

GHAZI FABRICS INTERNATIONAL LIMITED ANNUAL REPORT 2004

CHAIRMAN/CHIEF EXECUTIVE DIRECTORS	MR. MUHAMMAD ARSHAD CHAUDHRY MRS.AZRAYASMIN MR. MUHAMMAD TARIQ MR. KAMRAN ARSHAD MISS. FAREEHA ARSHAD MISS. WAJEEHA ARSHAD MST. REHMAT BIBI	
SECRETARY	MR. MANSOOR AHMAD KHAN	
AUDIT COMMITTEE	MR. MOHAMMAD TARIQ MR. KAMRAN ARSHAD MISS. FAREEHAARSHAD	Chairman Member Member
CHIEF FINANCIAL OFFICER	MR.ABIDRAFI	
INTERNAL AUDITOR	MR TAJAMMALRASHID	
AUDITORS	MIS. M. HUSSAIN CHAUDHRY & CO. Chartered Accountants Lahore	
LEGAL ADVISOR	M/S. RAJA MOHAMMAD AKRAM & CO. Advocates & Legal Consultants	
BANKERS	HABIB BANK LIMITED	
REGISTERED OFFICE	8-C, BLOCK E-III, GULBERG - III, LAHORE - 54660 PH: (042) 5764026 - 28 FAX: (042) 5764032 EMAIL: info@ghazifabrics.com WEBSITE: www.ghazifabrics.com	
PROJECT	46-K.M. MULTAN ROAD, BHAIPHERU, DISTT. KASUR.	

Health and Safety

Health and safety of all the staff and employees particularly and of society in general is a great concern for the Management of GFIL and therefore the Management of GFIL shall take every measure to protect the health and safety of its employees.

Commitment

A bi-lateral commitment with employees, with management, with shareholders, suppliers and buyer shall be of prime importance in every instance. All the management and employees of GFIL shall not make any commitment, the compliance of which is beyond their control and if they commit, every effort shall be made to fulfill the commitment.

Financial Discipline and Books of Accounts

Compliance with all the generally accepted accounting principles, rules and procedures shall be followed at all the time. All transactions if duly authorized shall be properly and fully recorded/All the payments made shall be for the purpose of the business of the company. Books of accounts shall reflect a true and fair position of all the assets, liabilities and funds. Company shall not maintain any undisclosed, unrecorded funds or liability account.

Relationship with Govt. Officials, Suppliers, Customers and Agents

Only the concerned and knowledgeable members of the relevant field of the company shall conduct dealing with govt. officials, suppliers, customers and agents. The dealing member shall always maintain the integrity and reputation of the company.

Training

Training of the employees shall be an important part of business practices. The management shall take steps that training of every employee is ensured from his joining to the retirement.

Child / Forced Labour

It is a policy of the GFIL not to employ child labour or forced labour directly or indirectly.

Equality Policy

There is absolutely no discrimination in GFIL on basis of race, caste, national origin, religion, disability gender or political affiliation. Corporal punishment, mental or physical coercion and verbal abuse of workers is strictly forbidden.

The Management of the Company shall ensure the implementation of the above, regular

monitoring and review for modification/addition wherever necessary.

STATEMENT OF ETHICS AND BUSINESS PRACTICES

It is a strong belief of the Management of the Ghazi Fabrics International Ltd. that a clear vision, a positive mission and fully spelled out code of ethics and business practices is a pre-requisite to good corporate governance.

Therefore Ghazi Fabrics International Ltd. in addition to the adherence of its mission statement shall observe the compliance of following codes of ethics and best business practices.

- 1) ETHICS
a) Discipline

It shall be the joint and several responsibility of management and every employee of the company to maintain the discipline in the company.

- b) Coordination among staff
The management shall provide a conducive environment for the effective coordination among the members of the staff and management.

- c) **Conflict of In terest**

All the management and employees of the company are hereby committed not to engage in any activity which is against the interests of the company. Staff members shall not conduct personal business in the company premises and with the use of facilities provided by the company for official use. If any employee has a direct or indirect relationship with any organization dealing with the company he should disclose it immediately to the company.

- d) **Confidentiality**

All the management and employees of the GFIL are hereby committed to the confidentiality of the business information of the GFIL to any outsider of the company unless it is required by a competent authority having jurisdiction to the affairs of the company. Even if they leave the company shall not loose the confidentiality of the company secrets.

- e) Kick Backs / undue favour or unwarranted gifts
No employee or member of the board of management shall accept any personal gift, favour or kick back from any organization dealing with the company. In case this favour is considered to be for the purpose of the company the same should be disclosed to the management of the company immediately.

- 2) BUSINESS PRACTICES

- a) Environment
i) Pollution Free Environment
GFIL shall not engage in any business or production process, which does not meet the international standards of environment protection.

- ii) Drugs Free Environment
The use of drugs shall be strictly banned in the premises of GFIL and GFIL shall not employ any person apparently engaged in the trafficking of drugs or appears to be an addict of drugs.

DIRECTORS' REPORT

The Directors of the Company are pleased to welcome you to the 15th Annual General Meeting of the Company and present their report together with the audited accounts of the Company for the year ended September 30, 2004.

	2004	2003
Operating and Financial Results	(Rupees in thousand)	
Operating loss	-7,785	-26,519
Financial charges	-24,060	-21,667
	-31,845	-48,186
Other income	-52,699	4,501
Loss before tax	-84,544	-43,685
Provision for taxation	16,714	60,084
(Loss)/profit after tax	-67,830	16,399
Loss brought forward	-160,050	-536,934
Accumulated loss available for appropriation	-227,880	-520,535
Prior years	—	316,778
Current year net of deferred tax	79,351	43,707
	79,351	360,485
Accumulated loss transferred to Balance sheet	-148,529	-160,050

Name of Director	Meetings Attended
Mr. Muhammad Arshad Chaudhry	8
Mrs. Azra Yasmin	8
Mr. Kamran Arshad	8
Mr. Muhammad Tariq	8
Miss Fareeha Arshad	8
Miss Wajeeha Arshad	6
Mst. Rehmat Bibi	2

AUDIT COMMITTEE

The Board has established an Audit Committee and the following directors are its members:

Name of Member	Status
Mr. Muhammad Tariq	Chairman
Miss. Fareeha Arshad	Member
Mr. Kamran Arshad	Member

AUDITORS

The present auditors M/S. M. Hussain Chaudhury & Co. Retire and being eligible have offered themselves for reappointment the audit committee has recommended their reappointment. The external auditors have been given satisfactory rating under the quality control review of the institute of Chartered Accountants of Pakistan.

PATTERN OF SHAREHOLDING

Pattern of shareholding is annexed to the directors' report.

TRADING IN COMPANY'S SHARES

The Directors, CEO, CFO, Company Secretary and their spouse and minor children have not traded in the Shares of the Company during the year under review.

ACKNOWLEDGEMENT

We would like to take this opportunity to express our appreciation to the management and employees of the Company for their hard work and dedication. We would also like to express our gratitude to our valued shareholders.

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

International Accounting Standards made applicable by the SECP from time to time has been followed in preparation of financial statements and there has been no departure from them.

Internal Control System

The company has always emphasized on a sound internal control system and for the effective implementation and monitoring of Internal control system, an internal audit department has been established which is fully equipped with proper staff and is headed by a qualified experienced Chartered Accountant.

Going Concern

There is no significant doubt upon the ability of the Company to continue as a going concern.

Best Practices of Corporate Governance

The statement of compliance with the code of corporate governance is enclosed with this report and this report was found to be in order after reviewed by the auditors.

Key Financial Data of Last Six Years

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

Gratuity Funds

The Company operates an un-funded gratuity scheme for its employees. The deferred liability was estimated by the consultant actuaries M/s. Nauman Associates.

Dividend

Keeping in view the accumulated balance of Losses and phase of Balancing, Modernisation and replacement, Company is not in a position to declare dividend.

Outstanding Statutory Dues

The Company is regular payer of all Government dues and previous record is quite evident and clear in this regard. Company has no outstanding Government dues except those declared in note No. 10 of the financial statement which were paid subsequently on due dates.

Significant Plans and Decisions

As part of its balancing, modernization and replacement plan, the Company has added the following to increase the existing capacity

To balance the spinning mills 5160 spindles with allied machinery of back process and two Autocones machines.

To balance the weaving mills 36 air jet looms with partial back process machinery.
To reduce the cost of power consumption 3 Gas GENSETS of 8.1 MW.

Orientation Courses

The Management of the company arranges orientation courses for the awareness of its directors to acquaint them with their duties and responsibilities whenever a new director joins the board. During the year under review, since there has no change in directors therefore orientation course was not required.

DETAIL OF PATTERN OF SHAREHOLDING

S. No.	CATEGORY NAME	NUMBER OF SHARES	NUMBER OF SHARES	PERCENTAGE %
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		HOLDERS	HELD	
1	Individuals	-	11,144	15,748,300
2	ICP	Investment Corp. of Pakistan	1	240,700
3	Chief Executive	Mr. Muhammad Arshad Chaudhry	1	16,312,500
4	Director	Mrs. Azra Yasmin	1	1,000
5	-Do-	Mr. Kamran Arshad	1	1,000
6	-Do-	Mr. Muhammad Tariq	1	1,000
7	-Do-	Miss. Fareeha Arshad	1	1,000
8	-Do-	Miss. Wajeeha Arshad	1	500
9	-Do-	Mst. Rehmat Bibi	1	1,000
10	Public Sector Companies	(Joint Stock Companies)	4	151,800
11	Non Banking Financial Institutions	(Investment Banks)	3	36,100
12	Insurance Companies		3	130,900
13	Modarabas		2	9,800
		11,164	32,635,600	100

SHAREHOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE COMPANY

NAME OF SHAREHOLDER	NO. OF SHARES	PERCENTAGE %
Mr. Mohammad Arshad Chaudhry	16,312,500	49.9838
	16,312,500	49.9838

PATTERN OF SHAREHOLDING

AS AT SEPTEMBER 30, 2004

NUMBER OF HOLDINGS	FROM	TO	TOTAL SHARES HELD
909	1	100	90,900
9,117	101	500	4,177,700
459	501	1,000	440,900
496	1,001	5,000	1,289,400
103	5,001	10,000	802,900
22	10,001	15,000	272,800
17	15,001	20,000	291,600
11	20,001	25,000	256,800
4	25,001	30,000	111,100
2	30,001	35,000	65,400
4	35,001	40,000	151,100
2	40,001	45,000	84,000
1	45,001	50,000	50,000
2	55,001	60,000	115,600
3	65,001	70,000	200,900
1	75,001	80,000	77,000
1	80,001	85,000	84,100
1	85,001	90,000	85,500
1	120,001	125,000	124,500
1	135,001	140,000	139,000
2	145,001	150,000	298,800
1	240,001	245,000	240,700
1	420,001	425,000	420,400
1	3,220,001	3,225,000	3,222,000
1	3,225,001	3,230,000	3,230,000
1	16,310,001	16,315,000	16,312,500
11,164			32,635,600

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED SEPTEMBER 30, 2004

This statement is being presented to comply with the code of corporate governance in regulation No. 37 of listing regulations of Karachi Stock Exchange, clause 49 (chapter xiii) of the listing regulations of the Lahore Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed with the best practices of corporate governance.

The company has applied the principles contained in the code of corporate governance in the following manner:

- The company encourages the representation of independent directors, non executive directors and directors elected from minority interest, at present board consists of one chief executive and one unpaid whole time director assisting the chief executive and five non executive directors. However there are expectations of independent directors coming on the board in the next election of directors.
- No director of GFIL is on the board of directors of more than ten companies.
- All the directors of the company are regular taxpayers and none of them has ever defaulted in payment of any loan to any banking company, development financial institution or non-banking financial institution. None of the directors of company are a member of the stock exchange on which shares of the company are traded.
- The company has prepared a statement of ethics and business practices which has been signed by all the directors and employees of the company.

5. The company has adopted a vision/mission statement and over all corporate strategy. A complete record of all the significant policies approved and adopted has been maintained.
6. All the powers of the board has exercised by the board especially approval of material transactions, appointment and the terms and condition of the employment of CEO, executive director, CFO, Company Secretary and other executives of the company.
7. All the meeting of the board was presided over by the chairman and the board met at least once in every quarter. Written notice of the board meeting along-with agenda and working papers was issued at least seven days before the meeting. The minutes of the meeting were appropriately recorded and circulated.
8. The board arranged an orientation course for its directors during the year to aquatint them of their duties and responsibilities.
9. The company secretary and CFO were appointed prior to the implementation of code of corporate governance. However their appointment confirms the requirements of code of corporate governance.
10. The directors report has been prepared in compliance with the requirement of code of corporate governance and all the salient matters required to be disclosed has been spelled out properly.
11. The financial statements prepared and circulated were duly endorsed by the CFO and CEO of the company prior to the approval from the board.
12. The directors, CEO, and other executives of the company do not hold any interest in the company other than that disclosed in the pattern of shareholding.

SUMMARY OF LAST SIX YEARS FINANCIAL RESULTS

DESCRIPTION	2004	2003	2002	2001	2000	1999
Sales Net	2,060,539	1,448,000	1,149,490	1,230,272	1,352,886	1,461,264
Cost of Sales	2,003,935	1,434,167	1,116,963	1,211,249	1,127,652	1,444,838
Gross Profit	56,604	13,833	32,527	19,023	225,234	16,426
Admin and						
Selling Expenses	64,389	40,351	38,956	37,220	47,204	38,711
Operating Profit/(Loss)	-7,785	-26,518	-6,429	-18,197	178,030	-22,285
Financial Charges	24,060	21,667	42,100	97,974	95,376	122,436
	-31,845	-48,185	-48,529	-116,171	82,654	-144,721
Other income	-52,699	4,501	1,959	1,800	1,798	1,342
	-84,544	-43,683	-46,570	-114,371	84,452	-143,379
W.P.P.F.	-	-	-	-	4,223	-
Profit/(Loss) before tax	-84,544	-43,683	-46,570	-114,371	80,229	-143,379
Tax for the year	-16,714	-60,084	5,790	6,197	6,876	7,492
Profit/(Loss) after tax	-67,830	16,401	-52,360	-120,568	73,353	-150,871
Paid up capital	326,356	326,356	326,356	326,356	326,356	326,356
Current assets	516,055	229,255	156,924	255,894	234,993	281,503
Current liabilities	458,913	162,518	88,988	180,429	195,233	380,120

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 GHAZI FABRICS INTERNATIONAL LIMITED, to comply with the Listing Regulation No. 37 (Chapter XI) and No. 40 (Chapter XI11) of the Karachi Stock Exchange and Lahore Stock Exchange respectively, where the Company is listed.

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

As part of the audit of financial statemnts we are required to obtain an understanding of the accounting and internal controls 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 interal 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 September 30, 2004.

BALANCE SHEET
AS AT SEPTEMBER 30, 2004

	Note	2004	2003	Note	2004	2003
	(Rupees in thousand)			(Rupees in thousand)		
CAPITAL AND LIABILITIES				PROPERTY AND ASSETS		

SHARE CAPITAL AND RESERVES			TANGIBLE FIXED ASSETS				
Authorised Capital			Operating Fixed Assets	13	1,249,699	1,295,097	
40,000,000 (2003: 40,000,000)			Capital work-in-progress	14	296,550	100,658	
ordinary shares of Rs. 1 0/- each	400,000	400,000			1,546,249	1,395,755	
Issued, subscribed and paid up capita	3	326,356			490	490	
ACCUMULATED LOSS	-148,529	-160,050	LONG TERM DEPOSIT				
	177,827	166,306					
SURPLUS ON REVALUATION							
OF FIXED ASSETS	4	385,574	430,812				
NON CURRENT LIABILITIES							
LONG TERM LOANS	5	356,475	172,500				
LOAN FROM DIRECTORS	6	465,414	420,414				
DEFERRED LIABILITIES	7	166,090	227,148				
		987,979	820,062				
CURRENT LIABILITIES			CURRENT ASSETS				
Current maturity of long term loans	8	52,500	45,800	Stores, spares and loose tools	15	20,615	18,562
Short term finances	9	292,763	86,920	Stocks in trade	16	299,435	103,415
Creditors, accrued and other liabilities	10	140,760	54,414	Trade debts	17	76,528	50,174
Unclaimed dividend		1,444	1,453	Advances, deposits, prepayments			
Provision for Taxation - net	11	23,947	19,731	and other receivables	18	113,464	49,408
		511,414	208,318	Cash and bank balances	19	6,013	7,694
						516,055	229,253
CONTINGENCIES AND COMMIT	12	-	-				
		2,062,794	1,625,498			2,062,794	1,625,498

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of GHAZI FABRICS INTERNATIONAL 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 notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:-

(a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the Company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, Profit and Loss Account, the 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, 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 (XVI11 of 1980).

CASH FLOW STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	2004	2003
	(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES		

Loss before taxation	-84,544	-43,685
Adjustments for:		
- Depreciation	125,630	131,912
- Loss on disposal of operating fixed assets	56,516	-18
- Provision for gratuity	3,931	2,954
- Financial charges	24,060	21,667
	210,137	156,515
Operating Profit before Working Capital Changes	125,593	112,830
(Increase)/decrease in current assets		
- Stores, spares and loose tools	-2,053	-100
- Stock in trade	-196,020	-33,584
- Trade debts	-26,354	-37,998
- Advances, deposits, prepayments and other receivables	-59,023	12,455
Increase/(decrease) in current liabilities		
- Creditors, accrued and other liabilities	85,808	-17,490
	-197,642	-76,717
Cash (used in) / generated from Operations	-72,049	36,113
Gratuity paid	-3,763	-2,592
Income tax paid	-11,214	-6,724
Financial charges paid	-23,522	-20,068
Net Cash (used in)/from Operating Activities	-110,548	6,729
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditure	-62,770	-238,128
Capital work in progress	-296,550	-80,020
Proceeds from disposal of operating fixed assets	26,678	20
Net Cash used in Investing Activities	-332,642	-318,128
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long term loans	236,475	171,833
Repayments of long term loans	-45,800	-35,800
Loan from directors	45,000	—
Deferred liabilities	—	100,491
Short term finances	205,843	81,770
Dividend paid	-9	-28
Net Cash from Financing Activities	441,509	318,266
Net Decrease in Cash and Cash Equivalents	-1,681	6,867
Cash and cash equivalents at the beginning of year	7,694	827
Cash and Cash Equivalents at the End of Year	6,013	7,694

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

	NOTE	2004	2003
		(Rupees in thousand)	
Sales - net	20	2,060,539	1,448,000
Cost of sales	21	2,003,935	1,434,169
Gross profit		56,604	13,831
Operating expenses:			
- Administrative and general	22	33,455	30,854
- Selling and distribution	23	30,934	9,496
		64,389	40,350
Operating Loss		-7,785	-26,519
Other (charges)/income	24	-52,699	4,501
Financial charges	25	-24,060	-21,667
Loss before Taxation		-84,544	-43,685
Provision for taxation	26	16,714	60,084
(Loss)/Profit after taxation		-67,830	16,399
Accumulated loss brought forward		-160,050	-536,934
Accumulated Loss		-227,880	-520,535
Transfer from surplus on revaluation of fixed assets in respect of incremental depreciation charged in:			
- Prior years		-	316,778
- Current year including realised on disposal of fixed assets - net of deferred tax		79,351	43,707
		79,351	360,485
Accumulated Loss Transferred to Balance Sheet		-148,529	-160,050
Earning per Share - Basic (Rupees per Share)	28	-2.08	0.5

THE COMPANY AND ITS OPERATIONS

The Company was incorporated in Pakistan on April 30, 1989 as a Private Limited Company and converted into Public Limited Company on January 07, 1990. Its shares are quoted on Karachi and Lahore Stock Exchanges. The main activities of the Company are textile manufacturing, production of cotton and P.C. yarn and grey cloth that are marketed within and outside Pakistan. The registered office of the Company is situated at 8-C, E-III, Gulberg III, Lahore.

SIGNIFICANT ACCOUNTING POLICIES

02.1 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 the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

02.2 Accounting convention

These accounts have been prepared under the historical cost convention without any adjustment for the effect of inflation or current values, except certain fixed assets that are stated at revalued amounts.

02.3 Staff retirement benefits

Defined benefit plan

The Company operates an unfunded gratuity scheme covering its permanent employees. Employees are eligible for benefits under this scheme after the completion of a prescribed qualifying period of service. The latest actuarial valuation has been carried out as at September 30, 2003. Based upon this actuarial valuation the Company accounts for the provision for gratuity and current service cost.

The future contribution rates of this plan include allowances for deficit and surplus. As per actuarial valuation, the following significant assumptions were used for calculation of this plan.

Discount rate	8%
Expected rate of salary increase in future years	7%
Average expected remaining working life time of employees	5 years
Actuarial valuation method	Projected unit credit method

02.4 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

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

	(RUPEES IN THOUSAND)		Total
	Share Capital	Accumulated Loss	
Balance as at September 30, 2002	326,356	-536,934	-210,578
Profit for the year after taxation	-	16,399	16,399
Transfer from surplus on revaluation of fixed assets on incremental depreciation charged in:			
Prior years	-	316,778	316,778
Current year - Net of deferred tax	—	43,707	43,707
Balance as at September 30, 2003	326,356	-160,050	166,306
Loss for the year after taxation	-	-67,830	-67,830
Transfer from surplus on revaluation of fixed assets on incremental depreciation charged to current year - Net of deferred tax	—	38,405	38,405
Surplus realised on disposal of fixed assets - Net of deferred tax	—	40,946	40,946
Balance as at September 30, 2004	326,356	-148,529	177,827

Stock in trade

Raw materials - At annual average cost.

Work in process - At annual average material cost plus appropriate manufacturing costs

Finished goods - At lower of average manufacturing cost and net realizable value.

Wastes - At net realizable value.

Net realizable value signifies the estimated selling price at which goods in stock could be currently sold less any further costs that would be incurred to complete the sale.

Raw materials in transit are valued at cost comprising invoice value plus incidental charges paid thereon.

Costs in relation to work in process and finished goods represents annual average costs which consists of prime costs and appropriate manufacturing overheads.

Trade debts

Trade debts considered irrecoverable are written off and provision is made for debts considered doubtful.

Related party transactions

Transactions with related parties are made at arm's length prices except in circumstances where it is in the interest of the Company not to do so.

Financial instruments

Financial instruments carried on the balance sheet date include receivables, cash and bank balances, finance under mark up arrangements, long term loans and other payables, deposits, accrued and other liabilities. Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. It ceases to recognize financial assets when it loses control of contractual rights and in case of financial liability when liability is extinguished. Any gain or loss on subsequent remeasurement/derecognition is charged to income.

A financial asset and financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Borrowing costs

Borrowing costs are charged to income as and when incurred except to the extent that costs directly attributable to the acquisition, construction or production of a qualifying asset that are capitalised as part of the cost of asset.

Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include cash in hand, cheques in hand and deposits with banks.

Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and impairment losses are recognized in the profit and loss account.

Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Taxation

Current

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

Deferred

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

Foreign currency translation

Assets and liabilities in foreign currency are stated in Pak Rupees at the rates of exchange ruling on the balance sheet date or rate of exchange fixed under contractual agreements. Transactions in foreign currency are translated at the exchange rate prevailing at the date of transaction. All exchange differences are included in the profit and loss account.

Tangible fixed assets

Operating fixed assets

Fixed assets are stated at cost less accumulated depreciation except freehold land that is stated at revalued amount. Buildings, plant and machinery and grid station and generators are stated at revalued amounts less accumulated depreciation.

Depreciation on fixed assets has been provided for on reducing balance method at the rates specified in Note 13. Full year's depreciation is charged on additions while no depreciation is charged on assets disposed off during the year.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised. Gains or losses on disposal of fixed assets, if any, are shown in profit and loss account.

Capital work in progress

Capital work-in-progress is stated at cost less any identified impairment loss.

Stores, spares and loose tools

These are valued at moving average cost except for items in transit that are valued at cost comprising invoice value plus incidental charges paid thereon.

	2004	2003
	(Rupees in thousand)	
LONG TERM LOANS		
Secured	—	13,300
Habib Bank Limited	67,500	90,000
Demand finance - II	5.1 100,000	100,000
Demand finance - III	5.2 236,475	-
Demand finance - IV	5.3 5,000	15,000

Demand finance - V	5.4	408,975	218,300
Fixed assets finance	5.5	-52,500	-45,800
		356,475	172,500
Less: Current maturity			
05.1 Demand Finance - II		13,300	26,600
Opening balance		-13,300	-13,300
Payments made during the year			
Demand Finance - III			
Opening balance		90,000	18,167
Addition during the year		-	71,833
		90,000	90,000
Payments made during the year		-22,500	-
Demand finance - IV		100,000	—
Opening balance		-	100,000
Addition during the year		100,000	100,000

SURPLUS ON REVALUATION OF FIXED ASSETS

	2004	2003
	(Rupees in thousand)	
Land - freehold	22,695	31,521
Buildings on freehold land	63,240	133,126
Plant and machinery	329,202	774,315
Grid station and generators	15,675	36,870
	430,812	975,832
Incremental depreciation charged on revalued fixed assets in prior years transferred to retained earnings	-	-316,778
	430,812	659,054
Related deferred taxation	34,113	-184,535
	464,925	474,519
Incremental depreciation charged on revalued fixed assets in current year net of deferred taxation transferred to retained earnings	-38,405	-43,707
Adjustment relating to assets disposed off during the year - net of deferred tax	-40,946	-
	385,574	430,812

	2004	2003
	(Rupees in thousand)	
Gratuity payable		
The amounts recognised in the balance sheet are as follows:		
Present value of defined benefit obligation	9,657	10,456
Unrecognised actuarial losses	-	-799
	9,657	9,657
Balance sheet liability as at October 01 ,	9,657	9,295
Amount recognised during the year	3,930	3,386
Effect of change in accounting policy	—	-432
	3,930	2,954
	13,587	12,249
Benefits paid during the year	-3,763	-2,592
Balance sheet liability as at September 30,	9,824	9,657

CURRENT MATURITY OF LONG-TERM LOANS

Demand finance - II	—	13,300
Demand finance - III	22,500	22,500
Demand finance - IV	25,000	-
Fixed assets finance	5,000	10,000
	52,500	45,800

SHORT TERM FINANCES UTILISED UNDER MARK UP ARRANGEMENTS

	Expiry date	Limit		
	(Rupees in Million)			
Habib Bank Limited				
Cash finance	31-12-2004	250	9.1	109,538
Running finance	31-12-2004	150	9.2	124,515
Foreign currency loans	28-02-2005	120	9.3	58,710
			292,763	86,920

	2004	2003
	(Rupees in thousand)	
Demand finance - V		
Finance obtained during the year	236,475	-
Fixed assets finance	15,000	25,000
Opening balance	-10,000	-10,000

Payments made during the year		5,000	15,000
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		2004	2003
07. DEFERRED LIABILITIES		(Rupees in thousand)	
Due to associated undertakings	7.1	100,491	100,491
Deferred tax - net	7.2	55,775	117,000
Gratuity payable	7.3	9,824	9,657
		166,090	227,148

Deferred tax - net			
Credit/(Debit) balance arising in respect of		75,003	97,018
- Accelerated tax depreciation		106,858	167,538
- Surplus on revaluation of fixed assets		-123,954	-144,852
- Recognised losses		-2,132	-2,704
- Staff retirement benefits		55,775	117,000

	Note	2004	2003
The depreciation charged for the year		(Rupees in thousand)	
has been allocated as under:			
Cost of sales	21	123,473	129,525
Administrative	22	2,156	2,387
		125,629	131,912

		2004	2003
CREDITORS, ACCRUED AND OTHER LIABILITIES		(Rupees in thousand)	
Creditors		120,305	39,238
Security deposits		715	680
Advances from customers		65	422
Accrued mark-up on:			
- Long term loans		3,686	4,048
- Short term finance		1,635	735
Accrued expenses		13,424	9,064
Tax deducted at source		930	227
		140,760	54,414

		2004	2003
PROVISION FOR TAXATION - NET		(Rupees in thousand)	
Opening balance		19,731	12,053
Provision for current year	11.1	10,397	7,511
Provision for prior year		-	167
		10,397	7,678
Adjustment of advance tax during the year		-6,181	-
		23,947	19,731

		2004	2003
ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		(Rupees in thousand)	
Advances (considered good)			
- Employees	18.1	222	475
- Suppliers		37,904	8,173
Security deposits		73	361
Income Tax deducted at source		23,422	18,389
Prepayments		2,401	466
Sales tax refundable		30,892	16,132
Duty draw back receivable		9,857	1,278
Letters of credit		864	3,438
Excise duty refundable	12.3	4,310	-
Export quota		2,782	-
Others		737	696
		113,464	49,408

CASH AND BANK BALANCES			
Cash in hand		572	417
With banks in current accounts		5,441	7,277
		6,013	7,694

SALES - NET			
Local			
- Yarn		1,006,029	919,711
- Fabric		240,953	231,075
		1,246,982	1,150,786
Export			
- Yarn		187,414	63,144
- Fabric		602,603	224,763
		790,017	287,907
Wastes		25,436	10,110
Rebate on export		17,007	7,625
		2,079,442	1,456,428
Less:			
Export development surcharge		-2,020	-704
Commission to selling agents		-16,883	-7,724

	2004	2003
	2,060,539	1,448,000
	2004	2003
	(Rupees in thousand)	
CAPITAL WORK-IN-PROGRESS		
Building	23,066	6,732
Plant and machinery	273,080	93,599
Electric installation	404	327
	296,550	100,658
STORES, SPARES AND LOOSE TOOLS		
Stores	11,258	10,569
Spares	9,163	7,781
Loose tools	194	212
	20,615	18,562
STOCK IN TRADE		
Raw materials	174,877	24,169
Work-in-process	28,207	18,485
Finished goods:		
- In hand	75,427	50,427
- In transit	19,341	10
	94,768	50,437
Wastes	1,583	1,128
Trial run stock		
- Work in process	-	1,046
- Finished goods	-	8,118
- Wastes	-	32
	-	9,196
	299,435	103,415
TRADE DEBTS		
Local debts (Unsecured - considered good)	31,172	36,262
Foreign debts (Secured - considered good)	45,356	13,912
	76,528	50,174
	2004	2003
	(Rupees in thousand)	
ADMINISTRATIVE AND GENERAL		
Salaries, wages and other benefits	22.1	18,816
Travelling and conveyance		2,446
Repairs and maintenance		256
Rent, rates and taxes		68
Printing and stationery		1,157
Insurance		758
Fee and subscription		397
Postage, telephone and telex		1,573
Vehicles running and maintenance		3,421
Utilities		758
Advertisement		103
Books and periodicals		18
Auditors' remuneration	22.2	175
Legal and professional charges		514
Corporate asset tax		-
Entertainment		578
Depreciation	13.2	2,156
Miscellaneous		261
		33,455
		30,854
22.2 Auditors' remuneration		
Statutory audit		110
Limited scope review and review of		
Code of Corporate Governance		50
Out of pocket expenses		15
		175
		150
23. SELLING AND DISTRIBUTION		
Carriage and freight - export		26,089
Carriage and freight - local		81
Export expenses		3,991
Samples		773
		30,934
		9,496
24. OTHER (LOSS)/INCOME		
(Loss)/gain on disposal of operating fixed assets		-56,516
Sale of scrap		3,305
Commercial doubling		512
Others		-
		-52,699
		4,501
21. COST OF SALES		
	2004	2003
	(Rupees in thousand)	
Raw materials consumed	21.1	1,557,808
Salaries, wages and other benefits	21.2	75,898
Fuel and power		195,790
Packing materials consumed		21,787
		1,021,941
		62,175
		167,102
		16,479

Sizing materials consumed		30,404	15,817
Stores and spares consumed		40,054	36,414
Insurance		2,454	2,483
Depreciation	13.2	123,473	129,525
Other manufacturing expenses		1,578	1,683
		2,049,246	1,453,619
Opening work in process		19,532	11,529
Closing work in process		-28,207	-18,485
		-8,675	-6,956
Cost of goods manufactured		2,040,571	1,446,663
Opening finished goods		59,715	39,071
Closing finished goods		-96,351	-51,565
		-36,636	-12,494
		2,003,935	1,434,169
21.1 Raw materials consumed			
Opening stock		24,169	19,231
Purchases		1,708,516	1,026,879
		1,732,685	1,046,110
Closing stock		-174,877	-24,169
		1,557,808	1,021,941

2004 2003
(Rupees in thousand)

Purchase of electricity		196,827	170,745
Purchase of raw material		97,833	51,027

PLANT CAPACITY AND PRODUCTION

		2004	2003
SPINNING			
No. of spindles installed		45,912	45,912
No. of spindles worked		45,912	45,912
No. of shifts		3	3
1 00% plant capacity converted into			
20/S count based on three shifts per day	(Kgs.)	19,953,608	17,863,215
Actual production of yarn converted into			
20/S count based on three shifts per day	(Kgs.)	19,411,767	17,811,058
WEAVING			
No. of looms installed		119	108
No. of looms worked		119	108
No. of shifts		3	3
100% plant capacity at 40 picks			
based on three shifts per day	(Sq. Meters)	40,130,624	25,551,826
Actual production converted to 40 picks			
based on three shifts per day	(Sq. Meters)	33,084,943	23,771,966

2004 2003
(Rupees in thousand)

FINANCIAL CHARGES			
Interest / Mark up on:			
- Long term loans		11,521	11,200
- Short term finances		7,001	7,615
Bank charges and commission		5,538	2,852
		24,060	21,667
TAXATION			
Current			
- Current year		10,397	7,282
- Prior periods		-	169
		10,397	7,451
Deferred			
		-27,111	-67,535
		-16,714	-60,084

31.2 Risk management policies

31.2.1 Interest / mark up rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is exposed to interest rate risk in respect of long term loans and short-term running finance under mark-up arrangements. Effective interest rates for financial liabilities are mentioned in the respective notes to the accounts.

31.2.2 Concentration of credit risk and credit exposures of the financial statements

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. 88.373 million (2003: Rs. 59.890 million) the financial assets that are subject to credit risk amount to Rs. 87.801 million (2003: Rs. 59.473 million). The Company believes that it is not exposed to major concentration of credit risk. To manage exposure to credit risk, the Company applies credit limits to its customers.

37.2.3 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to sale and purchase transactions with foreign undertakings. The Company is exposed to foreign currency risk in respect of payables in foreign currency but it does not view hedging as being financially feasible owing to the excessive costs involved in relation to the amount at risk.

37.2.4 Fair value of the financial instruments

The carrying value of all the financial instruments reflected in the financial statements approximates to their fair values.

NUMBER OF EMPLOYEES	2004	2003
	Numbers	Numbers
Number of employees as at the year end	2,022	1,622

FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(Rupees in thousand)

	2004		Sub total	2003		Sub total	Total
	Interest/mark up bearing	Non interest bearing		Interest/mark up bearing	Non interest bearing		
	Maturity Upto one year	Maturity after one year		Maturity upto one year	Maturity after one year		
FINANCIAL ASSETS							
Long term security deposits	-	-	-	-	490	490	490
Trade debts	-	-	-	76,528	-	76,528	76,528
Advances, deposits and other receivables	-	-	-	5,342	-	5,342	5,342
Cash and bank balances	-	-	-	6,013	-	6,013	6,013
	-	-	-	87,883	490	88,373	88,373
FINANCIAL LIABILITIES							
Long term loans	52,500	408,975	461,475	-	-	-	461,475
Loan from directors	-	-	-	-	465,414	465,414	465,414
Deferred liabilities	-	-	-	-	100,491	100,491	100,491
Short term finances	292,763	-	292,763	-	-	-	292,763
Creditors, accrued and other liabilities	-	-	-	139,765	-	139,765	139,765
Unclaimed dividend	-	-	-	1,444	-	1,444	1,444
	345,263	408,975	754,238	141,209	565,905	707,114	1,461,352

(Rupees in thousand)

	2003		Sub total	2004		Sub total	Total
	Interest/mark up bearing	Non interest bearing		Interest/mark up bearing	Non interest bearing		
	Maturity Upto one year	Maturity after one year		Maturity upto one year	Maturity after one year		
FINANCIAL ASSETS							
Long term security deposits	-	-	-	-	490	490	490
Trade debts	-	-	-	50,174	-	50,174	50,174
Advances, deposits and other receivables	-	-	-	1,532	-	1,532	1,532
Cash and bank balances	-	-	-	7,694	-	7,694	7,694
	-	-	-	59,400	490	59,890	59,890
FINANCIAL LIABILITIES							
Long term loans	45,800	172,500	218,300	-	-	-	218,300
Loan from directors	-	-	-	-	420,414	420,414	420,414
Deferred liabilities	-	-	-	-	100,491	100,491	100,491
Short term finances	86,920	-	86,920	-	-	-	86,920
Creditors, accrued and other liabilities	-	-	-	47,420	-	47,420	47,420
Unclaimed dividend	-	-	-	1,453	-	1,453	1,453
	132,720	172,500	305,220	48,873	520,905	569,778	874,998