 |
| Cash and bank balances at the end of the year | | 10,942,172 | 5,876,822 |

Statement of Changes in Equity
For the year ended September 30, 2004

| | Issued, Subscribed and paid up capital (RUPEES) | Capital Reserve | General Reserve | Un-appropriated Profit | Total |
|-----------------------------|---|--------------------|-----------------|----------------------------------|-------------|
| Balance as at | | | | | |
| September 30, 2002 | 8,000,000 | 2,668,746 | - | 75,503,458 | 86,172,204 |
| Profit for the year ended | | | | | |
| September 30, 2003 | — | — | - | 2,603,536 | 2,603,536 |
| Proposed dividend | - | — | - | -1,000,000 | -1,000,000 |
| Balance as at | | | | | |
| September 30, 2003 | 8,000,000 | 2,668,746 | - | 77,106,994 | 87,775,740 |
| Profit for the year ended | | | | | |
| September 30, 2004 | — | — | — | 17,807,262 | 17,807,262 |
| Transfer to general reserve | - | - | 80,000,000 | -80,000,000 | - |
| Balance as at | | | | | |
| September 30, 2004 | 8,000,000 | 2,668,746 | 80,000,000 | 14,914,256 | 105,583,002 |

Notes to the Financial Statements
For the year ended September 30, 2004

1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated in Pakistan on December 03, 1958 as a Private Company. It was converted into a Public Company in 1965. Its shares are quoted on all Stock Exchanges in Pakistan. It is principally engaged in the manufacture and sale of yarn.

Finishing Plant of the Company was closed in 1978 due to its obsolete machinery.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements, have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Whenever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention, except for capitalisation of certain exchange difference referred to in notes 2.3 and 2.6, revaluation of certain financial instruments at fair value and recognition of certain employee benefits at present value.

2.3 Foreign currency translations

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into Pak Rupees at the spot rate. All non-monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction.

Exchange fluctuations on loans are capitalised as a part of cost of relevant assets-acquired out of the proceeds of such loans. All other exchange fluctuations are taken to profit and loss account. -

2.4 **Staff retirement benefits (defined benefit plan)**

The Company operates an un-funded retirement gratuity scheme covering all eligible employees completing the minimum qualifying period of service as specified by the Scheme. Provision for gratuity is made annually to cover obligation under the Scheme in accordance with actuarial recommendations.

The Company's policy with regard to actuarial gains / losses is to follow minimum recommended approach under IAS-19 "Employees Benefits".

2.5 Taxation

(a) Current

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law of taxation of income. The charge for the current taxation is calculated using prevailing tax rates applicable to the profit for the year after taking into account available tax credits and brought forward losses, if any, or minimum tax on turnover, whichever is higher.

(b) Deferred

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

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

2.6 Plant, property and equipment and depreciation / impairment thereon

Owned;

Plant, property and equipment except freehold land are stated at cost less accumulated depreciation and identified impairment losses, if any. Freehold land and capital work-in-progress are stated at cost. Cost of some plant and machinery consists of historical cost and exchange rate fluctuations on foreign currency loans utilised for acquisition thereof.

Depreciation is charged to income applying reducing balance method to write-off the cost and capitalised exchange differences over the estimated remaining useful life of assets. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Rates of depreciation are stated in note 12. No depreciation is provided on assets in the year of disposal whereas full year's depreciation is charged in the year of purchase.

Gain / loss on disposal of fixed assets is taken to Profit and Loss Account.

Normal repairs and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalised and assets replaced, if any, other than those kept as stand-by, are retired.

Leased:

These are stated at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets acquired on lease. Outstanding obligation under the lease finance charges allocated to future periods is shown as liability. The finance charge is calculated at the rate implicit in the lease and is charged to the profit and loss account. Depreciation is charged to income at the same rates and basis as applicable to the Company's owned assets.

Impairment of assets

Property, plant and equipments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an assets may not be recoverable, whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income for items of fixed assets. The recoverable amount is the higher of an asset's net selling price and value in use.

Investments

Held to maturity

These are investments with fixed or determinable payments and fixed maturity and the Company has positive intent and ability to hold to maturity. These are stated at amortised cost

Stores, spares and loose tools

These are valued at moving average cost.

Retired machinery is stated at written down value.

2.9 Stock - in - trade

Basis of valuation is as follows:

| Particulars | Mode of valuation |
|-----------------|--|
| Raw materials | |
| At mills | At lower of cost and net realisable value. |
| In transit | At cost accumulated to the balance sheet date. |
| Work in process | At manufacturing cost. |
| Finished goods | At lower of cost and net realisable value. |
| Waste | At net realisable value. |

Cost in relation to finished goods represents the annual average manufacturing cost which consists of prime cost and appropriate production overheads. Cost in relation to raw materials represents annual average cost.

Net realisable value signifies the estimated selling price in the ordinary course of business less cost of completion and cost necessary to be incurred to effect such sale.

2.10 Revenue recognition

Direct local sales are accounted for when goods are delivered to customers and invoices raised.

Sales through agents are booked on intimation from the agents.

2.11 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 income in the period in which they are incurred.

2.12 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

2.13 Financial instruments

Financial assets

The Company's principal financial assets are long term security deposits, trade debtors, advances, deposits, other receivables and cash and bank balances. Financial assets are initially recognised at its cost which is the fair value of the consideration given for it and subsequent to initial recognition financial assets are carried at fair value except any financial asset whose fair value cannot be reliably measured.

A 'regular way' purchase or sale of financial assets are recognised using trade date accounting.

Trade debts

Trade debts are stated at their nominal value as reduced by appropriate allowances for estimated.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include liability against assets subject to finance lease, short term finances, trade and other payables and dividend payable.

All financial liabilities are initially recognised at cost, which is the fair value of the consideration received at initial recognition. After initial recognition financial liabilities held for trading are carried at fair value and all other financial liabilities are measured at amortised cost, except for liability against assets subject to finance lease which is valued under IAS-17 (Leases).

4 Off setting of financial instruments

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Company intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

ISSUED, SUBSCRIBED AND PAID UP CAPITAL

| | 2004 | 2003 |
|---|-----------|-----------|
| | Rupees | Rupees |
| 499,900 ordinary shares of Rs. 10 each issued for cash | 4,999,000 | 4,999,000 |
| 300,100 ordinary shares of Rs. 10 each issued as bonus shares | 3,001,000 | 3,001,000 |

| | | |
|---|-----------|------------|
| 800,000 | 8,000,000 | 8,000,000 |
| LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured | | |
| | 2004 | 2003 |
| | Rupees | Rupees |
| Liability at the beginning of the year | 6,604,159 | 11,234,529 |
| Less: Payments made during the year | 5,376,249 | 4,630,370 |
| | 1,227,910 | 6,604,159 |
| Less: Security to be adjusted at the end of lease term | -750,000 | -750,000 |
| | 477,910 | 5,854,159 |
| Less: Transfer to Current Maturity | -477,910 | -5,376,249 |
| | - | 477,910 |
| lease agreements are: | | |
| Minimum lease payments | 1,232,727 | 7,025,451 |
| Less: Finance charges allocated to future periods | 4,817 | 421,292 |
| | 1,227,910 | 6,604,159 |
| Less: Security deposit adjustable on expiry of lease term | 750,000 | 750,000 |
| Present value of minimum lease payments | 477,910 | 5,854,159 |
| Less: Current portion grouped under current liabilities | 477,910 | 5,376,249 |
| | - | 477,910 |
| DEFERRED INCOME | | |
| Opening balance | 464,932 | 894,100 |
| Less: Amount amortized during the year | 429,168 | 429,168 |
| | 35,764 | 464,932 |

6.1 The Company entered into sale and lease back arrangements with Orix Leasing Pakistan Limited, (note 5.1) in November, 2001, resulting in deferred income of Rs. 1.288 million. Deferred income represents the excess of the sale proceeds over the net book value of plant and machinery sold under sale and leaseback arrangements, which has been resulted in finance lease. The deferred income is being amortised each year proportionate to the lease term period.

DEFERRED LIABILITIES

| | Note | 2004 | 2003 |
|--|------|------------|------------|
| | | Rupees | Rupees |
| Staff retirements benefits - gratuity | 7.1 | 5,851,374 | 6,037,684 |
| Deferred Taxation | 7.2 | 11,200,000 | 12,726,000 |
| | | 17,051,374 | 18,763,684 |
| - Discount rate | | 10% | 10% |
| - Expected rate of increase in salary | | 9% | 9% |
| - Average expected remaining life time of employees | | 5 years | 5 years |
| Present value of defined benefit obligation as at September 30, 2004 | | 6,563,263 | 6,758,581 |
| Unrecognized actuarial loss | | -711,889 | -720,897 |
| Liability recognized as at September 30, 2004 | | 5,851,374 | 6,037,684 |
| Liability as at 30th September, | | 6,037,684 | 5,948,414 |
| Amount recognized during the year | | 2,635,750 | 2,454,940 |
| | | 8,673,434 | 8,403,354 |
| Benefits payments during the year | | -2,822,060 | -2,365,670 |
| Liability as at 30th September, | | 5,851,374 | 6,037,684 |
| | Note | 2004 | 2003 |
| | | Rupees | Rupees |
| Current service cost | | 1,950,884 | 1,773,531 |
| Interest cost | | 675,858 | 668,247 |
| Actuarial losses recognized | | 9,008 | 13,162 |
| | | 2,635,750 | 2,454,940 |
| Cost of sales | | 2,299,451 | 2,201,099 |
| Administrative expenses | | 336,299 | 253,841 |

| | | |
|---|------------|------------|
| | 2,635,750 | 2,454,940 |
| - Difference in tax and accounting bases of owned assets | 9,587,999 | 10,522,000 |
| - Difference in tax and accounting bases of leased assets | 3,659,982 | 2,204,000 |
| - Difference in tax and accounting bases of gratuity | -2,047,981 | — |
| | 11,200,000 | 12,726,000 |
| Provided during the year | 522,000 | 6,851,000 |

SHORT TERM FINANCES

Secured - under markup arrangements

| | | |
|-----------------|------------|------------|
| Cash finance | 29,205,576 | 8,763,169 |
| Running Finance | 31,555,733 | 26,826,722 |
| | 8.1 | 60,761,309 |
| | | 35,589,891 |

TRADE AND OTHER PAYABLES'

| | | | |
|---|------|------------|-------------|
| | Note | 2004 | 2003 |
| | | Rupees | Rupees |
| Creditors | | 9,039,433 | 1 7,686,344 |
| Accrued expenses including directors' meeting fee Rs. 22,000 (2003: Rs. 22,000) | | 6,594,768 | 12,833,045 |
| Advance payments | | 1,136,351 | 471,744 |
| Accrued mark-up on short term finances | | 475,134 | 445,356 |
| Sales tax payable | | 3,006,965 | |
| Tax deducted at source | | 125,276 | 7,422 |
| Workers' (profit) participation fund | 9.1 | 1,352,600 | 364,329 |
| Workers' welfare fund | | 993,482 | 2,050,231 |
| | | 22,724,009 | 33,858,471 |
| 9.1 Workers' (profit) participation fund | | | |
| Opening balance | | 364,329 | 1,568,000 |
| Interest on amounts in Company's business | | 11,234 | 209,081 |
| " Contribution for the year | | 1,352,600 | 230,900 |
| | | 1,728,163 | 2,007,981 |
| Payments made to the trustees of the Fund | | 375,563 | 1,643,652 |
| | | 1,352,600 | 364,329 |

PROVISION FOR TAXATION - Net

| | | | |
|--|------|-------------|-------------|
| | Note | 2004 | 2003 |
| | | Rupees | Rupees |
| Provision for taxation | 10.1 | 19,289,107 | 20,265,844 |
| Adjustment of advance tax against completed assessment | | -17,642,868 | -18,849,944 |
| | | 1,646,239 | 1,415,900 |
| 10.1 Opening balance | | 20,265,844 | 48,755,253 |
| Provision made during the year | | | |
| - Current year | | 8,581,449 | 3,105,000 |
| - Prior year | | -9,558,186 | -31,594,409 |
| | | -976,737 | -28,489,409 |
| | | 19,289,107 | 20,265,844 |

DEPRECIATION

| | | | | | |
|--------|------------------------|--------------|--------------|--------------------------|--------------------------|
| | | | | | Net book value |
| Rate % | As at October 01, 2003 | For the year | On Disposals | As at September 30, 2004 | as at September 30, 2004 |
| | | | | | |
| | | | | | 787,834 |
| 10 | 8,901,601 | 594,513 | - | 9,496,114 | 5,350,619 |
| 10 | 139,461,793 | 7,107,359 | 479,375 | 146,089,777 | 63,966,230 |
| 10 | 101,104 | 490 | | 101,594 | 4,412 |
| 15 | 1,524,310 | 77,108 | - | 1,601,418 | 436,948 |
| 10 | 147,667 | 1,324 | - | 148,991 | 11,918 |
| 10 | 130,087 | 2,131 | - | 132,218 | 19,183 |
| 10 | 1,179,545 | 30,527 | - | 1,210,072 | 274,744 |
| 10 | 467,153 | 16,244 | - | 483,397 | 146,191 |
| 10 | 6,982 | 148 | - | 7,130 | 1,327 |
| 15 | 698,045 | 39,695 | - | 737,740 | 224,935 |
| 10 | 562,763 | 21,126 | - | 583,889 | 190,129 |

| | | | | | |
|----|-------------|------------|-----------|-------------|------------|
| 20 | 5,256,307 | 801,069 | 668,746 | 5,388,630 | 3,204,278 |
| | 158,437,357 | 8,691,734 | 1,148,121 | 165,980,970 | 74,618,748 |
| 10 | 2,850,000 | 1,215,000 | - | 4,065,000 | 10,935,000 |
| | 161,287,357 | 9,906,734 | 1,148,121 | 170,045,970 | 85,553,748 |
| | 153,029,372 | 10,940,760 | 2,682,775 | 161,287,357 | 94,717,828 |

12.1 Depreciation for the year has been allocated as under:

| | | |
|-------------------------|-----------|------------|
| | 2004 | 2003 |
| | Rupees | Rupees |
| Cost of sales | 9,044,697 | 10,055,899 |
| Administrative expenses | 862,037 | 884,861 |
| | 9,906,734 | 10,940,760 |

12.2 Disposal of fixed assets

| Particulars | Cost | Accumulated depreciation | Book Value | Sale proceeds |
|-------------------------------|-----------|--------------------------|------------|---------------|
| | Rupees | | | |
| Cone Winding Machine (Gilbas) | 123,339 | 119,909 | 3,430 | 375,000 |
| Three Reeling Machines | 147,344 | 143,246 | 4,098 | 45,000 |
| Cone Winding Machine (Murata) | 20,598 | 197,633 | 2,965 | 245,000 |
| Card Machine (Toyoda) | 18,866 | 18,587 | 279 | 25,000 |
| | 490,147 | 479,375 | 10,772 | 690,000 |
| Toyota Corolla Car MNX-70 | 1,132,700 | 4,668,746 | 463,954 | 725,000 |
| 2004 | 1,622,847 | 1,148,121 | 474,726 | 1,415,000 |
| 2003 | 2,982,955 | 2,682,775 | 300,180 | 990,000 |

CAPITAL WORK IN PROGRESS

| | | | |
|------------------------|------|---------|---------|
| | Note | 2004 | 2003 |
| | | Rupees | Rupees |
| Land - advance payment | | 232,000 | 232,000 |
| Plant and machinery | | 26,449 | — |
| | | 258,449 | 232,000 |

LONG TERM INVESTMENT

| | | | |
|---|------|-----------|---|
| Held to maturity | | | |
| Term Finance Certificates of Bank Al-Habib Ltd. | 14.1 | 1,740,000 | - |
| Current portion shown under current assets | | -696 | — |
| | | 1,739,304 | - |

STORES AND SPARES

| | | |
|-------------------|-----------|-----------|
| Stores | 2,223,353 | 4,973,556 |
| Spares | 2,343,317 | 1,955,650 |
| Retired Machinery | 23,857 | 23,857 |
| | 4,590,527 | 6,953,063 |

STOCK IN TRADE

| | | |
|---------------------|------------|------------|
| Raw material | | |
| - Cotton | 17,199,000 | 9,959,000 |
| - Polyester | 35,247,000 | 24,463,000 |
| | 52,446,000 | 34,422,000 |
| Work - in - process | 5,452,000 | 5,080,000 |
| Finished goods | | |
| - Yarn | 13,106,000 | 7,325,000 |
| - Waste | 152,000 | 159,000 |
| | 13,258,000 | 7,484,000 |
| Salvage stock | 35,000 | 70,000 |
| | 71,191,000 | 47,056,000 |

TRADE DEBTS - Considered good

| | | | |
|-------------------|------|------------|------------|
| | Note | 2004 | 2003 |
| | | Rupees | Rupees |
| Local - unsecured | | 29,168,882 | 23,578,993 |

ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | | | |
|--------------------|------|---------|---------|
| Due from directors | | — | 4,390 |
| Advances to staff | 18.1 | 207,008 | 349,254 |

| | | | |
|---|------|-----------|-----------|
| Advance to suppliers - considered good | | 1,784,010 | 1,502,570 |
| Letters of credit | | 227,388 | - |
| Margin Deposit | | 100,659 | 5,000 |
| Excise duty deposits | | 13,217 | 13,217 |
| Prepayments | | 285,673 | 208,704 |
| income tax refundable | | - | 43,795 |
| Sales tax refundable | | - | 1,946,818 |
| Others | 18.2 | 653,583 | 664,875 |
| | | 3,271,538 | 4,738,623 |
| Corporate Assets Tax - paid under protest | | 624,603 | 624,603 |
| Profit on TFCs | | 14,273 | - |
| Others | | 14,707 | 40,272 |
| | | 653,583 | 664,875 |

CASH AND BANK BALANCES

| | Note | 2004 Rupees | 2003 Rupees |
|-----------------------------------|------|----------------|----------------|
| Cash-in-hand | | 141,692 | 1 1 3,439 |
| Cash at banks on current accounts | | 10,800,480 | 5,763,383 |
| | | 10,942,172 | 5,876,822 |

SALES - Net

| | | | |
|------------|--|-------------|-------------|
| Local | | | |
| - Yarn | | 852,284,369 | 708,740,544 |
| -Waste | | 11,745,441 | 5,430,693 |
| | | 864,029,810 | 714,171,237 |
| Less : | | | |
| Sales tax | | 112,699,498 | 93,152,726 |
| Commission | | 1,950,041 | 2,175,622 |
| | | 114,649,539 | 95,328,348 |
| | | 749,380,271 | 618,842,889 |

COST OF SALES

| | Note | 2004 Rupees | 2003 Rupees |
|-------------------------------|------|----------------|----------------|
| Raw materials consumed | 21.1 | 552,744,629 | 444,557,746 |
| Salaries, wages and benefits | 21.2 | 39,153,035 | 38,292,243 |
| Stores consumed | | 20,691,186 | 13,396,131 |
| Packing materials | | 6,442,813 | 5,955,964 |
| Fuel and power | | 81,964,699 | 85,931,400 |
| Repair and maintenance | | 2,797,890 | 2,003,917 |
| Insurance | | 1,560,857 | 1,535,743 |
| Depreciation | 12.1 | 9,044,697 | 10,055,899 |
| | | 714,399,806 | 601,729,043 |
| Adjustment of work-in-process | | | |
| Opening | | 5,080,000 | 5,622,000 |
| Closing | | -5,452,000 | -5,080,000 |
| | | -372,000 | 542,000 |
| Cost of goods manufactured | | 714,027,806 | 602,271,043 |
| Adjustment of finished goods | | | |
| Opening stock | | 7,484,000 | 3,973,000 |
| Closing stock | | -13,258,000 | -7,484,000 |
| | | -5,774,000 | -3,511,000 |
| | | 708,253,806 | 598,760,043 |
| 21.1 Raw materials consumed | | | |
| Openingstock | | 34,422,000 | 25,255,000 |
| Purchases including expenses | | 570,520,682 | 453,477,975 |
| | | 604,942,682 | 478,732,975 |
| Less: Closing stock | | 52,446,000 | 34,422,000 |
| | | 552,496,682 | 444,310,975 |
| Cotton cess | | 247,947 | 246,771 |
| | | 552,744,629 | 444,557,746 |

ADMINISTRATIVE EXPENSES

| | Note | 2004 Rupees | 2003 Rupees |
|--|------|----------------|----------------|
| Directors' remuneration and meeting fee | | 1,419,442 | 1,392,591 |
| Salaries and benefits | 22.1 | 4,920,126 | 4,476,673 |
| Vehicles' running and maintenance | | 1,377,156 | 1,590,031 |
| Travelling and conveyance including directors' travelling amounting to Rs. 35, 183 (2003: Rs. 9,080) | | 48,678 | 22,684 |
| Printing and stationery | | 263,920 | 227,695 |
| Communication | | 1,029,566 | 983,140 |
| Rent, rates and taxes | | 195,703 | 153,000 |
| Electricity and gas | | 822,422 | 858,381 |
| Repair and maintenance | | 393,193 | 424,194 |
| Subscription | | 181,049 | 199,572 |
| Advertisement | | 38,550 | 49,750 |
| Entertainment | | 134,274 | 136,268 |
| Depreciation | 12.1 | 862,037 | 884,861 |
| Auditors' remuneration | | 146,150 | 197,725 |
| Legal and professional | | 244,950 | 147,525 |
| Others | | 62,412 | 63,966 |
| | | 12,139,628 | 11,808,056 |

2.2 . 2 Auditors' remuneration

Hameed Chaudhri S Co.

| | | |
|--------------------------|---|---------|
| -Audit fee | - | 100,000 |
| - Out of pocket expenses | - | 15,000 |
| | | 115,000 |

GhaziSCCo.

- Worker's (profit) Participation Fund audit fee (2001 sr. 2003)

| | | |
|--|---|-------|
| | - | 6,000 |
|--|---|-------|

M. Yousuf Adil Saleem St Co.

- Worker's (profit) Participation Fund audit fee 2002

| | | |
|----------------|----------|---------|
| - Audit Fee | 125,000 | - |
| - Tax services | 21,150 | 70,725 |
| | 146,150 | 76,725 |
| | 146,150- | 197,725 |

FINANCIAL CHARGES

| | 2004 Rupees | 2003 Rupees |
|--|----------------|----------------|
| Mark-up on short term finances | 2,555,314 | 3,289,880 |
| . Lease finance charges | 416,475 | 1,260,044 |
| Bank and other charges | 493,527 | 234,178 |
| Interest on workers' (profit) participation fund | 11,234 | 209,081 |
| Bank guarantee commission | 64,047 | - |
| | 3,540,597 | 4,993,183 |

OTHER CHARGES

| | | |
|--------------------------------------|------------|----------|
| Workers' (Profit) Participation Fund | 1,352,600 | 230,900 |
| Workers' Welfare Fund | | |
| - Current year | 473,857 | 29,700 |
| - Priorityear | -1,530,606 | -213,175 |
| | -1,056,749 | -183,475 |
| | 295,851 | 47,425 |

OTHER INCOME

| | | |
|---------------------------------|-----------|-----------|
| Deferred income | 429,168 | 429,168 |
| Gain on sale of fixed assets | 940,274 | 689,820 |
| Unclaimed balances written-back | 127,457 | 83,217 |
| Profit on bank deposit | - | 48,309 |
| Sale of salvage | 94,542 | 85,763 |
| ProftonTFCs | 14,273 | - |
| | 1,605,714 | 1,336,277 |

TAXATION

Components of tax expense

,

| | | |
|---|------------|------------|
| - Current tax expense | 8,581,449 | 3,105,000 |
| - Current tax of prior years | 1,893,392 | -7,989,077 |
| | 10,474,841 | -4,884,077 |
| Deferred tax expenses relating to the origination and reversal of temporary differences | -1,526,000 | 977,000 |
| Deferred tax of prior years | - | 5,874,000 |
| | -1,526,000 | 6,851,000 |
| | 8,948,841 | 1,966,923 |

26.1 Relationship between tax expense and accounting profit

| | Note | 2004 Rupees | 2003 Rupees |
|--|------|----------------|----------------|
| Accounting profit before tax | | 26,756,103 | 4,570,459 |
| Applicable tax rate | | 35% | 35% |
| Tax on accounting profit | | 9,364,636 | 1,599,661 |
| Adjustments of prior year's tax | | 1,893,392 | -7,989,077 |
| Tax effect of expenses deductible for tax purposes | | -916,912 | |
| Tax effect of expenses not deductible for tax purposes | | 133,725 | - |
| Deferred tax | | -1,526,000 | 977,000 |
| Provision relating to section 113 of the Income Tax Ordinance 2001 | | - | 7,379,339 |
| Tax expense for the current year | | 8,948,841 | 1,966,923 |
| 27. DIVIDEND | | | |
| Unclaimed dividend | | 256,021 | 249,864 |
| Proposed dividend | 27.1 | - | 1,000,000 |
| | | 256,021 | 1,249,864 |

BASIC EARNINGS PER SHARE

| | | |
|--|---------------|-----------|
| Profit after taxation attributable to ordinary shareholders | 17,807,262 | 2,603,536 |
| | No. of shares | |
| Number of ordinary shares issued and subscribed at the end of the year | 800,000 | 800,000 |
| | Rupees | |
| Basic earnings per share | 22.26 | 3.25 |

CASH GENERATED FROM OPERATIONS

| | 2004 Rupees | 2003 Rupees |
|--|----------------|----------------|
| | 26,756,103 | 4,570,459 |
| Profit for the year - before taxation | | |
| Adjustments for non-cash items | 9,906,734 | 10,940,760 |
| Depreciation | -940,274 | -689,820 |
| Gain on disposal of fixed assets | 2,635,750 | 2,454,940 |
| Provision for gratuity | -1,056,749 | -1,540,249 |
| Workers' Welfare fund | 3,540,597 | 4,759,005 |
| Financial charges | -429,168 | -429,168 |
| Deferred income credited | -14,273 | - |
| Profit on Term Finance Certificates | -127,457 | -83,217 |
| Unclaimed balances written back | 1,352,600 | 230,900 |
| Workers' (profit) participation fund (including interest] | | |
| Cash inflow from operating activities | 41,623,863 | 20,213,610 |
| Before working capital changes | | |
| (Increase)/decrease in current assets | 2,362,536 | -584,104 |
| Stores and spares | -24,135,000 | -12,151,000 |
| Stock in trade | -5,589,889 | 3,956,956 |
| Trade debtors | | |
| Advances, deposits, prepayments and other receivables (excluding taxes paid) | 1,437,564 | -1,448,949 |
| Decrease in trade and other payables (excluding accrued financial charges) | -11,095,763 | -10,682,376 |
| | -37,020,552 | -20,909,473 |
| | 4,603,311 | -695,863 |
| Cash generated from other operations | | |

NUMBER OF EMPLOYEES

| | Numbers | |
|-------------------------------------|---------|-----|
| Number of employees at the year end | 779 | 772 |

32. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

| Particulars | Chief Executive | | Working Directors | | Executives | |
|-------------------------|--------------------|---------|-------------------|---------|------------|---------|
| | Rupees in thousand | | | | | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Managerial remuneration | 289,656 | - | 1 | | | |
| House rent | 115,860 | 289,656 | 606,336 | 521,376 | - | 445,039 |
| Utilities | 14,484 | 115,860 | 242,532 | 208,548 | - | 200,268 |
| Rupees | 420,000 | 14,484 | 147,574 | 240,667 | — | 29,994 |
| No. of persons | 1 | 420,000 | 996,442 | 970,591 | - | 675,301 |
| | | 1 | 3 | 2 | - | 3 |

Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. Payables exposed to foreign exchange risk are covered through hedging.

Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The Company believes that it is not exposed to major concentration of credit risk because exposure to a single group or single debtor is not significant. Further, the Company attempts to control credit risk of debtors by continuing assessment of credit worthiness of customers.

Interest rate risk management

Interest rate risk represents the value of a financial instrument which will fluctuate due to changes in market interest rate. Since the Company borrows most of the funds at fixed interest rate, exposure to interest rate risk is minimal.

Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair values.

PRODUCTION CAPACITY

| | 2004 | 2003 |
|--|------------------|------------|
| No. of spindles installed and worked | 28,192 | 28,192 |
| No. of shifts worked | 1,063 | 1,079 |
| Capacity of yarn at 20's count on the basis of utilisation | -Kgs. 11,667,215 | 11,842,827 |
| Production of yarn at 20's count | -Kgs. 10,656,712 | 10,718,915 |

DATE OF AUTHORIZATION FOR ISSUE

These Financial statements have been authorised for issue by the Board of Directors of the Company in its meeting held on December 24, 2004.

FIGURES

in the accounts have been rounded-off to the nearest Rupee;

of the corresponding year have been re-arranged wherever necessary for the purposes of comparison.

PATTERN OF HOLDING OF THE SHARES BY THE SHAREHOLDERS AS AT SEPTEMBER 30, 2004

| Number of Shareholders | | | Total Shares held |
|------------------------|--------|--------|-------------------|
| Shareholders | From | To | |
| 104 | 1 | 100 | 6,108 |
| 28 | 101 | 500 | 7,075 |
| 11 | 501 | 1,000 | 8,872 |
| 9 | 1,001 | 5,000 | 24,746 |
| 6 | 5,001 | 10,000 | 57,004 |
| 3 | 10,001 | 15,000 | 34,326 |
| 10 | 15,001 | 20,000 | 180,349 |

| | | | |
|---|--------|--------|--------|
| 4 | 20,001 | 25,000 | 85,778 |
| 2 | 25,001 | 30,000 | 57,390 |
| 1 | 30,001 | 35,000 | 34,166 |
| 2 | 35,001 | 40,000 | 70,466 |
| - | 40,001 | 45,000 | 0 |
| 2 | 45,001 | 50,000 | 92,937 |
| 1 | 50,001 | 75,000 | 60,313 |
| - | 75,001 | 80,000 | 0 |
| 1 | 80,001 | 85,000 | 80,470 |

1 1984 800,000

| Categories of Shareholders | Number | Shares held | Percentage |
|--|--------|-------------|------------|
| Individuals | 176 | 798,650 | 99.83 |
| Financial Institutio | 5 | 874 | 0.11 |
| Others | - | - | - |
| Corporate Law Aut Deputy Administrator | 1 | 1 | 0 |
| Abandoned Proper Limited Company | 1 | 425 | 0.05 |
| | 1 | 50 | 0.01 |
| | 184 | 800,000 | 100 |

PATTERN OF SHAREHOLDING
AS ON SEPTEMBER 30, 2004

| Shareholders' Category | Number of Shareholders | Number of Shares Held |
|--|------------------------|-----------------------|
| Associated Companies, UndertakingSC Related Parties | | NIL |
| NITandICP | | |
| Investment Corporation of Pakistan | 1 | 774 |
| The Vice President, National Bank of Pakistan Trustee Wing | 1 | 100 |
| DIRECTORS | | |
| Mian Muhammad Jamil | 1 | 80,470 |
| Mian Maqbool Ahmad Sheikh | 1 | 18,538 |
| Mrs. Nusrat Jamil | 1 | 45,728 |
| Mian Tanvir Ahmad Sheikh | 1 | 12,500 |
| Mian Sarfraz Ahmad Sheikh | 1 | 47,209 |
| Mian Tauqir Ahmad Sheikh | 1 | 34,166 |
| Mian Muhammad Bilal Ahmad Sheikh | 1 | 35,156 |
| Mian Muhammad Alamgir Jamil Khan | 1 | 60,313 |
| CHIEF EXECUTIVE OFFICERS | | |
| Mian Maqbool Ahmad Sheikh | 1 | 18,538 |
| Directors ¹ / C. E.O's Spouses | 6 | 202,517 |
| Executives | | NIL |
| Public Sector Companies and C.L.A. | 2 | 51 |
| Deputy Administrator Abandoned Properties | 1 | 425 |
| Shareholders holding 1 0% or more voting interest | | NIL |