

## BUREWALA TEXTILE MILLS LIMITED ANNUAL REPORT 2003

### Corporate and Financial Reporting Frame Work

- a) The financial statements have been prepared by the management, present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
- b) Proper books of accounts have been maintained by the Company;
- c) Appropriate accounting policies have been consistently applied except for the change in policy referred in Note 2.4 to the accounts in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed;
- e) The system of internal control is sound in design and has been effectively implemented and monitored;
- f) There are no significant doubts upon the Company's ability to continue as a going concern;
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

### Pattern of Shareholdings

A statement reflecting the pattern of shareholdings is annexed to the Annual Report.

### Key Operating and Financial Data

The statement summarizing the key operating and financial data of six years including current year is attached to the Annual Report:

### Vision / Mission

The statement reflecting the vision / mission of the Company is annexed to the Annual Report.

### Ethics and Business Practices

The statement outlining the Ethics and Business Practices of the Company is also annexed to the Annual Report.

### Board Audit Committee

The Board has constituted an audit committee.

### Internal Audit

The Board has also appointed the head of Internal Audit function.

### Statutory Payments

As on the closing date, no government taxes, duties, levies and charges were outstanding / overdue except the routine payments of various levies and the amounts in dispute pending in various appellate forums.

### Value of Investments of Gratuity Funds

The face value of the investments made out of the Provident Fund of the management cadre staff was Rs. 1 0,500,000 on the closing date.

## VISION / MISSION STATEMENT

The Burewala Textile Mills Limited has been at the forefront in high quality pure cotton yarn and fabric manufacturing for past over 50 years. The future of pure cotton textiles in Pakistan is though faced with tough competition, we intend to strive for our corporate objectives.

### Vision Statement:

#### Our vision is:

To remain the pioneers in pure cotton textile industry by producing quality products at competitive prices to the entire satisfaction of our customers without compromising on our principles of ethics, integrity and professional standards.

### Mission Statement:

Our mission is to:

- 1 . Maintain the reputation of a reliable manufacturer and supplier of high quality pure cotton yarns and fabrics through technology and effective resource management while maintaining high ethical and professional standards.
2. Have sustainable growth in this era of competition in quality of products and its prices.
3. Achieve high returns on investment through a continuous process of improvement for the benefit of the stakeholders.
4. Strive for excellence through commitment, integrity, honesty and teamwork.
5. Provide excellent working atmosphere and growth potential to talented professionals and develop long term relationship with its employees.
6. Be a good corporate citizen.

## DIRECTORS' REPORT

The Directors are pleased to present their Annual Report together with the Audited Financial Statements for the year ended September 30, 2003 before the fiftieth Annual General Meeting of the Company.

## OPERATING RESULTS

The gross profit has increased to Rs . 5,513,517 during the year under review, as compared to Rs. 5,046,092 for the previous year. The gross profit percentage has slightly improved to 1.41% as compared to 1.29% for the previous year. The net profit before taxation for the year is Rs. 35,860,825 as compared to Rs. 28,164,887 for the previous year, after providing for depreciation, all operating, administrative, selling & distribution and financial expenses. The summary of the financial results is:

	2003 Rupees	2002 Rupees
Sales	391,622,173	390,124,304
Gross profit	5,513,517	5,046,092
Operating (loss)	-25,349,464	-30,200,328
Other income	65,812,356	60,372,036
Profit before taxation	35,860,825	28,164,887
Taxation (Including impact of deferred taxation)	16,646,811	-2,500,000
Profit after taxation	52,507,636	25,664,887
Un-appropriated profit brought forward	3	41,386,577
Profit available for appropriation	90,329,480	67,051,464

### Dividend

The Directors recommend a payment of final cash dividend of 40% (Rs. 4.00 per share) on the paid up capital of the Company. The following appropriations have been recommended:

Profit available for appropriation	90,329,480	67,051,464
<i>Appropriations:</i>		
Final cash dividend on ordinary shares @ 40% (2002) 40%	29,229,620	29,229,620
	29,229,620	29,229,620
Un-appropriated profit carried forward	61,099,860	37,821,844
Earnings Per Share - Basic	7.19	3.51

## STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The Company is in the process of implementing the requirements of the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan and adopted by the Stock Exchanges.

Steps are being taken by the management of the Company for its implementation.

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

1. The election of the Board of Directors was held before the Code of Corporate Governance became applicable.
2. None of the members of the Board are directors in more than ten listed companies.
3. All the 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 an NBFIs or, being a member of a Stock Exchange, has been declared as a defaulter by that Stock Exchange.
4. No casual vacancy occurred in the Board during the year.
5. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Company.
6. The Board has developed a "Vision/Mission Statement", which is annexed to the Annual Report. The Board is in the process of revision and approval of significant policies of the Company.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration 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 every quarter. Written notices of the Board meetings, along with agenda and working papers, were normally circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board is in the process of arranging orientation courses for its directors to further apprise them of their duties and responsibilities.
10. The Company Secretary and CFO were appointed before the Code of Corporate Governance became applicable. The Board has also approved the appointment of head of internal audit.
11. The Directors' Report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholdings.
14. The Company is in the process of fully complying with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members, majority of whom including the Chairman of the Committee are non-executive directors.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

## STATEMENT OF ETHICS AND BUSINESS PRACTICES

The Burewala Textile Mills Limited was established on very sound principles of its development and growth on the basis of making no compromises in any aspect of business practices. The Company takes pride in adherence to its principles and continues to serve its customers, stakeholders and society on the following guidelines:

1. The Company strongly believes in free and fair business practices and open competitive markets. Developing any association within the segment, industry or with competitors to distort the pricing and availability is contradictory to our business code of conduct.
2. The Company's financial policies for conducting business are transparency, integrity and

following the principles of accounting and finance as approved by regulations and contemporary accounting codes.

3. The Company believes in uprightness of performance and expects it to be a fundamental responsibility of our employees to act in Company's best interest while holding confidential information. We expect our employees neither to solicit internal information from others nor to disclose Company's figures, data or any material information to any unauthorized person/body.

4. The Company believes in individuals respect and growth. Our employment and HR policies develop individuals without any discrimination on the basis of race, religion, gender or any other factor.

5. The Company as a responsible corporate citizen strongly adheres to the principles of corporate governance and complies with regulatory obligations enforced by regulatory bodies for improving corporate performance.

6. The Company anticipates integrity and honesty of employees in doing business for the Company. Any unfair or corrupt practices either to solicit business for the Company or for personal gains of the employee is fundamentally inconsistent with business codes of the Company.

7. The Company believes in community development without political affiliations with any person or group of persons working for gains. We contribute our resources for a better environment with an unprejudiced approach. Within our mills our policies gear towards unbiased employees betterment.

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended September 30, 2003 prepared by the Board of Directors of The Burewala Textile Mills Limited, to comply with the Listing Regulation No. 37 and Chapter XIII of the Karachi and Lahore Stock Exchanges respectively where the Company is listed.

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

The Board is stated to be in the process of revision and approval of significant policies and arranging orientation courses for Directors.

Based on our review except for the matters noted in the previous paragraph, 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 September 30, 2003.

The Board has appointed a "head of internal audit function" who is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.

The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

The statutory auditors or the persons associated with them have not been appointed to provide

other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

The Company has fully complied with the best practices on Transfer Pricing as contained in the Listing Regulation No. 38 of the Karachi Stock Exchange.

We confirm that the efforts are being made by the Company to become fully compliant with all material principles contained in the Code of Corporate Governance by the end of next accounting year.

#### BALANCE SHEET AS AT SEPTEMBER 30, 2003

	Note	2003 Rupees	2002 Rupees (Restated)
<b>CAPITAL AND LIABILITIES</b>			
<b>Share Capital and Reserves</b>			
<i>Share Capital:</i>			
Authorized	3	150,000,000	150,000,000
Issued, subscribed and fully paid up	4	73,074,050	73,074,050
Reserves	5	244,741,688	244,741,688
		317,815,738	317,815,738
Un-appropriated Profit		61,099,860	37,821,844
		378,915,598	355,637,582
Fair-value reserve on Investments	6	1,199,285,530	400,529,333
		1,578,201,128	756,166,915
Obligations Under Finance Lease			167,583
Deferred Liabilities:	8		
Deferred taxation		1,453,189	23,000,000
Provision for gratuity		57,358,685	54,415,203
		58,811,874	77,415,203
Current Liabilities:			
Current portion of obligations under finance lease	7	167,584	333,833
Creditors, accrued charges and other liabilities	9	24,209,190	26,060,357
Provision for taxation	10	6,070,143	12,563,354
Proposed dividend on ordinary shares		29,229,620	29,229,620
		59,676,537	68,187,164
Contingencies and Commitments	11		
		1,696,689,539	901,936,865

#### NOTICE

We have audited the annexed Balance Sheet of The Burewala Textile Mills Limited as at September 30, 2003 and the related Profit and 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 accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion :
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for changes in notes 2.4 and 2. 7 with which we concur;
  - 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 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 September 30, 2003 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the central zakat fund established under section 7 of that Ordinance.

FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Note	2003 Rupees	2002 Rupees
Sales	20	391,622,173	390,124,304
Cost of	21	-386,108,656	-385,078,212
Profit		5,513,517	5,046,092
Operating			
Administrative and general	22	24,724,513	29,260,625
Selling and distribution	23	6,138,468	5,985,795
		-30,862,981	-35,246,420
Operating (Loss)		-25,349,464	-30,200,328
Other income	24	65,812,356	60,372,036
Financial and other charges	25	-353,796	-2,006,821
Extra ordinary charges	26	-4,248,271	-
Profit Before Taxation		35,860,825	28,164,887
Taxation	27	16,646,811	-2,500,000
Profit After Taxation		52,507,636	25,664,887
Un-appropriated Profit Brought		37,821,844	41,386,577
Profit available for appropriation		90,329,480	67,051,464
Appropriations:			
Proposed dividend on ordinary shares @		29,229,620	29,229,620
Rs. 4.00 (2002: Rs. 4.00) per share		29,229,620	29,229,620
		61,099,860	37,821,844
Un-appropriated Profit Carried Forward		7.19	3.51
Earnings Per Share - Basic	28		

BALANCE SHEET AS AT SEPTEMBER 30, 2003

	Note	2003 Rupees	2002 Rupees (Restated)
<b>PROPERTY AND ASSETS</b>			
Operating Fixed Assets	12	101,036,914	110,734,883
Long Term Investments	13	1,263,924,792	465,168,595
Long Term Deposits		1,820,987	1,820,987
<b>Current Assets:</b>			
Stores, spare parts and loose tools	14	17,661,641	17,789,785
Stock in trade	15	119,765,032	169,922,625
Short term investment	16	23,836,535	-
Book debts	17	38,178,000	44,488,865
Advances, deposits, prepayments and other receivables	18	21,890,742	4,853,858
Cash and bank balances	19	108,574,896	87,157,267
		329,906,846	324,212,400

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Share Capital	Share Premium	CAPITAL Reserves	RESERVES Capital Reserve	REVENUE General Reserve	RESERVES Exchange Equal	Un-appropriated Profit	Value Reserves	Total
Balance as on October 01 ,2001	73,074,050	89,535,125	6,563	6,563	154,200,000	1,000,000	41,386,577		359,202,315
Profit for the year after taxation			-	-			25,664,887		25,664,887
Final dividend	-						-29,229,620		-29,229,620
Effect of adoption of IAS -39 (Financial Instruments: Recognition and measurement)									
Surplus on revaluation of investment								400,529,333	400,529,333
Balance as on September 30,2002	73,074,050	89,535,125	6,563	6,563	154,200,000	1,000,000	37,821,844	400,529,333	756,166,915
Profit for the year after taxation	-	-	-	-			52,507,636		52,507,636
Transfer					1,000,000	-1,000,000			
Final dividend							-29,229,620		-29,229,620
Effect of adoption of IAS - 39 (Financial Instruments: Recognition and measurement)									
Surplus on revaluation of investment								798,756,197	798,756,197
Balance as on September 30,2003	73,074,050	89,535,125	6,563	6,563	155,200,000		61,099,860	1,199,285,530	1,578,201,128

FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Note	2003 Rupees	2002 Rupees (Restated)
Cash generated from operations	29	46,678,570	3,314,904
<b>Less: Payments:</b>			
- Income tax		-11,393,211	-16,232,876
- Staff gratuity		-6,319,555	-7,197,432
- Extra-ordinary charges		-4,248,271	-
		-21,961,037	-23,430,308
Net cash inflow / (outflow) from operating activities		24,717,533	-20,115,404



CASH FLOW	ACTIVITIES		
Fixed capital expenditure		-329,880	-2,935,442
Purchase of short term investments		-69,944,100	-
Proceed from sale of short term investments		48,553,110	-
Dividend received		47,510,008	73,902,723
Sale proceeds of fixed assets		67,550	138,000
Net cash inflow from investing activities		25,856,688	71,105,281
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Obligations under finance lease (net)		-333,832	-274,496
Dividend paid		-28,822,760	-14,517,977
Net cash (outflow) from financing activities		-29,156,592	-14,792,473
Net increase in cash and cash equivalents		21,417,629	36,197,404
Cash and cash equivalents at the beginning of the year		87,157,267	50,959,863
Cash and cash equivalents at the end of the year	30	108,574,896	87,157,267

taxable temporary differences and deferred tax assets, as required by IAS-12 (Income Taxes), are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

During the year the Company has adopted IAS-12 (Income Taxes). The change in policy has resulted in decrease in deferred tax liability and corresponding increase in after tax profits by Rs. 21,546,811. Proforma comparative information has been given in note 27.1.

#### Fixed assets and depreciation

Operating fixed assets, except freehold land, are stated at cost less accumulated depreciation. Freehold land is stated at cost. Capital work in progress is stated at cost. Depreciation is charged on reducing balance method at the rates specified in note No. 12. Full year's depreciation is charged on additions during the year, whereas, no depreciation is charged on the assets disposed off during the year.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and replacements are capitalized.

Gains or losses on disposal of fixed assets are included in the current year's income.

#### Assets subject to finance lease

The Company accounts for assets acquired under finance lease by recording the assets and related liabilities. Finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged at the rates specified in note No. 12.

#### Long term investments

The Company has currently adopted International Accounting Standard 39 "Financial Instruments: Recognition and Measurement". The adoption of this IAS has resulted in the Company classifying its investments as available for sale. These are initially recognized at cost and subsequently carried out at fair value at balance sheet date. Fair value is determined on the basis of year-end bid prices obtained from stock exchange quotations. Changes in carrying value are recognized in equity until investment is sold or determined to be impaired at which time the cumulative gain or loss previously recognized in equity is included in profit and loss account for the year.

This change has been accounted for by adjusting the opening balance of unappropriated profits by Rs.400.53 millions. Had there been no change in policy, Investment would have been lower by Rs. 1,199.285 millions approximately.

#### Stocks, stores and spare parts

#### NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2003



## THE COMPANY AND ITS OPERATIONS

The Company was incorporated in Pakistan on April 06, 1954 as a public limited company. The registered office of the company is located at 35-A, Shahrah-e-Abdul Hameed Bin Baadees, Lahore and its shares are quoted on the Karachi and Lahore Stock Exchanges. It is principally engaged in the manufacture and sale of cotton yarns and fabrics.

## SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

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 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 differ with the requirements of these standards, the requirements of 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, without any adjustment for the effect of inflation or reference to current values except that long term investments held as "available for sale" are stated at their fair values in accordance with requirements of IAS- 39 (Financial Instruments: Recognition and Measurement).

### 2.3 Staff retirement benefits

The Company operates a contributory provident fund scheme covering its management employees. Equal monthly contributions are made both by the Company and the employees at the rate of 8.25 percent of basic pay.

The Company also operates an unfunded gratuity scheme for its non-management employees. The latest actuarial valuation of unfunded gratuity scheme was carried out as at September 30, 2003. The fair value of the un-funded gratuity scheme plan assets at the latest actuarial valuation date was Rs. nil.

The future contribution rates of these plans include allowances for deficit and surplus. The following significant assumptions were used for calculation of these plans.

Discount Rate	8%
Expected rate of salary increase in future years	7%

### 2.4 Taxation

#### Current:

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

#### Deferred:

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all

## CAPITAL AND GENERAL RESERVES

	CAPITAL		REVENUE	2003	2002
	Capital	Premium	General	Rupees	Rupees
	Reserve	on Shares	Reserve		
	Rupees	Rupees	Rupees		
Balance at the end of the year	6,563	89,535,125	155,200,000	244,741,688	244,741,688

## FAIR VALUE RESERVE ON INVESTMENTS

The surplus shown is due to the measurement of Long Term Investments at market value and has

been disclosed separately because of its materiality.

#### OBLIGATIONS UNDER FINANCE LEASE

The amounts of future lease rentals are payable during:

2002-2003	-	377,064
2003-2004	33,686	33,686
Add: Security adjustable at the expiry of lease term	134,707	134,707
Gross minimum lease payments (Note 7.1)	168,393	545,457
Less: financial charges not currently due	-809	-44,041
Present value of minimum lease payments (Note 7.2)	167,584	501,416
Less: Current Maturity shown under current liabilities	-167,584	-333,833
	-	167,583
Gross minimum lease payments:		
- Due not later than one year	168,393	377,064
- Due later than one year but not later than five years	-	168,393
	168,393	545,457
Present value of minimum lease payments:		
- Due not later than one year	167,584	333,833
- Due later than one year but not later than five years	-	167,583
	167,584	501,416

This represents finance leases entered into with Askari Leasing Limited for vehicles. The balance of the liability is payable by November 2003 in monthly installments.

Monthly lease rentals include financial charges of 19.73% per annum which is used as discounting factor. Taxes, repairs, replacements and insurance costs are borne by the Company.

The leases are partially secured against cash deposit of Rs. 134,707 2002: Rs. 134,707 which have been adjusted against lease obligations as management intends to retain the leased assets at expiry of the lease terms.

#### Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful receivables based on review of all outstanding amounts at the year end. Bad debts are written off when identified.

#### Financial Instruments

Financial instruments are recognized in the financial statements when Company becomes a party to the contract and ceases to recognize when it loses control of contractual rights, in case of financial assets, and in case of financial liability when liability is extinguished.

#### Foreign currency translation

Transactions denominated in foreign currencies are recorded, on initial recognition, in rupees by applying to the foreign currency amount the exchange rate between the rupee and the foreign currency at the date of transaction. Outstanding foreign currency monetary items at the balance sheet date are recorded at the closing exchange rate except for balances covered under forward exchange contracts, which are converted at the contracted rates. Exchange differences are included in income currently.

#### 2.12 Revenue recognition

Revenue from local sales is recognized on despatch of goods to customers and from exports at the time of bill of lading.

Dividend income is accounted for when the right to receive dividend has been established.

Profit / interest is accounted for on accrual basis.

Rebates are accounted for as and when allowed.

### 2.13 Transfer Pricing

Transactions with related parties are carried out at arm's length using the comparable uncontrolled price method.

#### AUTHORIZED SHARE CAPITAL

	No. of Shares	2002 Amount Rupees	2003 No. of Shares	Amount Rupees
Ordinary shares of Rs. 10 each	15,000,000	150,000,000	15,000,000	150,000,000
ISSUED, SUBSCRIBED AND FULLY PAID UP SHARE CAPITAL				
Ordinary shares of Rs 10 each, fully paid in cash	4,331,415	43,314,150	4,331,415	43,314,150
Ordinary shares of Rs. 10 each, issued for consideration other than cash	749,990	7,499,900	749,990	7,499,900
Ordinary shares of Rs.10 each, issued as bonus shares	2,226,000	22,260,000	2,226,000	22,260,000
	7,307,405	73,074,050	7,307,405	73,074,050

	2003 Rupees	2002 Rupees
PROVISION FOR TAXATION		
Balance at the beginning of the year	12,563,354	20,678,784
Provision for the year	4,900,000	5,000,000
	17,463,354	25,678,784
Paid / adjusted during the year	-11,393,211	-16,232,876
	6,070,143	9,445,908
Workers' Welfare Fund	-	3,117,446
Balance at the end of the year	6,070,143	12,563,354

Assessment upto and including assessment year 2000-2001 have been completed by first Income Tax Assessing Authority.

#### CONTINGENCIES AND COMMITMENTS

Contingencies :

The Company is contingently liable for the sale tax demands amounting to Rs. 48,237,923 (2002) Rs. 6,618,401. The management has gone into appeals and is confident that the outcome of the appeals shall ultimately be in favour of the Company.

The Company is contingently liable for the income tax demands amounting to Rs. 7,379,630 (2002: Rs. 7,379,630). The management has gone into appeals and is confident that the outcome of the appeals shall ultimately be in favour of the Company.

Commitments:

The Company has opened Letter of Credit for capital expenditure as at September 30, 2003 for Rs. 60.00 million

	2003 Rupees	2002 Rupees
DEFERRED LIABILITIES		
8.1 Deferred Taxation		
Credit / (debit) balance arising in respect of		

-Accelerated tax depreciation allowance	1,453,189	23,000,000
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## 8.2 Provision for Gratuity

The amounts recognized in the balance sheet are as follows:

Present value of defined benefit obligation	57,340,837	58,930,026
Unrecognized actuarial (losses)	-325,729	-4,922,558
Balance payable	343,577	407,735
	57,358,685	54,415,203
Balance at the beginning of the year as previously reported	-	39,361,959
Effect of change in accounting policy	-	11,371,354
Balance at the beginning of the year	54,415,203	50,733,313
Amount recognized during the year	9,263,037	10,879,322
	63,678,240	61,612,635
Benefits paid during the year	-6,319,555	-7,197,432
Balance at the end of the year, as per I AS 19 (revised)	57,358,685	54,415,203

## CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors	3,422,174	630,152
Accrued expenses	13,956,143	14,693,251
Advances from customers	268,625	721,128
Due to associated undertakings	193,538	907,200
Un-claimed dividend	5,193,672	4,786,812
Employees provident fund	-	108,065
Income tax payable	138,928	88,408
Sales tax payable	790,527	3,960,292
Other payable	245,583	165,049
	24,209,190	26,060,357

2003

2002

Rupees

Rupees

## STORES AND SPARE PARTS

Stores	11,158,505	10,207,966
Spare parts	6,251,140	7,325,218
Loose tools	251,996	256,601
	17,661,641	17,789,785

## STOCK IN TRADE

Raw materials	13,665,114	48,346,269
Work in process	12,884,064	11,045,163
Finished goods	93,215,854	110,531,193
	119,765,032	169,922,625

## SHORT TERM INVESTMENTS

Available For Sale

Quoted

Faysal Bank Limited

75,000 (2002: nil) fully paid ordinary shares of Rs.10/ each 2,203,200

Southern Electric Co. Limited

729,000 (2002: nil) fully paid ordinary shares of Rs.10/ each 13,912,050

Muslim Commercial Bank Limited

160,750 (2002: nil) fully paid ordinary shares of Rs.10/ each 7,721,285

23,836,535

BOOK DEBTS			
Unsecured-considered good		38,178,000	44,488,865
ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advances:			
-Employees		1,586,712	1,063,472
- Goods suppliers		45,321	279,492
Deposits		1,520,287	1,919,210
Prepayments		1,167,766	1,230,642
Dividend Receivables		14,028,002	-
Other Receivables		449,950	361,042
Material in transit		66,584	-
Employees Provident Fund		3,026,120	-
		21,890,742	4,853,858

Note	2003	2002
	Rupees	Rupees

12.1 The depreciation charge for the year has been allocated as follows:

(a) Cost of goods sold	21	9,309,735	10,312,268
(b) Administrative and general expenses	22	696,815	846,991
		10,006,550	11,159,259

#### LONG TERM INVESTMENTS

Available For Sale		2003	2002
Quoted		Rupees	Rupees
Associated Undertakings:			
Dawood Hercules Chemicals Limited			
7,014,001 (2002:4,676,001) fully paid ordinary shares of Rs. 10/- each.		56,315,150	56,315,150
Adjustment arising from measurement to fair value in accordance with AS-39		1,058,911,009	380,890,944
		1,115,226,159	437,206,094
Dawood Cotton Mills Limited			
2,323,338 (2002:774,446) fully paid ordinary shares of Rs. 10/- each.			
[Equity held 10.43% (2002: 10.43%)		8,319,111	8,319,111
Adjustment arising from measurement to fair value in accordance with IAS-39		140,374,521	19,638,389
		148,693,632	27,957,500
		1,263,919,791	465,163,594

#### Associated Undertakings:

Karnaphuli Paper Mills Limited			
(Formerly an Associated Company now under foreign occupation)			
185,000(2002: 185,000) fully paid ordinary shares of Rs. 10/- each		2,497,500	2,497,500
Value written off		-2,497,499	-2,497,499
Balance		1	1

Others:

Asian Cooperative Society Limited	5,000	5,000
500(2002: 500) fully paid ordinary shares of Rs. 10/- each	5,001	5,001
	1,263,924,792	465,168,595

	2003	2002
	Rupees	Rupees

ADMINISTRATIVE AND GENERAL EXPENSES

Directors' fee	25,000	12,500
Salaries, wages and benefits	13,605,255	17,586,896
Travelling and conveyance	1,413,945	730,403
Rent, rates and taxes	1,382,424	1,340,349
Postage, telegram, fax and telephone	679,819	723,727
Repairs and maintenance	950,740	853,088
Insurance	684,971	606,340
Electricity, gas and water	3,480,185	4,559,259
Printing and stationery	437,512	544,614
Entertainment	227,536	259,858
Newspapers, periodicals and subscriptions	191,189	185,502
Advertisement and publicity	31,920	67,200
Auditors' remuneration	135,000	75,000
Legal and professional charges	559,274	612,801
Depreciation (Note 12.1)	696,815	846,991
Miscellaneous	222,928	256,097
	24,724,513	29,260,625

22.1 Auditors' Remuneration

Audit fee	80,000	75,000
Other certifications	55,000	-
	135,000	75,000

SELLING AND DISTRIBUTION EXPENSES

Salaries, wages and benefits	1,741,015	1,691,552
Shipping, forwarding and local sale expenses	2,684,818	2,361,521
Travelling and conveyance	131,611	98,481
Rent, rates and taxes	356,420	490,534
Postage, telegram, fax and telephone	168,878	154,417
Repairs and maintenance	72,657	52,395
Insurance	812,741	958,049
Electricity and gas	64,492	93,280
Printing and stationery	27,597	24,867
Entertainment	45,761	38,537
Advertisement and publicity	28,200	11,098
Miscellaneous	4,278	11,064
	6,138,468	5,985,795

OTHER INCOME

Dividend income	61,538,010	58,822,573
Interest	1,563,028	1,139,297
Sale of scrap	-	68,536
Rent	218,915	209,259

Profit on sale of investment in shares	2,445,545	-
Profit on sale of fixed assets	46,251	132,371
Miscellaneous	607	-
	65,812,356	60,372,036
SELLING AND DISTRIBUTION EXPENSES		
Salaries, wages and benefits	1,741,015	1,691,552
Shipping, forwarding and local sale expenses	2,684,818	2,361,521
Travelling and conveyance	131,611	98,481
Rent, rates and taxes	356,420	490,534
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Repairs and maintenance	72,657	52,395
Insurance	812,741	958,049
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Advertisement and publicity	28,200	11,098
Miscellaneous	4,278	11,064
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Sale of scrap	-	68,536
Rent	218,915	209,259
Profit on sale of investment in shares	2,445,545	-
Profit on sale of fixed assets	46,251	132,371
Miscellaneous	607	-
	65,812,356	60,372,036
	2003	2002
	Rupees.	Rupees
EARNINGS PER SHARE - BASIC		
Profit attributable to ordinary shareholders	52 507,636	25,664,887
	Number of Shares	
Average ordinary shares in issue	7 3P7405	7,307,405
	Rupees	Rupees
Earnings per share	7 19	3.51
CASH GENERATED FROM OPERATIONS		
Profit before taxation and extra ordinary charges	40,109,096	28,164,887
Add / (deduct) adjustments for non cash charges and other items:		
Depreciation	10,006,552	11,159,259
(Profit) on sale of fixed assets	-46,251	-132,371
(Profit) on sale of investments in shares	-2,445.55	-
Dividend income	-61,538,010	-58,822,573
Provision for gratuity	9,263,037	22,250,676
	(44.760,217)	-25,545,009
(Loss) / Profit before working capital changes	(4.651.121)	2,619,878
(Increase) / decrease in current assets		
Store, spare parts and loose tools	128,144	-978,909
Stock in trade	50,157,593	28,719,741



Trade debts	6,310,865	-30,337,845
Advances, deposits, prepayments and other receivables	-3,008,884	1,707,933
	53,587,718	-889,080
Increase / (decrease) in current liabilities		
Creditors, accrued charges and other liabilities	-2,258,027	1,584,106
	(2,258,027)	1,584,106
	46,678,570	3,314,904
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	108,574.90	87,157,267
<b>EXTRA ORDINARY CHARGES</b>		
This represents encashment of a Bank Guarantee by Sales Tax department in a case against the Company upheld by the Supreme Court of Pakistan.		
	4,248,271	
<b>TAXATION</b>	4,900,000	5,000,000
Current	-21,546,811	-2,500,000
Deferred	-16,646,811	2,500,000

27.1 As mentioned in Note 2.4, the Company has changed its accounting policy for recording deferred tax liabilities. The cumulative effect of this change in policy under the allowed alternative treatment of IAS- 8 (Net Profit or Loss for the period, Fundamental Errors And Changes in Accounting Policies) has been adjusted in the accounts for the current year. As required by the IAS, the proforma information of profit and loss account and statement of changes in equity assuming the accounting policy had been applied retrospectively is given below:

Proforma profit and(Restated)

Profit before taxation as reported	35,860,825	28,164,887	
Taxation			
- Current	4,900,000	5,000,000	
- Deferred tax expenses / (income) relating to the origination and (2,462,450)		-7,537,370	
- Deferred tax expenses / (income) resulting from change in tax	-	-	
		2,437,550	-2,537,370
		33,423,275	30,702,257
<b>Proforma statement of changes in equity</b>			
Balance as on October 01, as previously reported	37,821,844		41,386,577
Effect of change in accounting policy with respect to recognition of deferred tax liability	19,084,361		14,046,991
Opening retained earnings as restated	56,906,205		55,433,568
Net profit for the year as restated	33,423,275		30,702,257
Final dividend	-29,229,620		-29,229,620
Balance as at September 30,	61,099,860		56,906,205

#### 34.1 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted.

Out of the total financial assets of Rs. 1,456,946,281 (2002: Rs. 601,954,064) such financial assets of Rs. 38,178,000 (2002: Rs. 44,488,865) are subject to credit risk. The management believes that it is not exposed to credit risk as parties are credit worthy.

#### 34.2 Fair value of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values except for short term Investment which is stated at average

purchase prices.

### 34.3 Effective interest rates

Effective interest rates applicable to the financial assets and financial liabilities have been disclosed in their respective notes to the financial statements.

### 34.4 Foreign exchange risk

Foreign currency risk arises mainly where receivables and payables exist due to sale and purchase transactions with foreign undertakings. The Company is not exposed to any material foreign exchange risk as it views hedging when it consider financially feasible.

## AUTHORIZATION OF FINANCIAL STATEMENTS

These accounts have been authorized for issue by the Board of Directors of the Company on December 30, 2003.

NUMBER OF EMPLOYEES	2003	2002
	Number of employees	
Number of employees as at the year end	1302	1335

### GENERAL

Figures have been rounded off to the nearest rupee; and

Corresponding figures have been re-arranged, wherever necessary, to facilitate comparison.

## TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

The aggregate amount of purchases from and sales to associated undertakings of goods and services during the year amounted to Rs. 11,292,329 (2002: Rs. 13,412,573) and Rs. 6,979,497 (2002: Rs. 63,465,957) respectively.

Purchases / sales of goods and services are made at prevailing market prices. No buying or selling commission has been paid to any associated undertaking.

The maximum aggregate balance due to associated undertakings at the end of any month during the year was Rs. 10,953,391 (2002: Rs. 14,468,714).

## PRODUCTION AND INSTALLED CAPACITY

The installed spindles and looms are 42,912 (2002:42,912) and 312(2002:312) respectively, out of which 42,028(2002:39,136) spindles and 177 (2002:94) looms were in operation during the year. The installed capacity and production have been averaged out on the basis of 20 count yarn and 50 picks per inch fabric. The installed capacity is based on three shifts working, while the actual production is based on two /three shifts during the year:

Particulars	Unit	Capacity	Actual Production
Yarn	Kgs	9,678,823	2003 4,578,767 2002 4,501,940
Fabric	Mtrs	9,218,040	3,818,625 2,526,714
Cotton ginning	Bales	144,000	- -

The reasons for the down trend in spinning and weaving production are mainly attributed to lower demand and recession in the country.

Categories of Shareholders as at 30 September 2003	Numbers	Shares Held	Percentage
Individuals	1,740	3,187,576	43.62
Investment Companies	5	446,042	6.1
Insurance Companies	6	231,325	3.17
Joint Stock Companies	16	2,919,307	39.95
Financial Institutions	9	287,558	3.94
Others:			
Charitable Institutions	4	229,722	3.14
Cooperative Societies	1	2,008	0.03
Administrator Abandoned			

Properties. Govt. Of Pakistan	11	3,867	0.05
Total	1,792	7,307,405	100

PATTERN OF SHAREHOLDING AS AT 30 SEPTEMBER 2003

Disclosure Required under Code of Corporate Governance

(1) Associated Companies / Undertakings and Related Parties: Shares held

Central Insurance Co. Ltd.	191,515
Assian Co-operative Society	2,008
Dawood Corporation (Pvt) Ltd.	1,270,335
Patek (Pvt) Ltd.	52,922

(2)NIT&ICP:

National Bank of Pakistan, Trustee Department	440,818
Investment Corporation of Pakistan	4,828

(3) Directors & CEO (including holding of their spouses and minor children):

M. Hussain Dawood, Chairman	1,370,763
Shahzada Dawood, CEO	233,492
A. Samad Dawood, Director	232,092
Khawaja Amanullah, Director	4,300
A. Aziz Moon, Director	2,830
M. Saleem Farooqui, Director	2,500
Haroon Mahenti	2,500

(4) Banks, Development Finance Institution, Non-Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds

518,883

(5) Shareholders holding ten percent or more shares:

M. Hussain Dawood (including the holding of his spouse)	1,370,763
Dawood Corporation (Pvt) Ltd.	1,270,335

NUMBER OF SHAREHOLDERS	SHAREHOLDINGS			TOTAL SHARES HELD
	From	To		
745	From 1	To 100	30266	
566	From 101	To 500	150225	
180	From 501	To 1000	138921	
250	From 1001	To 5000	545222	
18	From 5001	To 10000	125820	
10	From 10001	To 15000	133001	
3	From 15001	To 20000	51032	
2	From 25001	To 30000	50246	
1	From 50001	To 55000	52922	
1	From 70001	To 75000	71000	
1	From 75001	To 80000	76019	
1	From 80001	To 85000	80500	
1	From 150001	To 155000	151592	
1	From 160001	To 165000	162492	
1	From 190001	To 195000	191515	
1	From 200001	To 205000	203088	
1	From 225001	To 230000	225616	
1	From 230001	To 235000	232500	
1	From 265001	To 270000	268800	
1	From 365001	To 370000	366515	
1	From 440001	To 445000	440818	
1	From 520001	To 525000	521616	
1	From 565001	To 570000	568984	

2	From 595001	To	600000	1198360
1	From 1270001	To	1275000	1270335
1,792			Total	7,307,405