

NINA INDUSTRIES LIMITED ANNUAL REPORT 2004

Meetings of the Board of Directors

During the year 05 meetings of the Board of Directors were held, the requisite details are as under:

| Name of Directors | No. of Meetings Attended |
|---------------------|--------------------------|
| Mr. Saeed A. Sattar | 5 |
| Mr. Waqar A. Sattar | 4 |
| Mr. Urooj Saeed | 4 |
| Mr. Kashif Sattar | 4 |
| Mr. Yasir Waqar | 4 |
| Mrs. Saeeda Saeed | 2 |
| Mr. Ansar Hussain | 3 |
| Mr. Karim Hatim | 1 |

Rescheduling and Restructuring of Debts

Your Company has been very successful in getting approved from various financial institutions the rescheduling and restructuring of its financial obligations. Reduction in markup rates has also been accorded the effect of which has been taken in these financial statements to the extent applicable. You would see its reflection in the financial statements of the ensuing periods.

Auditors

The auditors, M/s. Khalid Majid Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, retire and being eligible, offer themselves for reappointment. However, the Board of Directors deliberated, Considered and recommended that offers from other practicing firms may be solicited.

Code of Corporate Governance

- * 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 account have been maintained.
- * Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
- * International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- * The system of internal control is sound in design and has been effectively implemented and monitored
- * There are no significant doubts upon the company's ability to continue as a going concern.
- * There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation Number 37 of the listing regulations of the Karachi Stock Exchange (Guarantee) Limited for the purposes 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 and directors representing minority interests on its Board of Directors. At present the Board includes four non-executive directors two of whom are the nominee shareholders of the Institutions.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DPI or a Non-Banking Finance Company or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring in the Board on 11 November 2003 was filled up by the directors within one day thereof.
5. The Company is in the development phase of 'Statement of Ethics and Business Practices' which would be signed by all the directors and management employees of the Company.
6. The Board has a vision/mission statement. Overall corporate strategy is at work and significant policies of the Company are being followed in letter and spirit. However, the same are being formalized in the form of policy manuals.
7. All the powers of the Board have been duly exercised including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have

been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meeting, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Directors are well acquainted as to their duties and responsibilities as required under the Code of Corporate Governance. However, information material including a copy of the Code of Corporate Governance and the Memorandum and Articles of Association of the Company were circulated to the Directors to apprise them with their duties and responsibilities and enable them to manage the affairs of the Company.

10. Company Secretary was appointed during the year with the approval of the Board of Directors. However,

KEY OPERATING AND FINANCIAL DATA - SIX YEARS

| | Jun-04 (Rs) | Jun-04 (%) | Jun-03 (Rs) | Jun-03 (%) | Jun-02 (Rs) | Jun-02 (%) | Jun-01 (Rs) | Jun-01 (%) | Jun-00 (Rs) | Jun-00 (%) | Jun-99 (Rs) | Jun-99 (%) |
|---|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
| SALES AND SERVICES - NET | 1,205,985,359 | 100.00% | 1,716,436,013 | 100.00% | 1,146,120,925 | 100% | 892,356,067 | 100% | 790,267,577 | 100% | 567,551,087 | 100% |
| COST OF SALES | 1,016,673,578 | 84.30% | 1,528,867,064 | 89.07% | 949,715,535 | 82.86% | 731,216,714 | 81.94% | 670,945,049 | 84.90% | 461,210,503 | 81.26% |
| GROSS PROFIT | 189,311,781 | 15.70% | 187,568,949 | 10.93% | 196,405,390 | 17.14% | 161,139,353 | 18.06% | 119,322,528 | 15.10% | 106,340,584 | 18.74% |
| OPERATING EXPENSES: | | | | | | | | | | | | |
| GENERAL & ADMINISTRATIVE | 48,304,215 | 4.01% | 52,015,371 | 3.03% | 46,242,517 | 4.03% | 40,308,447 | 4.52% | 33,286,829 | 4.21% | 31,719,079 | 5.59% |
| SELLING & DISTRIBUTION | 22,078,273 | 1.83% | 28,466,386 | 1.66% | 20,445,936 | 1.78% | 13,376,020 | 1.50% | 9,495,005 | 1.20% | 5,047,545 | 0.89% |
| FINANCIAL CHARGES | 175,971,373 | 14.59% | 102,515,575 | 5.97% | 95,985,348 | 8.37% | 82,044,448 | 9.19% | 61,107,131 | 7.73% | 59,518,798 | 10.49% |
| OTHER CHARGES | - | 0.00% | 423,004 | 0.02% | 1,847,999 | 0.16% | 1,458,788 | 0.16% | 922,732 | 0.12% | 583,290 | 0.10% |
| OTHER INCOME | -3,708,670 | -0.31% | -3,888,470 | -0.23% | -3,228,400 | -0.28% | -2,639,171 | -0.30% | -2,164,634 | -0.27% | -1,610,645 | -0.28% |
| TOTAL OPERATING EXPENSES | 242,645,192 | 20.12% | 179,531,866 | 10.46% | 161,293,400 | 14.07% | 134,548,532 | 15.08% | 102,647,063 | 12.99% | 95,258,067 | 16.78% |
| (LOSSI/PROFIT BEFORE TAXATION) | -53,333,410 | -4.42% | 8,037,083 | 0.47% | 35,111,990 | 3.06% | 26,590,821 | 2.98% | 16,675,465 | 2.11% | 11,082,517 | 1.95% |
| PROVISION FOR TAXATION | 9,178,568 | 0.76% | 14,477,054 | 0.84% | 11,980,782 | 1.05% | 10,298,137 | 1.15% | 4,033,826 | 0.51% | 2,289,454 | 0.40% |
| (LOSSI/PROFIT AFTER TAXATION) | -62,511,978 | -5.18% | -6,439,971 | -0.38% | 23,131,208 | 2.02% | 16,292,684 | 1.83% | 12,641,639 | 1.60% | 8,793,063 | 1.55% |
| UNAPPROPRIATED PROFIT B/F | 166,565,622 | 13.81% | 120,711,570 | 7.03% | 119,580,362 | 10.43% | 106,036,586 | 11.88% | 109,894,947 | 13.91% | 101,101,884 | 17.81% |
| TRANSFER FROM SURPLUS ON REVALUATION OF FKED ASSETS | 14,184,587 | 1.18% | 52,294,023 | 3.05% | - | - | - | - | - | - | - | - |
| APPROPRIATION OF DIVIDEND | - | - | - | - | 22,000,000 | 1.92% | - | - | 16,500,000 | 2.09% | 11,000,000 | 1.94% |
| UNAPPROPRIATED PROFIT C/F TO B/S | 118,238,231 | 9.80% | 166,565,622 | 9.70% | 120,711,570 | 10.53% | 122,329,270 | 13.71% | 106,036,586 | 13.42% | 98,894,947 | 17.42% |

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 %*** INDUSTRIES LIMITED to comply with the Listing Regulation No.37 of the Karachi 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 the 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 as applicable to the Company for the year ended June 30, 2004.

BALANCE SHEET

| | Note | 2004 Rupees | 2003 Rupees |
|---|------|----------------|----------------|
| CAPITAL & LIABILITIES | | | |
| AUTHORIZED | | | |
| SHARE CAPITAL | | | |
| 25,000,000 Ordinary shares of Rs. 10/- each | | 250,000,000 | 250,000,000 |
| CAPITAL AND RESERVE | | | |
| Issued, subscribed and paid-up capital | 3 | 242,000,000 | 242,000,000 |
| Un-appropriated profit | | 118,238,231 | 166,565,622 |
| | | 360,238,231 | 408,565,622 |
| Surplus on Revaluation of Fixed Assets | 4 | 482,193,093 | 158,179,028 |
| Long term loans - secured | 5 | 503,099,885 | 311,512,088 |
| Liabilities against assets subject to Finance lease | 6 | 126,829,153 | 130,373,400 |
| Deferred Liabilities | 7 | 7,490,023 | 5,237,647 |
| Directors loan | 8 | 305,294 | 3,172,329 |

CURRENT LIABILITIES

| | | | |
|---|----|---------------|---------------|
| Short term finances utilized under mark-up arrangements - secured | 9 | 1,032,749,102 | 1,158,269,524 |
| Current maturity of long term liabilities | 10 | 80,262,090 | 111,818,058 |
| Creditors, accrued charges and other liabilities | 11 | 667,432,483 | 652,070,527 |
| | | 1,780,443,675 | 1,922,158,109 |
| Contingencies and commitments | 12 | - | - |
| | | 3,260,599,354 | 2,939,198,223 |

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of Nina INDUSTRIES LIMITED as at June 30, 2004 and the related profit & loss account, 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 accounts 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 & loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2004, and of the loss, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980, (XVII of 1980).

The financial statements for the year ended June 30, 2003 were audited by another firm of Chartered Accountants, who expressed an unqualified opinion in their report dated October 07, 2003.

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

| | Note | 2004 Rupees | 2003 Rupees |
|---------------------------------|------|----------------|----------------|
| Sales and Services-Net | 22 | 1,205,985,359 | 1,716,436,013 |
| Cost of sales | 23 | -1,016,673,578 | -1,528,867,064 |
| Gross profit | | 189,311,781 | 187,568,949 |
| OPERATING EXPENSES | | | |
| General and administrative | 24 | 48,304,215 | 52,015,371 |
| Selling & distribution | 25 | 22,078,273 | 28,466,386 |
| | | -70,382,488 | -80,481,757 |
| Operating profit | | 118,929,293 | 107,087,192 |
| Financial charges | 26 | 175,971,373 | 102,515,575 |
| Other charges | 27 | - | 423,004 |
| | | -175,971,373 | -102,938,579 |
| | | -57,042,080 | 4,148,613 |
| Other income | 28 | 3,708,670 | 3,888,470 |
| (Loss) / profit before taxation | | -53,333,410 | 8,037,083 |
| Provision for Taxation | | | |
| Current | | 9,178,568 | 12,300,000 |
| Prior | | - | 2,177,054 |

| | | | |
|--|----|-------------|-------------|
| | | -9,178,568 | 14,477,054 |
| Loss after taxation | | -62,511,978 | -6,439,971 |
| Unappropriated profit brought forward | | 166,565,622 | 120,711,570 |
| | | 104,053,644 | 114,271,599 |
| Transfer from surplus on revaluation of fixed assets | | | |
| Prior year(s) | | - | 36,598,689 |
| Current year | | 14,184,587 | 15,695,334 |
| | | 14,184,587 | 52,294,023 |
| Unappropriated profit carried forward | | 118,238,231 | 166,565,622 |
| (Loss) / Earning per share - Basic | 29 | -2.58 | -0.28 |

AS AT JUNE 30, 2004

| | Note | 2004 Rupees | 2003 Rupees |
|---|------|----------------|----------------|
| PROPERTY AND ASSETS | | | |
| Operating fixed assets - Tangible | 13 | 1,397,744,879 | 992,960,833 |
| Capital work in progress | 14 | - | 152,872,710 |
| | | 1,397,744,879 | 1,145,833,543 |
| Long term deposits and deferred cost | 15 | 65,271,057 | 33,587,322 |
| CURRENT ASSETS | | | |
| Stores, spares and loose tools | 16 | 172,949,046 | 173,236,243 |
| Stock in trade | 17 | 799,379,481 | 723,322,497 |
| Trade debts | 18 | 629,894,771 | 628,165,209 |
| Advances, deposits, prepayments & other receivables | 19 | 88,904,976 | 79,729,611 |
| Export rebates and sales tax receivables | 20 | 88,919,684 | 135,691,686 |
| Cash and bank balances | 21 | 17,535,460 | 19,632,112 |
| | | 1,797,583,418 | 1,759,777,358 |

| | | 2004 Rupees | 2003 Rupees |
|--|--|----------------|----------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Long term deposits and deferred cost | | -42,331,858 | -26,464,459 |
| Proceeds from disposal of operating fixed assets | | 2,390,001 | 145,000 |
| Expenditure on capital work in progress | | - | -152,872,710 |
| Fixed capital expenditures | | -19,300,746 | -382,124,898 |
| Net cash (used in) investing activities | | -59,242,603 | -561,317,067 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Long term directors loan | | -2,867,035 | -3,894,972 |
| Long term loans - net | | 168,475,388 | 302,358,725 |
| Lease financing - net | | -11,987,806 | 131,647,140 |
| Issuance of right shares | | - | 22,000,000 |
| Dividend Paid | | - | -22,000,000 |
| Net cash generated from financing activities | | 153,620,547 | 430,110,893 |
| Net decrease in cash and cash equivalents | | -2,096,652 | -200,422 |
| Cash and cash equivalents at the beginning of the year | | 19,632,112 | 19,832,534 |
| Cash and cash equivalents at the year end | | 17,535,460 | 19,632,112 |

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2004

| | | 2004 Rupees | 2003 Rupees |
|---|--|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| (Loss)/profit before taxation | | -53,333,410 | 8,037,083 |
| Adjustments for | | | |
| Depreciation & amortization | | 114,007,178 | 78,683,963 |
| Staff gratuity | | 2,699,231 | 1,673,483 |
| Financial charges | | 175,971,373 | 102,515,575 |
| Workers' profit participation fund | | - | 423,004 |
| Gain on disposal of fixed assets | | -1,262,753 | -3,002,671 |
| | | 291,415,029 | 180,293,354 |
| Net cash generated before working capital changes | | 238,081,619 | 188,330,437 |
| CASH FLOWS FROM WORKING CAPITAL CHANGES | | | |
| (Increase) / decrease in current assets | | | |
| Stores, spare parts & loose tools | | 287,197 | -89,241,296 |
| Stock-in-trade | | -76,056,983 | -209,639,822 |
| Trade debts | | -1,729,562 | -467,541,563 |
| Advances, deposits, prepayments and other receivables | | -23,502,141 | -13,798,787 |
| Export rebates and sales tax receivables | | 46,772,002 | -53,839,059 |
| | | -54,229,487 | -834,060,527 |
| Increase / (decrease) in current liabilities | | | |

| | | |
|---|--------------|-------------|
| Short term finances | -125,520,422 | 493,092,576 |
| Creditors, accrued and other liabilities | 8,970,804 | 376,310,768 |
| | -116,549,618 | 869,403,344 |
| Net cash (used in)/generated from working capital changes | -170,779,105 | 35,342,817 |
| Financial charges paid | -146,216,151 | -81,672,881 |
| Income tax paid | -17,114,104 | -10,606,417 |
| Staff gratuity paid | -446,855 | -388,204 |
| | -163,777,110 | -92,667,502 |
| Net cash (used in)/generated from operating activities | -96,474,596 | 131,005,752 |

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

LEGAL STATUS AND NATURE OF BUSINESS

Nina Industries Limited (the Company) was incorporated in Pakistan as a Private Limited company on February 18, 1992 and subsequently converted into Public Limited Company on October 29, 1997. The registered office of the Company is situated at A-29/A, S.I.T.E., Karachi and the Company is listed on the Karachi Stock Exchange. The Company operates a textile processing unit and is mainly engaged in exports.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards (IASs) as notified under the provisions of the Companies Ordinance, 1984. Wherever, 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 said directives take precedence.

2.2 Accounting convention

These financial statements are prepared under the historical cost convention except that certain fixed assets have been included at Revalued amounts.

2.3 **Operating fixed assets and Depreciation**

Tangible fixed assets are stated at cost or revalued amount less accumulated depreciation except 'Leasehold Land and Capital Work in Progress' which are stated at cost.

Depreciation on fixed assets is charged to income applying the reducing balance method whereby the cost of an asset is written off over its estimated useful life. Depreciation is charged from the month of purchase or from the month of commercial production in respect of additions while in case of disposals preceding the month in which disposals take place.

Interest cost on borrowing to finance the construction of the property, plant and equipment are capitalized during the period of time that is required to complete and prepare the assets for its intended use. Other borrowing costs are expensed.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

Gains and losses on disposal of fixed assets are taken to the profit and loss account and related 'Surplus on Revaluation of Fixed Assets' is transferred directly to Retained Earnings/ Accumulated Profit.

2.4 Leased Assets

Leased Assets in terms of which the company assumes substantially all the risk and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at an amount equal to the lower of its fair value and the present value of minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses, if any. Financial charges are allocated to the accounting period in the manner so as to provide a constant periodic rate of charge on the outstanding liability.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2004

| | Share Capital | Unappropriated Profit | Total |
|--|---------------|-----------------------|-------------|
| | (Rupees) | | |
| Balance at July 01, 2002 | 220,000,000 | 120,711,570 | 340,711,570 |
| Issue of Right Shares | 22,000,000 | - | 22,000,000 |
| Loss for the year ended June 30, 2003 | - | -6,439,971 | -6,439,971 |
| | 242,000,000 | 114,271,599 | 356,271,599 |
| Transfer from surplus on revaluation of fixed assets to unappropriated profit: | | | |
| Prior year(s) | - | 36,598,689 | 36,598,689 |
| Current year | - | 15,695,334 | 15,695,334 |
| | | 52,294,023 | 52,294,023 |

| | | | |
|---|-------------|-------------|-------------|
| Balance as at June 30, 2003. | 242,000,000 | 166,565,622 | 408,565,622 |
| Loss for the year ended June 30, 2004 | - | -62,511,978 | -62,511,978 |
| Transfer from surplus on revaluation of fixed assets to unappropriated profit | - | 14,184,587 | 14,184,587 |
| Balance as at June 30, 2004 | 242,000,000 | 118,238,231 | 360,238,231 |

In the year 2003, actuarial valuation was carried out using the 'Projected Unit Credit Actuarial Cost Method'. Following actuarial assumptions were taken in the Actuarial valuation:

| | |
|---------------------------------------|---------------|
| Discount rate | 08% per annum |
| Expected rate of increase in salaries | 07% per annum |

2.14 Deferred Cost

This represents share floatation expenses, cost of designs and patterns and cost of export quota which are amortized over the period of five years commencing from the year in which these are incurred.

2.15 Taxation Current

The charge for taxation is based on taxable income at the applicable rates of taxation after taking into account applicable tax credits, rebates and exemptions available, if any.

Deferred

Deferred tax is accounted for using the liability method in respect of all temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts. *Deferred* tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which such temporary differences can be utilized.

2.16 Foreign currency translation

Transactions in foreign currencies are translated into reporting currency at the rates of exchange prevailing on the dates of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling on the balance sheet date. Exchange differences on foreign currency transactions are included in income.

2.17 Financial instruments

Financial instruments carried on the balance sheet include receivables, cash and bank balances, finances under mark-up arrangements, other payables, deposits, creditors, accrued and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Any gain or loss on the recognition and derecognition of the financial assets and liabilities is included in the net profit and loss for the period in which it arises.

2.18 Related party transactions and transfer pricing

The Company has accounting policy in respect of related party transactions and transfer pricing to account for all transactions at arm's length prices determined by using the Comparable Uncontrolled Price Method.

Depreciation on the assets subject to finance lease is accounted for in the same manner as adopted for owned fixed assets.

Impairments of assets

The carrying value of fixed assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If such indication exist and the carrying value exceeds the estimated recoverable amount, the assets are written down to the recoverable amount.

Stores, Spares and Loose tools

These are valued at cost. Cost is determined by using Weighted Average Cost formula. Items in transit are valued at invoice value plus other charges incurred thereon.

Stock-in-trade

Stock-in-trade except items-in-transit, is valued at the lower of historical cost and net realizable value. Stock-in-transit is stated at invoice value plus other charges paid thereon to the balance sheet date.

Cost of Raw Material is calculated on a First-in-First-out basis. The cost of work-in-process and the finished goods comprise Raw Material Cost, Direct labour and appropriate portion of production overheads.

Trade and other Debts

Trade and other Debts are stated at cost. Debts considered irrecoverable are written-off and

provision is made against those considered doubtful of recovery.

Cash and Cash Equivalents

Cash and Cash Equivalents are defined as cash in hand and cash at bank.

Provisions

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

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Revenue recognition

Revenue from sales of goods is recognized upon passage of title to the customer.

Processing income is recognized when services are rendered and billed.

Employee benefits

Defined benefits Gratuity Scheme

The company operates an unfunded approved defined benefits gratuity scheme for its non-managerial employee's. Provision is made in the financial statement to cover the obligation under the said scheme.

| | Note | 2004 Rupees | 2003 Rupees |
|---|---------------|----------------|----------------|
| PICIC | | | |
| Outstanding as of 01 July | | 18,197,737 | 32,648,737 |
| Repayment during the year | | -16,851,000 | -14,451,000 |
| Adjustment | | 8,102,000 | - |
| | | 9,448,737 | 18,197,737 |
| Current maturity | | -9,448,737 | -18,197,737 |
| Habib Bank Limited | | | |
| Outstanding as of 01 July | 5.2.1 | 21,875,000 | 28,331,994 |
| Demand Finance obtained during the year | 5.2.2 | 200,000,000 | - |
| | | 221,875,000 | 28,331,994 |
| Repayment during the year | | (1,562,500) | -6,456,994 |
| | | 220,312,500 | 21,875,000 |
| Current maturity | | (12,500,000) | -7,812,500 |
| | | 207,812,500 | 14,062,500 |
| Askari Commercial Bank Limited | | | |
| Outstanding as of 01 July | 5.3.1 & 5.3.2 | 115,000,000 | - |
| Term Finance obtained during the year | | - | 115,000,000 |
| | | 115,000,000 | 115,000,000 |
| Repayment during the year | | -11,111,112 | - |
| | | 103,888,888 | 115,000,000 |
| Current maturity | | (24,111,112) | -23,166,668 |
| | | 79,777,776 | 91,833,332 |
| | Note | 2004 Rupees | 2003 Rupees |
| ISSUED, SUBSCRIBED AND PAID UP CAPITAL | | | |
| 22,000,000 Ordinary shares (2003: 22,000,000) of Rs. 10/- each fully paid in cash | | 220,000,000 | 220,000,000 |
| 2,200,000 Issue of Right shares (2003: 2,200,000) of Rs. 10/- each fully paid in cash | | 22,000,000 | 22,000,000 |
| | | 242,000,000 | 242,000,000 |
| SURPLUS ON REVALUATION OF FIXED ASSETS | | | |
| 4.1 Movement in the surplus on revaluation of fixed assets account is as follows: | | | |
| Surplus on revaluation of fixed assets as on July 01 | | 158,179,028 | 210,473,051 |
| Increase in the amount of surplus on revaluation of fixed assets as a result of valuation carried out during the year | | 338,198,652 | - |
| | | 496,377,680 | 210,473,051 |
| Surplus relating to incremental depreciation charged upto June 30, 2003 - transferred to accumulated profit | | - | -52,294,023 |
| | | 496,377,680 | 158,179,028 |
| Transfer to unappropriated profit in respect of incremental depreciation charged during the current year | | -14,184,587 | - |
| Surplus on revaluation of fixed assets (gross) as at June 30 | | 482,193,093 | 158,179,028 |
| LONG TERM LOANS - SECURED | | | |
| Pakistan Industrial Credit & Investment | | | |

| | | | |
|--|-----|-------------|-------------|
| Corporation (PICIC) | 5.1 | - | - |
| Habib Bank Limited | 5.2 | 207,812,500 | 14,062,500 |
| Askari Commercial Bank Limited | 5.3 | 79,777,776 | 91,833,332 |
| Consortium of ORIX & Atlas Investment Banks: | | | |
| ORIX Investment Bank Pakistan Limited | 5.4 | 22,222,222 | 19,444,444 |
| Atlas Investment Bank Limited | 5.5 | 22,222,222 | 19,444,444 |
| | | 44,444,444 | 38,888,888 |
| Consortium of Saudi Pak: | | | |
| Saudi Pak Industrial & Agricultural Investment Company (Private) Limited | 5.6 | 57,021,722 | 55,575,790 |
| Saudi Pak Commercial Bank | 5.7 | 85,532,582 | 83,363,684 |
| Pak Libya Holding Company | 5.8 | 28,510,861 | 27,787,894 |
| | | 171,065,165 | 166,727,368 |
| | | 503,099,885 | 311,512,088 |

2004 2003
Rupees Rupees

LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

| | | |
|---------------------------------------|-------------|-------------|
| Amount Payable | 148,541,003 | 160,528,809 |
| Less: Transferred to current maturity | -21,711,850 | -30,155,409 |
| | 126,829,153 | 130,373,400 |

Year ending June 30,

| | | |
|-------------------------------------|-------------|-------------|
| 2003-2004 | - | 69,182,592 |
| 2004-2005 | 45,369,268 | 55,769,644 |
| 2005-2006 | 43,356,809 | 49,408,014 |
| 2006-2007 | 40,528,017 | 27,443,827 |
| 2007-2008 | 45,767,922 | - |
| 2008-2009 | 28,063.36 | - |
| | 203,085,374 | 201,804,077 |
| Less: financial charges not yet due | -54,544,371 | -41,275,268 |
| | 148,541,003 | 160,528,809 |

DEFERRED LIABILITIES

| | | |
|----------------|-----------|-----------|
| Deferred tax | 310,718 | 310,718 |
| Staff Gratuity | 7,179,305 | 4,926,929 |
| | 7,490,023 | 5,237,647 |
| DIRECTORS LOAN | 305,294 | 3,172,329 |

SHORT TERM FINANCES UTILIZED UNDER

| | | |
|--------------------------------------|---------------|---------------|
| MARK UP ARRANGEMENTS - SECURED | | |
| Export Refinance | 801,516,290 | 1,000,697,000 |
| Running Finance | 138,194,236 | 21,941,466 |
| Finance against Imported Merchandise | 4,689,200 | 21,908,468 |
| Finance against Trust Receipt - FATR | 88,349,376 | 113,722,590 |
| | 1,032,749,102 | 1,158,269,524 |

9.1 Security —

2004 2003
Rupees Rupees

| | | |
|---|-------------|-------------|
| Consortium Of ORIX And Atlas Investment Banks : | | |
| ORIX Investment Bank Pakistan Limited | | |
| Outstanding as of 01 July | 25,000,000 | - |
| Term Finance obtained during the year | - | 25,000,000 |
| | 25,000,000 | 25,000,000 |
| Repayment during the year | (1,000,000) | - |
| | 24,000,000 | 25,000,000 |
| Current maturity | (1,777,778) | (5,555,556) |
| | 22,222,222 | 19,444,444 |

| | | |
|---------------------------------------|-------------|-------------|
| Atlas Investment Bank Limited | | |
| Outstanding as of 01 July | 25,000,000 | - |
| Term Finance obtained during the year | - | 25,000,000 |
| | 25,000,000 | 25,000,000 |
| Repayment during the year | (1,000,000) | - |
| | 24,000,000 | 25,000,000 |
| Current maturity | (1,777,778) | (5,555,556) |
| | 22,222,222 | 19,444,444 |

| | | |
|--|------------|------------|
| Saudi Pak Industrial & Agricultural Investment Company | | |
| Outstanding as of 01 July | 60,000,000 | - |
| Term Finance obtained during the year | - | 60,000,000 |
| | 60,000,000 | 60,000,000 |
| Current maturity | -2,978,278 | -4,424,210 |
| | 57,021,722 | 55,575,790 |

Saudi Pak Commercial Bank

| | | |
|---------------------------------------|-------------|-------------|
| Outstanding as of 01 July | 90,000,000 | - |
| Term Finance obtained during the year | - | 90,000,000 |
| | 90,000,000 | 90,000,000 |
| Current maturity | (4,467,418) | -6,636,316 |
| | 85,532,582 | 83,363,684 |
| Pak Libya Holding Company | | |
| Outstanding as of 01 July | 30,000,000 | - |
| Term Finance obtained during the year | - | 30,000,000 |
| | 30,000,000 | 30,000,000 |
| Current maturity | (1,489,139) | (2,212,106) |
| | 28,510,861 | 27,787,894 |

| Note | 2004 | 2003 |
|------|--------|--------|
| | Rupees | Rupees |

CURRENT MATURITY OF LONG TERM LIABILITIES

| | | |
|---|------------|-------------|
| Long term loans - secured | 58,550,240 | 81,662,649 |
| Liabilities against Assets subject to Finance Lease | 21,711,850 | 30,155,409 |
| | 80,262,090 | 111,818,058 |

CREDITORS, ACCRUED CHARGES AND OTHER LIABILITIES

| | | |
|----------------------------------|-------------|-------------|
| Creditors | 409,761,187 | 416,189,904 |
| Accrued charges | 28,583,835 | 49,268,012 |
| Provision for taxation | 9,317,310 | 13,285,272 |
| Other liabilities | 4,711,758 | 4,860,598 |
| Bills payable under D/A L/C | 152,543,342 | 135,706,912 |
| Mark-up accrued on secured loans | 62,515,051 | 32,759,829 |
| | 11.1 | 667,432,483 |
| | | 652,070,527 |

CONTINGENCIES & COMMITMENTS

| | | |
|---|------------|------------|
| Commitments for outstanding L/Cs in respect of Raw Material & Spares etc. | - | 4,208,704 |
| Guarantee issued to various Utility Corporations | 15,543,000 | 10,000,000 |

| Note | 2004 | 2003 |
|------|--------|--------|
| | Rupees | Rupees |

CAPITAL WORK IN PROGRESS

| | | |
|----------------------------------|---|-------------|
| Plant & Machinery under erection | — | 152,872,710 |
|----------------------------------|---|-------------|

LONG TERM DEPOSITS AND DEFERRED COSTS

| | | |
|------------------------------|-------------|-------------|
| Security deposits | 1,369,550 | 1,369,550 |
| Deferred Costs | | |
| Share floatation expenses | 1,569,406 | 2,889,185 |
| Export Quota purchase | 58,078,340 | 23,442,456 |
| Design & Pattern | 14,901,884 | 15,891,054 |
| | 75,919,180 | 43,592,245 |
| Amortization during the year | -10,648,123 | -10,004,923 |
| | 65,271,057 | 33,587,322 |
| | 172,949,046 | 173,236,243 |

STORES, SPARES AND LOOSE TOOLS

| | | |
|---------------------|-------------|-------------|
| STOCK IN TRADE | | |
| Raw material | 573,003,313 | 512,146,521 |
| Work in process | 124,050,499 | 115,188,045 |
| Material in transit | - | 184,350 |
| Finished goods | 102,325,669 | 95,803,581 |
| | 799,379,481 | 723,322,497 |

TRADE DEBTS

| | | | |
|---|------|-------------|-------------|
| Export proceeds receivables - considered gooc | 1 | 516,495,216 | 550,773,296 |
| Local debts - considered good | | 23,572,074 | 8,951,516 |
| Due from an associated undertaking | 18.1 | 89,827,481 | 68,440,397 |
| | | 629,894,771 | 628,165,209 |

ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | | |
|--------------------|------------|------------|
| Advances | 29,176,674 | 47,019,510 |
| Deposits | 9,640,915 | 7,367,224 |
| Prepayments | 7,376,671 | 2,750,248 |
| Advance income tax | 9,587,231 | 13,554,895 |
| Other receivables | 33,123,485 | 9,037,734 |
| | 88,904,976 | 79,729,611 |

| Note | 2004 | 2003 |
|------|--------|--------|
| | Rupees | Rupees |

COST OF SALES

| | | | |
|-----------------------------------|------|-------------|---------------|
| Cost of materials consumed | 23.1 | 673,900,559 | 1,090,289,302 |
| Confection charges | | 40,409,266 | 62,590,161 |
| Salaries, wages and benefits | | 66,722,902 | 61,761,118 |
| Mandatory employees contributions | | 3,282,399 | 2,885,130 |
| Fuel, water and power | | 79,942,893 | 77,859,936 |
| Repair and maintenance | | 7,753,921 | 7,967,922 |

| | | | |
|--|------|---------------|---------------|
| Mending, packing and forwarding | | 1,481,134 | 16,202,781 |
| Insurance expenses | | 6,156,431 | 6,455,670 |
| Coolies, cartage, freight and duties | | 42,107,478 | 144,129,377 |
| Rent, rates and taxes | | 3,659,740 | 7,175,508 |
| Depreciation | 13.5 | 97,778,943 | 64,045,554 |
| | | 1,023,195,666 | 1,541,362,459 |
| Finished goods opening | | 95,803,581 | 83,308,186 |
| | | 1,118,999,247 | 1,624,670,645 |
| Finished goods closing | | -102,325,669 | -95,803,581 |
| | | 1,016,673,578 | 1,528,867,064 |
| 23.1 Cost of materials consumed | | | |
| Raw materials consumed | | 614,148,370 | 967,066,168 |
| Accessories, packing and production stores | | 59,752,189 | 123,223,134 |
| | | 673,900,559 | 1,090,289,302 |

GENERAL AND ADMINISTRATIVE EXPENSES

| | | | |
|---|------|------------|------------|
| Staff salaries and allowances | | 13,917,021 | 17,726,832 |
| Directors' remuneration | 24.1 | 6,379,392 | 5,689,017 |
| Telephone and telex | | 2,420,789 | 1,900,634 |
| Fees and subscription | | 366,593 | 530,930 |
| Legal and professional | | 3,347,406 | 2,648,201 |
| Postage, courier and telegram | | 3,062,470 | 7,518,024 |
| Vehicle repair and maintenance | | 3,005,432 | 4,838,398 |
| Office expenses | | 26,640 | 146,024 |
| Entertainment | | 283,944 | 573,576 |
| Conveyance and travelling | | 4,277,368 | 1,973,164 |
| Stationery and printing | | 1,392,684 | 1,918,418 |
| Auditors' remuneration | 24.2 | 452,825 | 254,600 |
| Amortization of share floatation expenses | 15 | 1,336,857 | 1,334,004 |
| Charity, donation and gifts | 24.3 | 50,000 | 112,500 |
| Staff welfare expenses | | 972,614 | 192,629 |
| General expenses | | 1,432,068 | 24,934 |
| Depreciation | 13.5 | 5,580,112 | 4,633,486 |
| | | 48,304,215 | 52,015,371 |

2004
Rupees

2003
Rupees

EXPORT REBATE AND SALES TAX RECEIVABLE

| | | | |
|----------------|--|------------|-------------|
| Export rebates | | 51,556,572 | 46,356,816 |
| Sales Tax | | 37,363,112 | 89,334,870 |
| | | 88,919,684 | 135,691,686 |

CASH AND BANK BALANCES

| | | | |
|--|--|------------|------------|
| Cash in hand | | 9,982,119 | 5,989,727 |
| Balance with banks in current accounts | | 7,553,341 | 13,642,385 |
| | | 17,535,460 | 19,632,112 |

SALES AND SERVICES - NET

| | | | |
|--------------------------------|--|---------------|---------------|
| Sales | | | |
| Export | | 1,013,337,327 | 1,627,492,144 |
| Export rebates | | 32,140,496 | 37,040,992 |
| | | 1,045,477,823 | 1,664,533,136 |
| Local sales - retail outlets | | 10,983,566 | 9,683,875 |
| Sales of left overs | | 7,096,748 | 16,820,837 |
| Services - processing | | 152,623,423 | 27,970,653 |
| | | 170,703,737 | 54,475,365 |
| Total sales and services | | 1,216,181,560 | 1,719,008,501 |
| Less: Commission and Brokerage | | -10,196,201 | -2,572,488 |
| Sales and services - Net | | 1,205,985,359 | 1,716,436,013 |

2004
Rupees

2003
Rupees

FINANCIAL CHARGES

| | | | |
|--------------------------------|--|-------------|-------------|
| Bank charges | | 20,518,346 | 11,679,578 |
| Finance charges on lease | | 25,400,486 | 4,340,297 |
| Stamping charges | | 322,986 | 68,226 |
| Interest on WPPF | | - | 138,600 |
| Markup on short term financing | | 82,170,106 | 74,860,204 |
| Markup on long term financing | | 47,559,449 | 11,428,670 |
| | | 175,971,373 | 102,515,575 |

OTHER CHARGES

| | | | |
|------------------------------------|--|-----------|-----------|
| Workers' profit participation fund | | - | 423,004 |
| OTHER INCOME | | | |
| Sales of scrap | | 2,445,917 | 885,799 |
| Gain on sale of fixed assets | | 1,262,753 | 3,002,671 |
| | | 3,708,670 | 3,888,470 |

• (LOSS) / EARNING PER SHARE - BASIC

| | | |
|-------------------------------------|-------------|------------|
| (Loss) after tax | -62,511,978 | -6,439,971 |
| Number of Shares - Weighted average | 24,200,000 | 23,100,000 |
| (Loss) / Earning per share - Basic | -2.58 | -0.28 |

TRANSACTIONS WITH ASSOCIATED UNDERTAKING - NET

| | | |
|------------------------------|------------|------------|
| Fabric processing - services | 14,956,268 | 9,566,739 |
| Purchases | 1,719,168 | 14,226,093 |

Remuneration of Chief Executive, Directors and Executives

| Description | 2004 | | 2003 | | Directors | Executives |
|----------------------|-----------------|-----------|------------|-----------------|-----------|------------|
| | Chief Executive | Directors | Executives | Chief Executive | | |
| Manerial | | | | | | |
| Remuneration | 1,655,172 | 2,151,724 | 13,727,418 | 1,655,172 | 2,151,724 | 11,054,367 |
| House Rent | 744,827 | 968,276 | 6,107,790 | 744,828 | 968,276 | 4,958,622 |
| Utilities and upkeep | 361,942 | 497,451 | 1,405,858 | 92,935 | 76,082 | 1,101,010 |
| Rupees | 2,761,941 | 3,617,451 | 21,241,066 | 2,492,935 | 3,196,082 | 17,113,999 |
| Number of Persons | 1 | 2 | 67 | 1 | 2 | 57 |

Note 2004
Rupees 2003
Rupees

Auditors' Remuneration

| | | |
|--------------------------|---------|---------|
| Audit fee | 200,000 | 125,000 |
| Review fee | 115,000 | 30,000 |
| Tax consultancy services | 100,000 | 77,500 |
| Out of pocket expenses | 37,825 | 22,100 |
| | 452,825 | 254,600 |

SELLING AND DISTRIBUTION

| | | |
|------------------------------------|--------------|------------|
| Advertisement expenses | 1,553,006 | 6,050,139 |
| Travelling expenses | 7,552,666 | 9,509,619 |
| Fair expenses | 3,661,335 | 3,540,228 |
| Sales promotion expenses | - | 5,450 |
| Amortization of export quota | 15 4,688,491 | 4,688,491 |
| Amortization of design and samples | 15 4,622,775 | 4,672,459 |
| | 22,078,273 | 28,466,386 |

Categories of Shareholders.

| | Number | Shares Held | Percentage |
|--|--------|-------------|------------|
| Associated Companies. Undertakings and Related Parties. | | | |
| BELA TEXTILES LIMITED | 1 | 3,995,750 | 16.51% |
| Directors, CEO & their Spouse and Minor Children | 9 | | |
| MR. SAEED A. SATTAR | | 4,950,318 | 20.46% |
| MR. WAQAR A. SATTAR | | 5,893,650 | 24.35% |
| MR. UROOJ SAEED | | 730,732 | 3.02% |
| MR. YASIR WAQAR | | 493,350 | 2.04% |
| MR. KASHIF SAEED SATTAR | | 690,000 | 2.85% |
| MRS. SAEEDA SAEED | | 18,150 | 0.08% |
| MRS. ANJUM WAQAR | | 3,300 | 0.01% |
| MR. TALHA WAQAR | | 1,000 | 0.00% |
| MR. SAQIB WAQAR | | 1,000 | 0.00% |
| Public Sector Companies and Corporation Banks. Development Finance/Institutions. Non-Banking Financial Institutions. Insurance Companies. Modarabas and Mutual Funds | 3 | | |
| NATIONAL BANK OF PAKISTAN | | 5,099,000 | 21.07% |
| STATE LIFE INSURANCE CORPORATION | | 2,000,000 | 8.26% |
| E.F.U. GENERAL INSURANCE LIMITED | | 97,500 | 0.40% |
| Individuals | | | |
| Holding more than 10% | — | — | — |
| Holding less than 10% | 324 | 226,250 | 0.93% |
| TOTAL | 337 | 24,200,000 | 100% |
| Shareholding 10 percent or more voting interest in the Company | | | |
| Mr. Saeed A. Sattar | | 4,950,318 | — |
| Mr. Waqar A. Sattar | | 5,893,650 | — |
| M/s. National Bank of Pakistan | | 5,099,000 | — |
| M/s. Bela Textiles limited | | 3,995,750 | — |
| Total | | 19,938,718 | 82.39% |

PATTERN OF HOLDING OF SHARES HELD

| No. of Share holdings Shareholders | From | To | Total Shares Held | Percentage of Issued Capital |
|---------------------------------------|---------|---------|----------------------|---------------------------------|
| 89 | 1 | 100 | 4,450 | 0.02% |
| 206 | 101 | 500 | 102,500 | 0.42% |
| 20 | 501 | 1000 | 12,800 | 0.05% |
| 7 | 1001 | 5000 | 17,800 | 0.07% |
| 1 | 5001 | 10000 | 8,500 | 0.04% |
| 2 | 10001 | 15000 | 24,000 | 0.10% |
| 2 | 15001 | 20000 | 37,150 | 0.15% |
| 1 | 40001 | 45000 | 42,500 | 0.18% |
| 1 | 95001 | 100000 | 97,500 | 0.40% |
| 1 | 490001 | 495000 | 493,350 | 2.04% |
| 1 | 685001 | 690000 | 690,000 | 2.85% |
| 1 | 730001 | 735000 | 730,732 | 3.02% |
| 1 | 1995001 | 2000000 | 2,000,000 | 8.26% |
| 1 | 3995001 | 4000000 | 3,995,750 | 16.51% |
| 1 | 4950001 | 4955000 | 4,950,318 | 20.46% |
| 1 | 5095001 | 5100000 | 5,099,000 | 21.07% |
| 1 | 5890001 | 5895000 | 5,893,650 | 24.35% |
| 337 | | | 24,200,000 | 100% |