

MOHAMMAD FAROOQ TEXTILE MILLS LIMITED ANNUAL REPORT 2004

CHAIRMAN & CHIEF EXECUTIVE DIRECTORS	Mr. Mohammad Farooq Sumar Mr. Mohammad Mukhtar Sumar Mr. Muhammad Abdul Samad Ms. Sabiha Sumar Mr. Mohammad Iqbal Khan Mrs. Fahmida Rasheed Mr. Shahid Nazir Ahmed Mr. Agha Jamshed	(Representing NIT)
CHIEF FINANCIAL OFFICERS	Mr. Mohammad Iqbal Khan Mrs. Fahmida Rasheed Mr. Shahid Nazir Ahmed	(Chairman) (Member) (Member)
COMPANY SECRETARY	Mr. Mohammad Farooq Sumar Mr. Shehryar Sumar	(Chairman) (Member)
AUDIT COMMITTEE	Mr. Shahbaz Sumar Mr. Agha Jamshed	(Member) (Member)
EXECUTIVE COMMITTEE BUSINESS STRATEGY COMMITTEE	Mr. Mohammad Farooq Sumar Mr. Mohammad Iqbal Khan Mr. Agha Jamshed Mr. Burhanuddin Rajabali	(Chairman) (Member) (Member) (Member)
TEM & TECHNOLOGY COMMITTEE	Mr. Mohammad Iqbal Khan Mr. Burhanuddin Rajabali Mr. Intisar A. Tirmizi	(Chairman) (Member) (Member)
LEGAL ADVISERS EXTERNAL AUDITORS	Mohsin Tayebali & Co. A. F. Ferguson & Co. Chartered Accountants	
INTERNAL AUDITORS	M. Yousuf Adil Saleem & Co. Chartered Accountants	
BANKERS	Habib Bank Limited Muslim Commercial Bank Limited Union Bank Limited National Bank of Pakistan	
REGISTERED OFFICE	First Floor, Finlay House, I.I. Chundrigar Road, Karachi-74000	
HEAD OFFICE AND MILLS	PlotNos. 6&7, Sector 21, Korangi Industrial Area, Karachi-75180	

Directors' Report to the Shareholders

1. Your Directors have pleasure in presenting the Thirty-Ninth Annual Report and Audited Financial Statements for the year ended September 30, 2004 as under:

	(Rupees in '000)
Profit before taxation	15,933
Provision for taxation - Current year	-6,942
- Deferred	7,094
	152
Profit after taxation	16,085
Accumulated loss brought forward	-107,267
	-91,182
Transfer from surplus on revaluation of fixed assets	5,419
Accumulated loss carried forward	-85,763
Earnings per share	Rs. 0.85

The accompanying Chairman's review deals with the year's activities and the Directors of the Company endorse the contents of that Report.

The pattern of shareholding and key financial ratios are attached.
Statement in compliance of the Code of Corporate Governance:

The Board is committed to maintain the high standards of good corporate governance. The Company has been in compliance with the provisions set out by the Securities & Exchange Commission of Pakistan and accordingly amended listing rules of the Stock Exchanges.

There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

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

The Company has maintained proper books of account in accordance with the corporate requirement.

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

International Accounting Standards, as applicable in Pakistan, have been effectively implemented. The system of internal control is sound in design and has been effectively implemented and monitored. There is no doubt about the Company's ability to continue as a going concern.

Audit Committee was established to assist the Board in discharging its responsibilities for Corporate Governance, Financial Reporting and Corporate Control. The committee consists of three members including the Chairman of the committee, who is an Executive Director. The other two members are non-executive Directors.

The Audit Committee is responsible for reviewing reports of the Company's financial results, internal audit, and adherence to standards of the system of management control. The committee reviews the procedures for ensuring their

independence with respect to the services performed for the Company and makes recommendations to the Board of Directors.

The Executive Committee acts at the operating level in an advisory capacity to the CEO, providing recommendation relating to the business and other corporate affairs. The Committee has responsibility for reviewing and forwarding long-term plans, capital and revenue expense budget development and stewardship of business plans.

Two committees were established, viz, Business Strategy Committee and System & Technology Committee to assist the management of the Company in discharging its responsibilities in the relevant areas.

As a leading textile manufacturing company which is already certified as 150-9001:2000, reputation for high ethical standards is central to business success. Under the foregoing guideline, a Code of Business Principles has been developed, communicated and acknowledged by the Directors who are residing in Karachi and employees of the Company.

Communication with the shareholders is given a high priority. Annual, half yearly and quarterly reports are distributed to them within the time specified in the Companies Ordinance, 1984. The Company also has a web site (www.mohammadfarooq.com), which contains up to date information on group activities. There is also an opportunity for individual shareholders to attend and ask questions at the Annual General Meeting.

The shares of the Company are traded through CDC, which gives them the opportunity of obtaining online transfers and balances positions.

During the year, 4 meetings of the Board of Directors were held, attendance by each Director is as under:

	Number of meetings attended
Mr. Mohammad Farooq Sumar	4
Mrs. Fahmida Rasheed	3
Mr. Mohammad Iqbal Khan	4
Mr. Mohammad Ahsan Hafeez	3
Mr. Behram Hasan	2

The Directors do not recommend distribution of Dividend in view of non-availability of profit and inadequacy of cash flow.

5. As required by the Code of Corporate Governance, the Audit Committee of the Board has suggested the name of M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants, who retire and being eligible, offer themselves for reappointment.

6. Pursuant to CBR's SRO No. 684(1)72004 dated 10/08/2004 the Financial Year end has been changed from 30th September to 30th June effective from 2005. As a consequence next Accounting period will be of 9 months from 01/10/2004 to 30/06/2005.

SUMMARIZED
FINANCIAL
DATA PROFIT
& LOSS FOR

THE YEAR
ENDED
SEPTEMBER
30

Rupees in 000

	1999	2000	2001	2002	2003	2004
Turnover	848,082	890,698	1,025,434	1,074,469	1,067,346	990,337
Gross profit	133,871	173,664	200,819	177,762	183,477	171,584
Operating profit	77,535	108,854	119,412	91,961	85,517	57,093
Profit / (loss) after tax	-20,646	17,519	34,735	6,629	45,341	16,085
BALANCE SHEET AS AT SEPTEMBER 30						
Shareholders fund	188,892	188,892	188,892	188,892	188,892	188,892
Reserves (including surplus on revalu	33,767	51,286	81,067	87,696	113,081	447,647
Property, plant and equipments	552,402	530,575	532,585	543,511	509,643	943,441
Intangible assets & long term						
security deposit	1,311	15,868	16,950	12,642	10,068	3,276
Net current assets / liabilities	637	52,721	65,364	210	-17,711	-62,344
Long term /deferred liabilities	331,691	358,986	344,940	279,775	207,780	201,188

COST STRUCTURE

(Figures in thousand)

	1998-1999		1 999-2000		2000-2001		2001-2002		2002-2003		2003-2004	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Raw Materials	413,523	47.51	332,617	40.56	484,296	47.57	568,006	49.73	515,641	48.18	527,819	48.8
Raw Cotton & Fibre	179,232	20.59	121,027	14.76	176,132	17.3	150,714	13.2	159,785	14.93	208,909	19.31
(Quantity in Kgs)		-2,661		-2,574		-2,607		-2,609		-2,702		-2,419
Other Raw Material	234,291	26.92	211,590	25.8	308,164	30.27	417,292	36.53	355,856	33.25	318,910	29.49
Conversion Cost	425,056	48.83	449,801	54.86	485,050	47.64	521,802	45.69	497,483	46.48	484,802	44.82
Wages & Salaries	103,795	11.92	110,267	13.45	122,835	12.07	135,092	11.83	138,810	12.97	146,232	13.52
Store Consumption	43,793	5.03	50,352	6.14	54,814	5.38	55,794	4.88	54,144	5.06	52,731	4.88
Depreciation	44,426	5.1	42,084	5.13	40,188	3.95	39,249	3.44	39,960	3.73	37,025	3.42
Fuel & Power	98,450	11.31	116,369	14.19	135,408	13.3	151,630	13.28	137,960	12.89	134,112	12.4
Other Manufacturing Expenses	14,708	1.69	16,453	2.01	17,850	1.75	23,692	2.07	23,770	2.22	25,760	2.38
Financial Expenses	94,875	10.9	85,513	10.43	78,901	7.75	81,898	7.17	59,932	5.6	41,704	3.85
Administration Expenses	24,509	2.82	27,214	3.32	32,590	3.2	33,417	2.93	40,822	3.81	45,517	4.21
Other Charges	500	0.06	1,549	0.19	2,464	0.24	1,030	0.09	2,085	0.2	1,721	0.16
Selling/Distribution Expenses	31,827	3.66	37,596	4.58	48,817	4.79	52,384	4.58	57,138	5.34	68,974	6.38
(a) Freight	7,910	0.91	8,218	1	10,061	0.99	8,272	0.72	7,826	0.73	4,959	0.46
(b) Others	23,917	2.75	29,378	3.58	38,756	3.8	44,112	3.86	49,312	4.61	64,015	5.92
Total	870,406	100	820,014	100	1,018,163	100	1,142,192	100	1,070,262	100	1,081,595	100

Pattern of Shareholding
as at September 30, 2004

D. of Sharehold

Shareholding	Total Shares
90S 1 to 100	26126
563 101 to 500	155661
222 501 to 1000	165122
301 1001 to 5000	716013
55 5001 to 10000	385712
14 10001 to 15000	168505
13 15001 to 20000	245735
5 20001 to 25000	1 18749
6 25001 to 30000	160019
2 30001 to 35000	63500
1 35001 to 40000	39000
1 40001 to 45000	41000
5 45001 to 50000	242259
1 50001 to 55000	53000
1 55001 to 60000	57682
60001 to 65000	-
1 65001 to 70000	70000 66656
- 70001 to 75000	-
1 75001 to 80000	75630
80001 to 85000	-
2 85001 to 90000	172175
2 90001 to 95000	189429
95001 to 100000	-
2 100001 to 105000	205908
105001 to 1 1 0000	-
1 1 10001 to 1 1 5000	112894
1 1 15001 to 120000	1 17229

2	120001	to	125000	245500
2	125001	to	130000	253695
-	130001	to	135000	-
1	135001	to	140000	135500
	140001	to	195000	-
1	195001	to	200000	200000
-	200001	to	220000	-
1	220001	to	225000	223960
	225001	to	260000	-
1	260001	to	265000	262121
-	265001	to	360000	-
1	360001	to	365000	364000
	365001	to	375000	-
1	375001	to	380000	375452
	380001	to	815000	-
1	815001	to	820000	819105
	820001	to	920000	-
1	920001	to	925000	921376
-	925001	to	970000	-
1	970001	to	975000	970967
-	975001	to	3775000	-
1	3775001	to	3780000	3776617
-	3780001	to	6760000	-
1	6760001	to	6765000	6762948
2123				18889245

Categories of Shareholders	Number	Shares Held	Percentage
Individuals	2,073	6,482,700	34.32
Joint Stock Companies	33	6,909,480	36.58
Banks & Financial Institutions	7	4,046,257	21.42
Modarabas Companies	2	49,245	0.26
Investment Company	1	204	0
Insurance Companies	2	1,195,256	6.33
Foreign Investors (Non-Resident)	2	183	0
Others:			
Corporate Law Authority	1	1	0
Trusts	2	205,919	1.09
	2,123	18,889,245	100

KEY FINANCIAL RATIOS AT SEPTEMBER 30

	1999	2000	2001	2002	2003	2004
Cost of sales as %age of sales	% 84.21	80.5	80.42	83.46	82.81	82.67
Gross Profit as %age of sales	% 15.79	19.5	19.58	16.54	17.19	17.33
Operating Profit as %age of sales	% 9.15	12.22	11.64	8.56	8.02	5.77
Net pre tax Profit / (loss) as %	% 1.93	2.47	3.99	1.21	2.32	1.61
Net pre tax Profit / ge of						
Capital employed	% 2.96	3.67	6.66	2.33	4.85	1.8
Current Ratio	50:50	53:47	53:47	50:50	49:51	48:52
Stock as %age of sales	% 33.57	25.82	26.71	33.37	34.86	48:96
Debtors as %age of sales	% 10.58	14.49	12.59	11.82	15.14	15.12
Gearing Ratio (Debt Equity Ratio)	60:40	60:40	56:44	50:50	41:59	24:76
Total Debt Assets Ratio	40:60	43:57	43:57	39:61	36:64	23:77
Total Assets Turnover Ratio	Times 0.81	0.86	0.94	0.92	0.9	0.58
Price earning Ratio	Times 6.4	5.66	1.36	11.54	3.02	8.71
Interest cover Ratio	Times 0.78	1.2	1.44	1.08	1.76	1.39
Market value per share	Rs. 7	5.25	2.5	4.05	7.25	7.4
Break up value of shares	Rs. 11.79	12.72	14.29	14.64	15.99	33.7

PROFIT & LOSS ACCOUNT COMPARISON AS PERCENTAGE OF SALES

	1 998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Net sales (Rupees in thousand)	848,082	890,698	1,025,434	1,074,469	1,067,346	990,337
(in terms of percentage)	100	100	100	100	100	100
Cost of sales	% 84.21	80.5	80.42	83.46	82.81	82.67
GROSS PROFIT	% 15.79	19.5	19.58	16.54	17.19	17.33
Administration Expenses	% 2.89	3.06	3.18	3.11	3.82	4.6
Selling Expenses	% 3.75	4.22	4.76	4.87	5.35	6.96
	6.64	7.28	7.94	7.98	9.17	11.56
OPERATING PROFIT	% 9.15	12.22	11.64	8.56	8.02	5.77
Other Income	% 0.17	0.02	0.28	0.37	0.12	0.23

Other Charges	%	(0.06)	(0.17)	(0.24)	(0.10)	(0.20)	(0.18)
		0.11	(0.15)	0.04	0.27	(0.08)	0.05
		9.26	12.07	11.68	8.83	7.94	5.82
Financial Charges	%	11.19	9.6	7.69	7.62	5.62	4.21
NET PRE TAX PROFIT /(LOSS)	%	(1.93)	2.47	3.99	1.21	2.32	1.61
TAXATION	%	(0.50)	(0.50)	(0.60)	(0.59)	1.93	0.02
PROFIT /(LOSS) AFTERTAX	%	(2.43)	1.97	3.39	0.62	4.25	1.63

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 No. 37 of listing regulations of Karachi Stock Exchange and Chapter XIII of the listing regulations of Lahore Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes five non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DPI or an NBF1.
4. The casual vacancy arising in the Board of Directors during the year was duly filled within the time allowed by the Code of Corporate Governance.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors who are residing in Karachi and employees of the Company.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the C EO 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 meetings, 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 Board arranges orientation courses for its directors to apprise them of their duties and responsibilities.
10. The Board has approved appointment of CFO and, Company Secretary and including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by 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 shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises three members, of whom two are non-executive directors.

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 MOHAMMAD FAROOQ TEXTILE MILLS LIMITED to comply with the Listing Regulation of the Karachi and Lahore Stock Exchanges (Guarantee) Limited where the Company is listed.

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

Company to comply with the Code.

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, as applicable to the Company for the year ended September 30, 2004.

The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

The Board has outsourced the internal auditor who are 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 and minor children do not hold shares of the Company and that the firm and all its partners 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.

We confirm that all other material principles contained in the Code have been complied with.

Balance Sheet as

	Note	2004 (Rupees in '000)	2003
Share Capital			
Authorised 25,000,000 Ordinary Shares of Rs.10/= each		250,000	250,000
Issued, subscribed and paid up	4	188,892	11,188,892
Capital reserve - share premium		42,749	42,749
Accumulated loss		-85,763	-107,267
		145,878	124,374
Surplus on Revaluation of Fixed Assets	5	490,661	177,599
Long Term Loans	6	187,688	198,925
Liabilities Against Assets Subject to			
Finance Lease	7	6,711	3,476
Deferred Liability - Staff Gratuity	8	6,789	5,379
Deferred Tax Liability	9	46,646	
Curren Liabilities			
Finances under markup arrangements	10	517,609	1,447,592
Current portion of long term liabilities	11	86,492	77,138
Creditors, accrued and other liabilities	12	208,372	153,730
		812,473	678,460
Contingency and Commitments	13		
		1,696,846	1,188,213

Auditors' Report to the Members

We have audited the annexed balance sheet of MOHAMMAD FAROOQ TEXTILE MILLS LIMITED as at September 30, 2004 and the related profit' and loss account, cash flow statement and statement of changes in equity together with the 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, 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 these respectively give a true and fair view of the state of the Company's affairs as at September 30, 2004 and of the profit, 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.

Profit and Loss

Account

For the year ended September 30, 2004

	Note	2004	2003 (Rupees in '000)
Sales	22	990,337	11,067,346
Cost of Goods Sold	23	818,753	883,869
Gross Profit		171,584	183,477
Administration expenses	24	45,517	40,822
Selling expenses	25	68,974	57,138
		114,491	97,960
Operating Profit		57,093	85,517
Other income	26	2,265	1,241
Other charges	27	-1,721	-2,085
		544	-844
Profit Before Tax and Financial Charges		57,637	184,673
Financial charges	28	41,704	59,932
Profit Before Taxation		15,933	24,741
Provision for Taxation			
Current year	29	-6,942	1(7,109)
Deferred tax	29	7,094	27,709
		152	20,600
Profit After Taxation		16,085	45,341
Accumulated loss brought forward		-107,267	-210,763
		-91,182	-165,422
Appropriation			
Transferred from surplus on revaluation of fixed assets			56,256
Current year		5,419	5,996
Prior years		-	52,159
		5,419	58,155
Accumulated Loss Carried Forward		-85,763	-107,267
Earnings Per Share	30	0.85	2.4

The annexed notes from 1 to 36 form an integral part of these financial statements.

at September 30, 2004

	Note	2004	2003
		(Rupees in '000)	
Fixed capital expenditure			
Property, Plant and equipment	14	859,218	509,643
Capital work in progress	15	84,223	1,509,643
Intangible Asset	16	-	7,062
Deferred Tax Assets	9	-	7,753
Long Term Security deposits		3,276	3,006
Current Assets			
Stores, spares and accessories	17	60,108	162,660
Stock in trade	18	484,851	372,036
Trade debts	19	149,703	161,635

Advances, deposits, prepayments and other receivables	20 21	54,557 910	59,366 5,052
Cash and bank balances			

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

	Share capital (Rupees in '000)	Share premium	Accumulated loss	Total
Balance as at October 01 , 2002	188,892	42,749	-210,763	20,878
Profit after taxation for the year ended September 30, 2003			45,341	45,341
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation charged for the year			5,996	5,996
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation charged in prior years			52,159	52,159
Balance as at September 30, 2003	188,892	42,749	-107,267	124,374
Profit after taxation for the year ended September 30, 2004			16,085	16,085
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation charged for the year			5,419	5,419
Balance as at September 30,2004	188,892	42,749	-85,763	145,878

Cash Flow Statement
For the year ended September 30, 2004

	2004 (Rupees in '000)	2003
CASH FROM OPERATING ACTIVITIES		
Profit before taxation	15,933	24,741
Adjustments for :		
Depreciation	38,636	40,321
Amortization of intangible asset	9,588	5,650
Profit on sale of fixed assets	-801	-160
Financial charges	41,704	59,932
Provision for gratuity	1,648	1,697
	90,775	107,440
Operating cash flow before working capital changes	106,708	132,181
(Increase) / decrease in current assets		
Stores, spares and accessories	2,552	4,774
Stock in trade	-112,815	-13,502
Trade debts	11,932	-34,648
Advances, deposits, prepayments and other receivables	4,165	-766
	-94,166	-44,142
Increase/(decrease) in current liabilities		
Creditors, accrued and other liabilities	52,550	-7,571
Cash generated from operations	65,092	80,468
Financial charges paid	-39,611	-59,870
Taxes paid	-7,690	-8,335
Gratuity paid	-238	-192
	-47,539	-68,397
Net cash inflow from operating activities	17,553	12,071
B. CASH FROM INVESTING ACTIVITIES		
Fixed capital expenditure	-92,758	-11,395
Sale proceeds of fixed assets	1,099	5,102
Intangible asset	-1,134	-
Long term security deposits	-270	-374
Net cash outflow from investing activities	-93,063	-6,667
C. CASH FROM FINANCING ACTIVITIES		
Long term loans - net	-3,324	-66,516
Dividend paid	(D)	-99
Leased liabilities - net	4,676	3,662
Net cash inflow/ (outflow) from financing activities	1,351	-62,953
Net increase / (decrease) in cash and cash equivalents (A+B+C)	-74,159	-57,549
Short term finances less cash and bank balances at beginning of the year	-442,540	-384,991
Short term finances less cash and bank balances at end of the year	-516,699	-442,540

Deferred tax liability is generally recognized for all taxable temporary differences. Deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax loss and tax credit can be utilized.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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

3.4 Property, Plant and Equipment and Depreciation

Owned

Property, Plant and Equipment except leasehold land are stated at cost or revalued amount less accumulated depreciation and impairment loss, if any. Leasehold land is stated at revalued amount.

Depreciation is charged to profit and loss account on reducing balance method at the rates shown in note 14 to the financial statements.

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed these estimated recoverable amounts, assets are written down to their recoverable amounts.

Full year's depreciation is charged on additions during the year except in case of significant additions whereby the depreciation is charged with reference to the date of commercial use of such assets. No depreciation is charged on fixed assets disposed or retired during the year.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and replacements are deferred and written off equally over a period of three years, including the year in which they are incurred.

Gains and losses on disposal of property, plant and equipment, if any, are included in current income.

Capital work in progress is stated at cost, which includes borrowing cost incurred for financing the assets during the construction period.

Leased

Depreciation on assets under finance lease is charged at the rates specified in the note 14 to the financial statements to depreciate the assets over its estimated useful life.

3.5 Leases

Finance Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Notes to the Financial Statements

For the year ended September 30, 2004

1. THE COMPANY AND ITS OPERATIONS

Mohammad Farooq Textile Mills Limited (the Company) was incorporated in Pakistan in 1966 as a public limited company and its shares are listed on the Karachi and Lahore Stock Exchanges. The principal activity of the Company is manufacturing, processing and sales of textile products.

2. 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 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 the said directives take the precedence.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting Conventions

These financial statements have been prepared under 'historical cost convention', except that certain fixed assets have been included at revaluation.

3.2 Staff Retirement Benefits
Defined Benefit Plan

The Company operates an unfunded gratuity scheme covering unionised employees. Provision is made annually to cover the liability under the scheme. The management is of the view that carrying amount of liability recognized at the balance sheet date is not less than the amount required to settle the liability.

Defined Contribution Plan

The Company operates defined contribution plan (i.e., recognized provident fund scheme) for those employees who are not covered by the gratuity scheme. Equal monthly contributions at the rate of 8.33% of the basic salary are made to the fund both by the Company and employees. The assets of the fund are held separately under the control of trustees.

3.3 Taxation
Current

Provision for current taxation is the higher of the amount computed on taxable income at the current tax rates and minimum tax computed at the prescribed rate on sales net of sales tax.

Deferred

Deferred tax is provided using the liability method on all temporary differences, at the balance sheet date, between the tax basis of assets and liabilities and their carrying amount for financial statements reporting purposes.

Long term loans

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

3.12 Transaction with Related Parties

All dealings with related parties are priced on arm length basis determined in accordance with comparable uncontrolled price method.

3.13 Impairment

The carrying amount of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of asset, if any such indication exist, the relevant amount of that asset is estimated and impairment losses are recognised in the profit and loss account.

3.14 Revenue Recognition

Revenue from sale of goods and services is recognised on despatch of goods and rendering of services to customers as the case may be.

4. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

	2003	2004	2004	2003
No. of shares			(Rupees in '000)	
	11,222,685	11,222,685	112,226	112,226
	7,666,560	7,666,560	76,666	76,666
	18,889,245	18,889,245	188,892	188,892

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

3.6 Intangible Asset

Cost associated with the purchase of export quota are capitalized as Intangible Assets. These costs are amortized over a maximum period of five years from the date of incurrence. The carrying value of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

3.7 Stores, Spares and Accessories

Stores, spares and accessories are stated at weighted average cost. Items in transit are stated at cost accumulated to the balance sheet date.

3.8 Stocks-In-Trade

Stocks of raw material are stated at cost. Finished goods are valued at lower of weighted average cost and net realisable value. Work-in-process is valued at weighted average cost. Cost in relation to work-in-process and finished goods represents direct cost of materials, direct labour and appropriate manufacturing overheads. Goods in transit are valued at cost accumulated to the balance sheet date.

Net realizable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and cost necessary to make the sale.

3.9 Foreign Currency Transactions

Transactions in foreign currencies are initially recorded at the rates of exchange ruling on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into rupees at the exchange rates prevailing on the balance sheet date. In order to hedge its exposure to foreign exchange risks, the company enters into forward exchange contracts. Such transactions are translated at contracted rates. Exchange differences on foreign currency transactions are included in profit and loss account along with related hedge effects, if any.

3.10 Provision

Provisions are recognised 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 will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

3.11 Financial instruments

Trade debts

Trade debts are recognised and carried at original invoice amount. Bad debts are written off when identified.

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.

LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2004 Minimum lease payment (Rupees in '000)	Present value	2003 Minimum lease payment	Present value
Within one year	3,010	2,355	1,254	936
After one year but not more than five years	7,503	6,711	3,921	3,454
Total minimum lease payment	10,513	9,066	5,175	4,390
Less: Amount representing finance charges	1,447	-	785	-
Present value of minimum lease payments	9,066	9,066	4,390	4,390
Less: Payable within one year shown under current liabilities	2,355	2,355	914	914
	6,711	6,711	3,476	3,476

DEFERRED LIABILITY

Provision for gratuity

	2004 (Rupees in '000)	2003
Balance at beginning	5,379	3,874
Add: Provision for the year	1,648	1,697
	7,027	5,571
Less: Payments during the year	238	192
Balance at end	6,789	5,379
DEFERRED TAX LIABILITY / (ASSET)		
Surplus on revaluation of fixed assets	81,449	19,956
Tax depreciation allowance	5,674	13,214
Provision for post retirement benefits	-2,376	-1,883
Carry forward tax losses	-38,101	-39,040
	29	-34,803

SURPLUS ON REVALUATION OF FIXED ASSETS

	2004 (Rupees in '000)	2003
Opening balance	197,555	255,710
Addition during the year	379,974	-
	577,529	255,710

Transferred to profit & loss account due to realisation during the year through incremental depreciation

- Current year		5,419	5,996
- Prior years		-	52,159
		5,419	58,155
		572,110	197,555
Less: Related deferred tax liability	9	-81,449	-19,956
		490,661	177,599

LONG TERM LOANS

From banking companies			
Secured		80,087	127,253
Demand Finance 1		49,339	78,397
Demand Finance 2		72,900	-
Demand Finance 3		69,499	69,499
Capitalized Mark-up		271,825	275,149
Less: Payable within one year		84,137	76,224
shown under current liabilities	11	187,688	198,925

3. CONTINGENCY AND COMMITMENTS

		2004	2003
		(Rupees in '000)	
Contingent liabilities			
Claims not acknowledged as debt by the Company		600	500
Commitments			
Capital commitments			
Letters of credit opened by bank for machinery		171,344	
Other commitments			
Letters of credit opened by bank for raw materials and spares		8,983	2,758
Lease rentals payable on assets held under operating lease			
- up to one year		3,919	5,227
- more than one year		4,219	8,439

FINANCES UNDER MARK-UP ARRANGEMENTS

		2004	2003
		(Rupees in '000)	
Secured			
From banking companies		91,309	36,292
Running finance		413,000	398,000
Export refinance		13,300	13,300
Term finance		517,609	447,592

CURRENT PORTION OF LONG TERM LIABILITIES

Long term loans	6	84,137	76,224
Lease financing	7	2,355	914
		86,492	77,138

CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors	12.1	172,309	116,894
Foreign bills payable under letters of credit		1,440	1,473
Accrued expenses		27,069	29,383
Workers' profit participation fund	12.2	985	1,414
Mark-up / interest on secured borrowings		4,671	2,578
Unclaimed dividend		478	479
Suppliers tax payable		701	921
Payable to staff provident fund trust		695	588
Other		24	-
		208,372	153,730

Opening balance		1,414	1,005
Interest on fund utilised in Company's business		125	85
		1,539	1,090
Allocation for the year		839	1,307
		2,378	2,397
Paid to the fund		-1,393	-983
		985	1,414

(Rupees in '000)

		Cost	Accumulated depreciation	Written down value
Land		1,725	-	1,725
Buildings		65,276	44,615	20,661

Plant and Machinery	774,580	537,290	237,290
	841,581	581,905	259,676

14.2 Depreciation charged for the year has been allocated as follows:

	2004	2003
	(Rupees in '000)	
Cost of sales	37,025	39,960
Administration expenses	1,611	360
Selling expenses	-	1
	38,636	40,321

	2004	2003
	(Rupees in '000)	

ADVANCES, DEPOSITS, PREPAYMENTS

AND OTHER RECEIVABLES	1,279	1,351
Considered good	2,445	347
Advances	3,724	1,698
Advances to employees	14,684	13,936
Advances to suppliers	19,039	23,269

Trade deposits	1,746	1,871
Prepayments	1,794	2,016
Current portion of intangible asset	16	4,258
Other receivables	9,312	8,883
Duty drawback	20.1	14,684
Income Tax recoverable	19,039	23,269
Sales Tax recoverable	-	2,043
Other	43,035	48,131
	54,557	59,366

20.1 Income Tax Recoverable

Taxes paid	21,626	27,342
Less: Provision for taxation	-6,942	-13,406
	14,684	13,936

CASH AND BANK BALANCES

Cash in hand	12	6
Cash at banks	898	5,046
In current accounts	910	5,052

SALES - NET

Yarn and fabrics	22.1	928,726	947,627
Export		34,585	92,052
Local		18,293	18,125
Duty drawback		9,750	11,748
Cotton waste		1,554	737
Cloth processing		992,908	1,070,289
		2,448	2,659
Less: Export duty and surcharge		123	284
Commission and brokerage		2,571	2,943
		990,337	1,067,346

	2004	2003
	(Rupees in '000)	

1.5. CAPITAL WORK IN PROGRESS

Plant and machinery	83,543	-
Civil work	680	-
	84,223	-

16. INTANGIBLE ASSET

Export quota - at cost		
Opening Balance	28,978	28,978
Purchased during the year	1,134	-
	30,112	28,978
Amortization		
- Opening balance	-16,266	-10,616
- During the year	-9,588	-5,650
	-25,854	-16,266
	4,258	12,712
Current portion of (20)	-4,258	-5,650
	-	7,062

The amortization is included in selling expenses

17. STORES, SPARES AND ACCESSORIES		
Stores	125	291
Spares and accessories	55,525	60,084
Spares in transit	4,458	2,285
	60,108	62,660
18. STOCK IN TRADE		
Raw and packaging materials	45,286	38,928
Raw materials in transit	7,875	6,344
Work in process	19,140	16,992
Finished goods		
-Yarn	8,956	22,810
- Grey cloth	90,976	92,815
- Finished fabric	280,130	187,371
- Stitched articles	32,488	6,776
	412,550	309,772
	484,851	372,036
19. TRADE DEBTS		
Considered good	112,230	119,437
Secured	37,473	42,198
Unsecured	149,703	161,635

2004 2003
(Rupees in '000)

SELLING EXPENSES		
Freight	4,959	7,826
Forwarding, transportation and insurance	7,722	7,491
Bank collection charges	7,561	6,382
Advertising and sales promotion	34,123	23,975
Display center including depreciation	1,987	1,737
Other	12,622	9,727
	68,974	57,138

OTHER INCOME		
Profit on sale of fixed assets	801	160
Sales of scrap	963	1,027
Other	501	54
	2,265	1,241

OTHER CHARGES		
Auditors remuneration	365	175
Expenses on promotion of education	260	-
Workers' profit participation fund	839	1,307
Donations	257	603
	1,721	2,085

27.1 Auditors Remuneration		
Audit fee	175	175
Fee for review of interim financial statements and code of Corporate Governance for the years 2002-03 and 2003-04	190	-
	365	175

27.2 No Director and his spouse had any interest in the donees fund.

FINANCIAL CHARGES		
Mark-up / interest on long term loans	17,765	30,500
Mark-up / interest on short term borrowings	21,306	27,381
Finance charges on leased assets	498	62
Bank guarantee commission and other charges	2,135	1,989
	41,704	59,932

2004 2003
(Rupees in '000)

23. COST OF GOODS SOLD		
Raw and packaging materials consumed		
Opening stock	38,928	43,437
Purchases	360,985	316,823
	399,913	360,260
Closing stock	-45,286	-38,928
	354,627	321,332
Insurance claim	-383	-9,821
	354,244	311,511
Yarn and cloth purchases and service charges	173,575	204,130
Manufacturing expenses		
Salaries, wages and benefits	23.1	146,232
Stores, spares and accessories	52,731	54,144
Fuel and power	134,112	137,960

Rent, rates and taxes	1,490	1,437
Vehicles running	3,072	2,880
Rental of leased assets	1,918	1,959
Insurance	5,118	4,917
Repairs and maintenance	8,592	7,405
Communication and stationery	1,754	1,898
Depreciation	37,025	39,960
Other	3,816	3,274
	395,860	394,644
Work in process	16,992	17,544
Opening stock	-19,140	-16,992
Closing stock	-2,148	552
	921,531	910,837
Cost of goods manufactured	309,772	282,804
Finished goods	-412,550	-309,772
Opening stock	-102,778	-26,968
Closing stock	818,753	883,869

ADMINISTRATION EXPENSES

Salaries and benefits	24.1	26,174	22,631
Utilities		337	341
Rent, rates and taxes		516	516
Rental of leased assets		2,794	2,736
Repairs and maintenance		413	429
Vehicles running		2,564	2,111
Travelling		81	32
Conveyance and entertainment		801	789
Communication and stationery		3,245	3,500
Legal and professional		6,137	6,576
Advertisement		83	47
Subscription and periodicals		570	571
Depreciation		1,611	360
Other		191	183
		45,517	40,822

(Rupees in '000)

	Chief Executive	Directors		Executives		
	2004	2003	2004	2003	2004	2003
Managerial remuneration	2,550	2,340	3,504	3,771	12,474	28,752
Retirement benefits	-	-	282	290	618	1,649
House rent and utilities	1,216	936	2,137	2,115	5,496	12,199
Telephone	22	26	-	-	-	-
	3,788	3,302	6,023	6,176	18,588	42,600
Number of persons	1	1	2	2	15	92

32. RELATED PARTY TRANSACTIONS

(Rupees in '000)

Name of related party	Nature of relationship	Nature of transaction	Transaction value 2004	Transaction value 2003
Textile Managements (Pvt) Ltd	Common directorship	Sale fabric	31,051	44,079
A.K. Tex	Common directorship	services	5,209	4,964

TAXATION

Current

The assessment of the Company is finalised under presumptive tax regime U/S 169 of Income Tax Ordinance 2001 whereby tax is calculated on the basis of export proceeds.

Deferred

Based on the projections, the management feels it is possible that taxable profits for the foreseeable future will be available against which the carry forward tax losses will be utilized. Accordingly, a deferred tax asset of Rs. 34.803 million has been recognized in these financial statements.

For the assessment year 2002 - 2003 department has wrongly allocated excess unabsorbed brought forward depreciation to export sales (presumptive scheme). An appeal was filed with the Commissioner of Income Tax (A) which was decided in the favour of tax department. An appeal had been filed against the decision of CIT (A) in Income Tax Appellate Tribunal (ITAT). Hearing has been held and the management is of the view that ITAT will decide the case in favour of the Company.

	2004 (Rupees in '000)	2003
Tax depreciation allowance	-5,674	-13,214
Provision for post retirement benefits	2,376	1,883
Carry forward tax losses	38,101	39,040
	34,803	27,709
Less: Provided upto 30-09-2003	-27,709	-
	7,094	27,709

EARNINGS PER SHARE

There is no dilutive effect in the basic earnings per share of the Company which is based on:

	2004	2003
Profit after taxation (Rs. '000)	16,085	45,341
Number of ordinary shares	18,889,245	18,889,245
Earnings per share (Rs.)	0.85	2.4

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. To manage exposure to credit risk, the Company applies credit limit to its customers.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is however exposed to interest rate risk in case of bank borrowings. The rate of interest / mark-up and their maturities are given in the respective notes.

Fair Values of Financial Instruments

The carrying value of all the financial instruments reported in the financial statements approximates their fair value.

Liquidity Risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company's management closely monitors the Company's liquidity and cash flow position.

Foreign Exchange Risk

Foreign exchange risk arises mainly due to conversion of foreign currency assets and liabilities into local currency. The Company is not materially exposed to foreign currency risk on assets and liabilities.

35. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on December 22, 2004 by the Board of Directors of the Company.

36. GENERAL

Number of permanent employees at the end of the year was 941 (2003: 937)

PRODUCTION CAPACITY	2004	2003
Total number of spindles available for production	12,584	12,584
Total number of spindles worked during the year	12,584	12,584
Plant rated capacity of yarn of operating spindles after conversion into 20/s count (Kgs)	2,327,496	2,327,496
Actual production of yarn after conversion into 20/s count (Kgs)	2,442,892	2,576,474
Production of yarn average count 25.84 (2003: 26. 26) (Kgs)	1,891,119	2,038,483
Number of shifts worked per day	Three	Three
Plant rated capacity of fabrics (Sq. Mtrs)	16,479,374	16,479,374
Actual production of fabrics (Sq. Mtrs)	16,656,553	16,999,617

	Interest Bearing Maturity upto one year	Maturity after one year	Non-Interest Bearing Maturity upto one year	Maturity after one year	Total 2004 (Rupees in '000)	Total 2003
Financial assets						
Long term security deposits	-	-	-	3,276	3,276	3,006
Trade debts	-	-	149,703	-	149,703	161,635

Advances, deposits & other receivables	-	-	14,782		14,782	14,495
Cash and bank	-	-	165,395	3,276	168,671	184,188
Financial liabilities	84,137	118,189	-	69,499	271,825	275,149
Long term loans						
Liabilities against assets subject to finance lease	2,355	6,711	-	-	9,066	4,390
Finances under mark-up arrangements	517,609	-	-	-	517,609	447,592
Creditors, accrued charges & other liabilities	985	-	206,686	-	207,671	152,809
	605,086	124,900	206,686	69,499	1,006,171	879,940