KASHMIR POLYTEX LIMITED

ANNUAL REPORT 2004

COMPANY PROFILE

Board of Directors

Mr. Mohammad Ashraf Khan	Chief Executive / Director
Mr. Mushtaq Ahmed	Director
Dr. Mrs. Yasmin Ashraf	Director
Mr. Mohammad Younus Khan	Director
Mrs. Hareem Ara Hashmi	Director
Mr. Mohammad Akram	Director
Mr. Shahid Mahmood	Director (I.C.P. Nominee)

Company Secretary / CFO:
Mr. Shoaib Abdullah

Audit Committee:

Mr. Younus Khan	Chairman
Dr. Mrs. Yasmeen Ashraf	Director
Mr. Mushtaq Ahmed	Director

Registered Office:
Plot A/8-11, Industrial Estate, Mirpur, A.K.

Liaison Office:
501, Fifth Floor, Business Avenue, Main Shahrah-e-Faisal, Karachi.

Factories:
i) Plot* A/8-11, Industrial Estate, Mirpur, A.K.
ii) Plot* 190, Phase-Ill, Industrial Estate,
Gadoon Amazai, N.W.F.P.

Auditors:
M/s. Khalid Majid Rehman Sarfraz Rahim Iqbal Rafiq

Legal Advisor:
Yousuf Ali Advocate

Bankers:
National Bank of Pakistan.
Bank AI-Habib Limited.
PICIC Commercial Bank.

CHAIRMAN / DIRECTOR REPORT

The Directors take pleasure in presenting the 21st Annual Report together with the Company's Financial Statement for the year ended June 30, 2004 and the Auditor's Report thereon.

Financial Review

The Company registered sales of Rs. 188.753 million as compared to Rs. 143.545 million in the preceding year. The Company suffered operational profit of Rs. 85,028 after accounting for all the charges including depreciation of Rs.12.717 million, After tax loss stands at Rs. 858,736. However after accounting for incremental depreciation on revaluation of fixed assets to the tune of Rs.44.088 million the accumulated losses of the company lowered to Rs.201.798 million (2003:245.028 millions - restated)

During the year Company exports were increased to US$ 2.346 million, as compared to last year export of US$ 2.175 million. Similarly local sale has been increased to Rs, 56.156 million as compared to last year local sale of Rs.20.875 million (increased by 169%). Major share in-the local sale was supply of bags to Pakistan PTA (ICI Pakistan). The Company has successfully followed the requirements of the new local customers and orders from them are in pipeline.

During the year Company obtained the ISO certification. Your company has been achieved Quality Award 9001:2000. This is a big award for the company and in the present circumstances. During the year the company has been awarded Export Trophy award by Sarhad Chamber Of Commerce and Industry. All this happen due to the continues and dedicated efforts of the management and employees of the Company.

The increase in cost of imported and local material put the extra burden on the manufacturing cost lowering the gross profit. Your management has been able to cut the administrative expenses by 5.13 %, but increase the ocean freight by 5% on account of war risk surcharge and GRI. diluted the cut in administrative expenses resulting the operational loss.

Operating Results		Restated
	2004	**2003**
	Rupees	**Rupees**
Operational Profit/(Loss) before tax	85,028	6,209,672
Provision for Taxation	943,764	—
Accumulated Loss brought Forward	201,798,408	245,027,672

Payments to the Banks

During the year the company has paid to the financial Institutions as follows:-

PICIC	Rs.3.600	million
ICP	Rs.3.800	million
Bank Al Habib	Rs. 3.116	million

Loss per share

The loss per share for the period under review is 0.12 as compared to loss of Rs.0.87 in the preceding year.

Significant Plans and Decisions

During the period under review the management has tried to attract the foreign and local investors, which was not materialized and generate the interest due to the high-accumulated debt of banking sector.

The management is negotiating the Banks and financial institutions for settlement of liabilities under circular 29 of SEP. The other impediment is the limited production capacity constraint, which remains dependent on the availability of long term financing, BMP and working capital facility. The financing from the banking and non banking sources was again not available due to heavy debt burden, otherwise the Company would have been able to achieve better results with the marketing collaboration of M/s Storsack UK as the demand of FIBCS is substantially growing and company faces no problem in marketing of its products..

The management has chalked out an expansion plan of Gadoon unit and for this purpose negotiations with banks and investors are in progress.

Auditors' report to the members

Our Auditors' M/s. Khalid Majid Rehman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants, have highlighted certain matters in their report to the members on the financial statement for the year under review, The respective explanations are as under:

1 .The Auditors have made emphasis of matters on the indicators as shown in the Note 1 .2 to the financial statement which raising doubt that the company will be able to continue as going concern. However, the management is confident that the company will be able to continue as going concern since the process of settlement of long term loans with NBP under SBP circular 29 and IDBP under CRSIU recommendations is in progress and settlement is expected in the current financial year. The management is confident that the settled liabilities shall be paid out of company's cash flow through operational activities.

The management also negotiating with foreign and local investors for the expansion of Gadoon unit resulting optimum capacity utilization, which enable the management to generate addition cash flow for which the company have substantial export orders available with the support of M/s. Storsack UK Limited. Hence, these financial statement have been prepared on the basis of going concern assumptions.

2. As pointed out by the Auditors' in respect of fresh revaluation of fixed assets of Mirpur Plant, the management will consider the same in the current financial year to account for any impairment arise from the closure of the Mirpur plant and to adjust the relevant amount of surplus on revaluation of fixed assets, which was credited in the year 1 999 on the basis of revaluation.

3. The actuarial valuation of Employees gratuity has not been carried out due to financial constraints however, this will be carried out during the current financial year.

Auditors

The present Auditors M/s Khalid Majid Rehman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants as Auditors retire and being eligible have offered themselves as Auditors of the Company for the Financial year 2004-2005.

Statement of Corporate Financial Reporting Frame work

a. The financial statement prepared by the management of the Company, presents fairly its state of affairs, the results of its operations, cash flows and change in equity.

b. Proper books of accounts of the Company have been maintained.

c. Appropriate accounting policies have been consistently applied in the preparation of financial statement except as disclosed in Note 2.7 to the financial statement. Accounting estimates are based on reasonable and prudent judgment.

d. International accounting standard, as applicable in Pakistan have been followed in preparation of financial statement and any departure there from if any, has been disclosed adequately.

e. The management is in process to strengthen the accounting and internal control system by establishment an adequate Internal Audit department which will continuously review the existing system for improving any weakness found in it.

f . The going concern assumption is discussed and has been disclosed in the Notes 1 .2 of the financial statements.

g. Theretias been no material departure from the best practices of corporate governance as detailed in the listed regulations except as disclosed in the statement of compliance with the code of corporate governance.

h. Key operating and financial data for the last six years'in summarized form is annexed.

i. In view of the accumulated losses sustained up to the date of balance sheet and loss for the current year, the Company not declared the dividend during the year.

j. Outstanding taxes and levies:
Please refer to Note - 9 to the annexed financial statement.

k. Meetings of the Board Of Directors:

Five meeting of the Board of Directors Of the Company were held during the year.Mr.Mushtaq Ahmed was appointed as Director in place of Mr.Farooq Khan whose post was vacated under section 188 (b) of the company Ordinance 1984.

Attendance of the Directors are given hereunder:

Name of Directors:		No. of Meetina a
Mr.Mohammad Ashraf Khan	/5	
Mr.Farooq Khan	/5	
Dr. Yasmin Ashraf	/5	
Mr.Mohammad Younus Khan	/5	
Mr.Mohammad Akram	/5	
Mst Hareem Ara Hashmi	/5	
Mr.Shahzad Akram	/5	
Mr.Mushtaq Ahmed	/5	
Mr.Shahid Mahmood (ICP Nominee)	/5	

a.The pattern of share holding is enclosed with financial statement

b. During the year under review no trading in shares of the Company held by the Directors and their spouses has been made.

The Market & Future Prospects

The company exports has shown significant increase over the last year figures. In addition to existing exports, the company has explored new markets in Europe and Africa and exports to these countries shall be started in the current financial year. At present company has substantial exports orders in hand and huge export orders are in pipeline.

Local market is also full of potentials and company has successfully completed quality trial of renowned industrial group and regular supply shall be started during October 2004. To achieve the export and local sale targets, Company is working on expansion plan for optimum utilization of its production capacity.

Audit Committee

In compliance with the Code of Corporate Governance, the Board of Directors has reconstituted the Audit Committee and following are the Audit Committee members.

Mr.Mohammad Younus Khan	Chairman
Mrs.Dr Yasmin Ashraf	Member
Mr.Mushtaq Ahmed	Member
Mr.Shoaib Abdullah	Secretary

Acknowledgements

I would like to express our gratitude for the support and cooperation of Company's employees, M/s. Storsack UK limited, our customers, shareholders, suppliers and financial institutions.

VISION STATEMENT

To expand our market in the area where PP FIBC bags are not available and fill the gaps in those areas. Increase awareness of our Company among the local and international markets by producing and supplying the quality products and furthure improve quality standards.

Mission Statement

Our mission is to exceed the expectations of our customers, producing quality PP products with efficiency, employing international best practices and applying an integrated approach to product research and development, manufacturing technology, operations management, material procurement, financial management and information systems."

Strategic Goals:

a. Achieving customer satisfaction by manufacturing quality products, timely management of deliveries and after sales support.

b. Ensuring Quality manufacturing by producing international quality standard plastic products at competitive prices.

c. Expanding customer base by exploring new national and international markets and undertaking product research and development in plastic products as well as our own market requirement.

d. Ensuring efficient resource management by managing human, financial, technical and infrastructure! resources to support the above strategic goals and to ensure highest possible value addition to stakeholders.

Core Values:

1 .Striving for continuous improvement and innovation with commitment and responsibility;
2. Treating stakeholders with respect, courtesy and competence;
3. Practicing highest personal and professional integrity;
4. Maintaining teamwork, trust and support, with open and candid communication;
5. Ensuring cost consciousness in all decision and operations.

STATEMENT OF COMPLIANCE WITH
THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulation 37 of Karachi and 43 of Lahore Stock Exchanges 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. Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes all independent non-executive directors except for the Chief Executive.

2. The Directors have confirmed that none of them is serving as directors in more than ten listed companies, including this Company.

3. All the residents directors of the Company are registered as taxpayer and none of them has defaulted in payment of any loan to a banking company, a DPI or an NBFL or, being a member of a stock exchange, has been declared as a defaulter by the stock exchange.

4. A casual vacancy occurring in the Board on April 29, 2004, was filled up by the directors, within one day thereof.

5. The Company is in the development phase of "Statement of Ethics and Business Practices", which would be assigned by all the Directors and employees of the Company.

6. The Board has a vision / mission statement. Overall strategy is at work and significant policies of the Company are being followed in letter and spirit. However, the same are being formalized in the form of policy manuals.

7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO.

8. All the five meetings of the Board held during the year were presided over by the Chairman. Written notices of the Board meetings including the four quarterly meetings, alongwith agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.

9. The directors have been provided with copies of the Listing Regulations of the Karachi and Lahore

Stock Exchanges Company's Memorandum and Articles of Association and the Code of Corporate Governance and they are well conversant with their duties and responsibilities.

10. During the year there was no new appointment of Company Secretary and CF.O. However, the

appointment of head of internal audit including its remuneration and terms and conditions shall be approved by the Board of Directors in the new year.

11. The directors' report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any Interest In the shares of the Company other

than that disclosed In the pattern of shareholding.

14. The company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has reconstituted an audit committee, It comprises three members, Including the chairman, of the committee and all are non executive directors.

16. Four quarterly meetings of the audit committee were held during the year prior to approval of Interim and final results of the company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board is In the process to setup an effective Internal audit function by appointing a competent

head of Internal audit who will be a suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company and they are Involved In the Internal audit function on a full time basis.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firms, 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 the Institute of Chartered Accountants of Pakistan.

19. 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 guide lines In this regard.

20. We confirm that all other material principles contained in the Code have been complied with except as explained above.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of Kashmir Polytex Limited as at June 30, 2004 and the related Profit & Loss Account, Cash Flow Statement, and Statement of Changes in Equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

1 . The company's financial statements reflect loss of Rs.0.859 million (2003:Rs.6.210 million) for the year, and as at the date of balance sheet its accumulated losses amounted to Rs.201.798 million (2003: Rs. 245.028 million) which has resulted in net capital deficiency of Rs.123.698 million (2003: Rs.166.928 million). Its other manufacturing facility at Mirpur Azad Jammu & Kashmir is closed since 1999. Included in long-term

loan liabilities an amount of Rs.1 13.009 million due to NBP and IDBP which is overdue and pending for rescheduling/restructuring with the financial institutions. These conditions alongwith those referred in note 1 to the financial statements indicate the existence of a material uncertainty, which cast doubt on the Company's ability to continue as a going concern. No adjustments have been made in the financial statements that may be required should the company be unable to continue as a going concern.

2. As referred to in note 1 and 11 to the financial statements, the plant at Mirpur is shutdown since the year 1999. The fixed assets of the company includes revalued amount of the plant as determined by a valuer in the year 1 999 before it was shutdown. As such the fair value of the said plant requires determination through fresh valuation. Pending such determination the existing value and the amount of surplus on revaluation relating to the said plant have not been adjusted in the annexed financial statements to reflect these at their fair values (refer note 4).

3. The actuarial valuation for Employees' Gratuity has not been carried out in accordance with IAS-1 9. This standard requires that an enterprise should carry out an actuarial valuation for adequate provision in its books in respect of ah un-funded gratuity scheme.

(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, except for the change referred to in note 2.7 to the financial statements;

(ii) the expenditure incurred during the year was for the purpose of the company's business; and the business conducted, investment 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, except for the effect of the matters stated in para 1 to 3 above and in notes 2.7 and 10 to the financial statements and to the extent to which these may affect the financial results of the company, the Balance Sheet, Profit & Loss Account, Cash Flow Statement and Statement of Changes in Equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2004 and of the loss, its cash flows and changes in equity for the year then ended; and

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

The financial statements for the year ended June 30, 2003 were audited by another firm of Chartered Accountants, who expressed an unqualified opinion in their report dated September 20, 2003.

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATION 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 KASHMIR POLYTEX LIMITED comply with the Listing Regulation of the respective Stock Exchanges 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 understandings 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, except for the deviations appearing against serial No. 5 10 & 17 of the statement of compliance with the Code of Corporate Governance nothing has come to our attention which cause us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respect with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2004.

BALANCE SHEET

EQUITY AND LIABILITIES	**Note**	**2004 Rupees**	**2003 Rupees Restated**
SHARE CAPITAL AND RESERVES			
CAPITAL AUTHORIZED			
7,500,000 Ordinary Shares of Rs. 10/- each	3	75,000,000	75,000,000
Issued, Subscribed & Paid up		71,000,000	71,000,000
GENERAL RESERVE		7,100,000	7,100,000
ACCUMULATED (LOSS)		-201,798,408	-245,027,672
		-123,698,408	-166,927,672
SURPLUS ON REVALUATION OF FIXED ASSETS	4	52,332,000	96,420,000
SUBORDINATED LOANS UNSECURED	5	40,000,000	40,000,000
LONG TERM LOAN - SECURED	6	197,430,819	196,481,000
DEFERRED LIABILITIES	7	3,063,759	2,879,000
CURRENT LIABILITIES			
Current Portion of Long Term Loans		27,284,960	38*775,000
Short Term Finance	8	31,867,822	19,295,000
Creditors, Accrued and Other Liabilities	9	54,110,014	49,126,000
Provision for Taxation	10	943,764	—
		114,206,560	107,196,000
CONTINGENCIES & COMMITMENTS		—	—
		283,334,730	276,048,328

PROPERTY AND ASSETS	**Note**	**2004 Rupees**	**2003 Rupees** Restated
OPERATING FIXED ASSETS - TANGIBLE	11	160,880,325	172,785,000
LONG - TERM DEPOSITS		740,193	740,000
CURRENT ASSETS			
Stores, Spares and Loose Tools	12	10,617,114	8,871,000
Stores - in - Trade	13	79,170,364	58,412,000
Trade Debtors - Unsecured			
Considered Goods		3,913,164	5,723,000
Advances, Deposits, Prepayments	14		
and Other Receivables		25,062,289	28,958,328
Cash and Bank Balance	15	2,951,281	559,000
		121,714,212	102,523,328

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

	Note	**2004**	**2003**

	Note	Rupees	Rupees
			Restated
Net sales	16	188,752,763	143,545,000
Cost of Sales	17	-150,056,155	-108,443,000
Gross Profit		38,696,608	35,102,000
OPERATING EXPENSES			
General Administrative Exp.	18	-19,125,059	-20,128,000
Selling and distrubition	19	-19,314,618	-17,613,000
		-38,439,677	-37,741,000
OPERATING PROFIT / (LOSS)		256,931	-2,639,000
Financial charges	20	-3,737,738	-3,549,000
Other Charges	21	-2,444	-5,555,672
Other Income	22	3,568,279	49,000
		-171,903	-9,055,672
Profit / (Loss) before Taxation			
		85,028	-11,694,672
Prior Year's Adjustment	23	—	5,485.00
		85,028	-6,209,672
TAXATION:			
- Current		-943,764	—
LOSS AFTER TAXATION		-858,736	-6,209,672
Transfer from surplus on revaluation of fixed assets			
- Prior		42,372,000	—
- Current		1,716,000	—
		44,088,000	—
		43,229,264	-6,209,672
Accumulated Loss brought Forward		-245,027,672	-238,818,000
ACCUMULATED LOSS CARRIED FORWARD		-201,798,408	-245,027,672
(Loss) Per Share	24	-0.12	-0.87

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2004

	Note	**2004**	**2003**
		Rupees	**Rupees**
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / (Loss) before taxation		85,028	-6,209,672
Gain on sale of vehicle		-57,852	—
Depreciation		12,717,149	13,984,000
Financial Charges		3,737,738	3,549,000
Provision for Gratuity		389,760	357,000
Loss on foreign currency exchange		2,444	—
Other charges		—	5,555,672
		16,789,239	23,445,672
Operating profit before working capital changes		16,874,267	17,236,000
CHANGE IN WORKING CAPITAL			
(increase) / Decrease in Current Assets			
Stores Spares & Loss Tools		-1,746,114	504,000
Stock in Trade		-20,758,364	-4,951,000
Trade Debtors		1,809,836	-5,250,000

Advances, Deposits, Prepayments & Other Receivables	4,828,778	6,762,672
	-15,865,864	-2,934,328
INCREASE / (DECREASE) IN CURRENT LIABILITIES		
Short Term Bank Borrowing	12,572,822	2,121,000
Creditors, Accrued Liabilities & Other Payables	4,984,014	8,011,000
	17,556,836	10,132,000
Cash Generated from Operating Activities	18,565,239	24,433,672
Financial Charges Paid	-3,616,792	-2,750,000
Taxed Paid	-1,131,768	-576,672
Gratuity Paid	-127,589	—
	-4,876,149	-3,326,672
Net Cash Generated from Operating Activities	13,689,090	21,107,000
CASH FLOW FROM INVESTING ACTIVITIES		
Cash received from sale of vehicle	68,852	—
Capital Expenditure	-821,440	(1,414,000
Net Cash used in Investing Activities	-756,588	-1,414,000
CASH FLOW FROM FINANCING ACTIVITIES		
Adjustment on Rescheduling of Loans	—	-5,777,000
Long term loans - net	-10,540,221	-14,723,000
Net Cash Generated / (Used) from Financing Activities	-10,540,221	(20,50,000)
Total Cash Generated / (Used) During the Year	2,392,281	-807,000
Cash and Cash Equivalent at the beginning of the year	559,000	1,366,000
Cash and Cash Equivalent at the end of the year	2,951,281	559,000

The annexed notes from 1 to 33 form an integral part of these accounts

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

STATUS AND NATURE OF BUSINESS

1.1 The Company was incorporated in Azad Jammu & Kashmir on February 06, 1984 as a public limited company under the Companies Ordinance, 1 984 and is quoted at Karachi and Lahore Stock Exchanges. The registered office of the Company is situated in the province of Azad Jammu & Kashmir at Plot No. A/8-11, Industrial Estate, Mirpur-AJK. The Company is having two plants one at Mirpur, Azad Kashmir and the other at Gadoon Amazai, NWFP and is principally engaged in the business of manufacturing and sale of Polypropylene FIBC bags and other related products. The Mirpur plant is closed since May, 1999.

1.2 The accumulated losses on the date of balance sheet is amounting to Rs. 201.798 millions (2003: Rs. 245.028 millions) which resulted in net capital deficiency of Rs. 123.698 millions (2003: Rs. 166.928 millions).

The total outstanding liabilities on account of long term loans due to financial institutions amounted to Rs. 224.71 6 millions at the balance sheet date. Some of the financial institutions have already restructured/rescheduled the liabilities of the Company amounting to Rs. 1 1 1 .706 millions as per the recommendation of the CRSIU given in its meeting held on August, 2000 or in terms of SBP Circular 29. The amount due to NBP is currently in the process of settlement in terms of SBP Circular 29, whereas, the Company is expecting that IDBP would follow the recommendation of CRSIU in due course of time.

The Mirpur Plant could not be re-started as planned owing to the delay iri settlement of liabilities with some financial institutions. The management is making all out efforts for a negotiated settlement with the concerned financial institutions and hope that these shall materialize by the mid of next year. It shall then take up the matter with foreign investors who were willing to place orders to utilize the capacity of the said plant.

During the year Company has achieved the capacity utilization upto 85% of the installed capacity of Gadoon plant as compared to 65% in corresponding period. The local sales as well as export sales has been increased during the year by Rs. 35.281 millions (169%) and Rs. 9.955 millions (8%), respectively. The Company has drawn up a plan to further explore its export market and to increase its share in the local market. It expects to capitalize on its state of the art Polypropylene FIBC manufacturing facility of world class standard which is unique in Pakistan and on its past performance which has won Export Trophy Award from FPCCI in the category of "Export of non-traditional items" so as to fulfill its available and sizable local and export orders in the coming months and to start functioning as a profitable unit in consistency and to be able to pay gradually its liabilities from its earnings.

These financial statements have hence been prepared on the basis of going concern assumption.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards except the valuation of stores & spares(refer note 2.7), as applicable in Pakistan and the requirements of the Companies Ordinance, 1 984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1 984. Wherever, the requirements of the Companies Ordinance, 1 984 or directives msm Issued by the Securities & 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.

Accounting Convention

These financial statements have been prepared under the historical cost convention, except that certain fixed assets have been Included at revalued amounts.

Employees' retirement benefit

The Company operates an unfunded gratuity scheme covering all Its permanent employees & management staff who have completed prescribed qualifying period of service. Provision Is made annually to cover obligations under the scheme on the basis of one gross salary prevailing at the closing month of the year.

Taxation

Current

Provision for current taxation is based on the taxable Income for the year determined in accordance with the prevailing law for taxation of income. The charge of current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also indicates adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

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

Operating fixed assets

- Owned assets

These are stated at cost less accumulated depreciation and impairment loss, if any, except for certain fixed assets that are shown at revalued amounts. Depreciation charge Is based on written down value method at the rates specified In fixed asset schedule. Depreciation on additions are charged from the month in which the asset is put to use and on disposals up to the month of

disposal.
Incremental depreciation charged for the period on revalued assets is transferred from surplus on revaluation of fixed assets to retained earnings during the current year.
Maintenance and normal repairs are charged to income as and when incurred; major renewals and improvements are capitalized and the assets so replaced, if any, are retired.
Gains and losses on disposal of assets are taken to profit and loss account.
Borrowing cost
The borrowing cost is charged to income as and when incurred.
Store, spares & loose tools
These are valued on moving average cost. Items In transit are-valued at cost comprising invoice values and other charges paid thereon up to the balance sheet date.

During the year Company has charged consumption of stores and spares on an estimated quarterly basis instead of on moving average basis in accordance with its accounting policy. The company is taking necessary steps to be able to record transaction and charge as per its accounting policy. The effect of the departure from the policy is not ascertainable.

2.8 Stock in trade

These are valued at lower of cost and net realizable value. The.cost is computed by using the following methods:

Raw and packing material At moving average cost

Work in process At average material cost including direct

Labour and proportionate manufacturing overheads.

Finished goods At actual manufacturing cost.

Items in-transit are valued at cost comprising invoice values plus other charges incurred thereon up to the date of balance sheet.

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

2.9 Trade debts

These are stated at net of provision for doubtful debts. Known bad debts are written off and provision is made against the debts considered doubtful.

2.10 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise of cash and bank balances.

2.11 Foreign Currency Translation

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

2.12 Financial instruments

All the financial assets and liabilities are recognized at that time when the company becomes a party to the contractual provisions of the instrument. Any gain or loss on the recognition and derecognition of the financial assets and liabilities is included in the income currently.

2.13 Provisions

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

2.14 Offsetting of financial assets and financial liabilities

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

2.15 Impairments of assets

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

2.16 Revenue recognition

Sales are recorded on dispatch of goods to the customers.

2.17 Segment reporting

Segmentation is based on geographical basis. Administration and selling expenses are allocated on the basis of net sales value of each segment.

	2004 Rupees	**2003 Rupees**
3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL		
7,100,000 (2003 - 7100,000) Ordinary Shares of Rs. 10/= each fully paid in cash.	71,000,000	71 ,000,000
4. SURPLUS ON REVALUATION OF FIXED ASSETS		
Movement in the surplus on revaluation of assets account as follows:		
Balance as at July 01	96,420,000	96,420,000
Less Transfer to equity on account of		

incremental depreciation charged in prior year	-42,372,000	—
	54,048,000	96,420,000
Less: Transfer to equity on account of		
incremental depreciation charged in current year	-1,716,000	—
Balance as at June 30	52,332,000	96,420,000

6. LONG TERM LOANS - SECURED

	LED Consortium	NBP	BANK AL HABIB	IDBP
Opening balance	71,688,000	11,767,561	66,106,000	38,792,000
Paid during the year	-3,600,040	-3,824,460	-	-3,116,282
	68,087,960	7,943,101	66,106,000	35,675,718
Current portion transferred to current liabilities	(19,356^60)	-3,528,000		-4,400,000
	48,731,000	4,415,101	66,106.00	31,275,718
Installment payment rest	Monthly	Quarterly	Pending	Quarterly
No. of installment	73	9	.'	32
Installment amount	932,712	882568	-	1,100,000
Principal (Rupees in million)	89.21 1	12.5	70.391	44.688
Rate of interest per annum	-	-	-	-
Sub note number	6.1	6.2	6.3	6.4

This represents loan for Machinery and is secured by first charge on fixed assets of the company. This loan was rescheduled/restructured in the year 2000-2001 as per recommendation of the Committee for Revival of Sick Industrial Units (CRSIU). The loan is to be repaid in ten years on zero mark up basis. The first installment commenced from July 2001.

This represents financing against TFC's under ICP Led Consortium for Gadoon plant and is secured by pari pasu charge on fixed assets of the company. This loan has been restructured/ rescheduled during the year on zero markup basis under SBP Circular 29 dated October 15, 2002 and is to be repaid in twelve quarterly installments commenced from September 2003.

This loan is secured against second charge on fixed assets and hypothecation of stock and collateral mortgage of private properties. This loan is pending with SBP Dispute Resolution Committee for final settlement under SBP Circular 29 dated October 15,2002. Current maturity shall be reflected on the basis of repayment schedule agreed upon in the settlement.

This loan is secured against second charge on fixed assets and hypothecation of stock and collateral mortgage of private properties. This loan was rescheduled/restructured in the year 2000-2001 on zero markup basis as per recommendation of the Committee for Revival of Sick Industrial Units (CRSIU) and is to be repaid in forty installments commenced from January 2003.

This loan is secured against second charge on fixed assets and hypothecation of stock and collateral mortgage of private properties. IDBP has filed a suit in honourable Sindh High court for recovery of the outstanding amount. Leave to defend the suit has been filed and negotiations for out of court settlement is in final stage on the basis of CRSIU decision. Therefore, current maturity has not been accounted for.

	Note	2004 Rupees	2003 Rupees
7. DEFERRED LIABILITIES			
Gratuity		3,063,759	2,801,000
8. SHOT TERM FINANCE		—	1,915,000
From Bank under Mark up Agreement Secured		—	122,000
National Bank of Pakistan	8.1		
Cash Finance		14,405,000	4,000,000
FIM		5,630,397	4,375,000
Bank Al-Habib Limited	8.2	4,333,501	1,106,000
Export Refinance			
Bank Al-Habib - FE-25 Loan		7,498,924	7,499,000
Bank Al-Habib - TR Facility		—	278,000
PICIC Commercial Bank Limited	8.3	31,867,822	19,295,000
Export Re-Finance			
FIM			

This represents Export Re-Finance facility of Rs.14.405 million secured against export contracts and carrying mark-up at 3.5%(2003:3.5%) per annum. The second facility is Post Import Finance under F.E 25 loan scheme carrying markup 5%(2003:5%) per annum and TR facility on case to case basis on markup rate of 9% per annum. Bank Al-Habib is also providing sight L/CS facility on case to case basis.

This represents Export Re-Finance facility of Rs.7.5 million secured against export contracts and carrying mark-up at.3.5%(2003: 3.5%) per annum. The FIM facility has not been availed is in respect of import L/C's is to the extent of Rs.7 million, carrying markup @ 14% (2003:14%) per annum.

	2004 Rupees	2003 Rupees
CREDITORS, ACCRUED & OTHER		
Trade Creditors	49,401,759	45,091,812
Accrued Expenses	1,293,809	874,814
Sale Tax Payable	245,468	—
Other Payables	3,168,978	3,237,374
	54,110,014	49,204,000

CONTINGENCIES & COMMITMENTS

Contingencies

10.1 Excess custom duty amounting to Rs.465,000/- imposed by the Custom Authority on the over assessed value of imported material in the year 1989 has not been accounted for. The case is pending with the Appellate Collector of Customs, Karachi. The management considers that decision of the case would be in favour of the company.

1 0.2 Extra excise duty amounting to Rs. 1 7,445,1 28/- imposed by the Custom Authority on the imported material of Polypropylenes Strips @ Rs. 2.50 P/Kg, in the year 1 994-1 995, has not been accounted for. The case in pending with the Appellate Tribunal AJ & K Council, Muzaffarabad Azad Kashmir.

10.3 Settlement with ICP Consortium under SBP Circular 29 dated October 1 5, 2003 has resulted in remission of markup amounting to Rs.1 7.41 1 million subject to payment of settled amount within agreed time schedule.

	Note	2004 Rupees	2003 Rupees
12. STORES, SPARES AND LOOSE TOOLS			
Stores and spares		9,366,249	8,220,000
Loose tools		1,250,865	651,000
		10,617,114	8,871,000
13. STOCK IN TRADE			
Raw Material			
In bonded ware house		28,300,949	12,489,000
At Factory		32,413,735	33,040,000
In transit		3,100,000	7,000
		63,814,684	45,536,000
Work in Process		6,911,018	4,470,000
Finished Goods		8,444,662	8,406,000
		79,170,64	58,412,000
14. ADVANCES, DEPOSITS, PREPAYMENTS AND			
OTHER RECEIVABLES			
ADVANCES - Unsecured / Considered goods			
Against Land	14.1	2,174,208	2,174,000
To Contractors & Suppliers	21.1	6,853,764	9,725,328
To Staff		1,346,478	1 ,679,000
Income Tax / sales tax		10,202,118	12,108,000
		20,576,568	25,686,328
DEPOSITS			
Security Deposit		941,841	940,000
L/C. Margin		—	149,000
		941,841	1 ,089,000
OTHER RECEIVABLES			
Other		3,543,880	2,183,000
		25,062,289	28,958,328

14.1 This represent advance given for purchase of land in the year 2000. The management expect recovery of this advance considered good by June 30, 2005.

	Note	2004	2003
15. CASH AND BANK BALANCES			
Cash in Hand		185,900	356,000
Cash at Bank - current account		2,765,381	203,000
-		2,951,281	559,000

	Note	2004 Rupees	2003 Rupees
GENERAL ADMINISTRATIVE EXPENSES			
Salaries, Allowances & Benefits		5,495,329	5,134,000
Directors Remuneration	18.1	360,000	480,000
Rent, Rate & Taxes		945,977	877,000
Postage, Telephone & Telex		966,160	820,000
Conveyance & Travelling		449,529	-837,000
Entertainment		347,260	282,000

Printing & Stationery		343,162	275,000
Electricity		519,852	686,000
Vehicle Running Expenses		1,191,562	1,427,000
Insurance		6,183	511,000
Paper & Periodicals		42,470	29,000
Repair & Maintenance		759,239	519,000
Donations	18.3	241,050	188,000
Fee & Subscription		190,989	330,000
Guest House Expenses		11,148	2,000
Legal & Professional charges		230,500	463,000
Auditors Remuneration	18.4	110,000	80,000
Depreciation		5,924,355	6,494,000
Others		990,294	694,000
		19,125,059	20,128,000

18.1 It includes gratuity expense of Rs. 24,306.

18.2 Remuneration to Directors

	Chief Executive / Directors		Executive	
	2004	**2003**	**2004**	**2003**
Managerial remuner	240,000	240,000	531,084	485,632
House rent	70,000	108,000	216,480	196,027
Other /utility	50,000	132,000	603,012	55,767
	360,000	480,000	807,876	739,429
Numbers of persons	1	1	2	2

	Note	**2004 Rupees**	**2003 Rupees Restated**
SELLING & DISTRIBUTION			
Salaries Allowances & Benefits		100,076	94,000
Ocean Freight	21.1	17,794,478	16,948,000
Delivery Charges		870,495	76,000
Postage, Telephone & Telex		531	111,000
Conveyance & Travelling		—	1,000
Entertainment		—	3,000
Printing & Stationery		—	9,000
Others		549,038	331,000
Exhibition & Seminar		—	40,000
		19,314,618	17,613,000
FINANCIAL CHARGES			
Mark up on			
FIM		927,972	727,000
Cash Finance		323,004	233,000
Running Finance		63,017	179,000
Export Refinance		579,959	701,000
Bank Charges		1,562,249	1,555,000
Trust Receipt		281,537	154,000
		3,737,738	3,549,000

OTHER CHARGES

Loss on foreign currency translation		2,444	•
Written off advances & other receivables	21.1	—	5,555,672
		2,444	5,555,672

OTHER INCOME		
Freight subsidy	49,000	3,184,040
Export rebate	—	326,387
Gain on sale of fixed assets	—	57,852
	49,000	3,568,279
PRIOR YEAR'S ADJUSTMENT		
Custom duties	-292,000	—
Adjustment on rescheduling	5,777,000	—
	5,485,000	—

	2004 Rupees	**2003 Rupees**
LOSS PER SHARE		
Net Loss for the year	-858,736	-6,209,672
Weighted Average Number of Ordinary Shares	7,100,000	7,100,000
Loss per Share	-0.12	-0.87

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of all financial assets and financial liabilities are estimated to approximate their respective carrying amount.

FINANCIAL RISK MANAGEMENT OBJECTIVES

The company's activities expose it to a variety of financila risks, including the effect of changes in foreign exchange rates, credit and liquidity risk associated with various financial assets and liabilities respectively. The Company finances its operation through equity and management of working capital with a view to maintaining a reasonable mix between the various sources of finance to minimize risk. Taken as a whole, risk arising from the company's financial instruments is limited as there is no significant exposure to makret risk in respect of such instruments.

MARK-UP RATE RISK MANAGEMENT

Mark-up rate risk arises from the possibility that changes in interest / mark-up rates will effect the value of financial instruments. The company is monitors its exposure to fluctuation in mark-up rate and already appoached financial institution for reduction in these rates to balance the effect of any increase in the short term. The following table indicate their effective interest / mark-up at the balance sheet date and the periods in which they will re-price or mature:

CREDIT RISK MANAGEMENT

Credit risk represent the accounting loss that would be recognized at the reporting date if counterpart fail completely to perform as Contracted. Out of the total financial assets of Rs. 20,290,601 (2003: Rs.27,254,000) the financial assets which are subject to credit risk amounted to Rs. 313,724,610 (2003: Rs. 264,902,000). The company foresee that it is not expose to major concentration of credit risk. To manage exposure to credit risk the company applies restrictive credit period for its major customers

LIQUIDITY RISK MANAGEMENT

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facility. Company treasury aims at maintaining flexibility in funding by keeping committed credit line available.

FOREIGN EXCHANGE RISK MANAGEMENT

Foreign exchange risk arises mainly where receivable and payables exist due to transaction enter into foreign currencies. The Company expose to foreign currency risk on purchases and import of machinery that are entered in a currency other than local currency. The risk is not considered to be material in view of the amount of the transaction and relative stability of Pak. Rupees in exchange market.

	2004 Rupees	**2003 Rupees**
CAPACITY AND PRODUCTION		
Installed capacity	2,800	2,800
Actual production	1,340	1,038
Utilization %	48	37

The Installed capacity is based on 300 days, three shifts working per annum at 100% capacity operation. Gadoon Unit has been utilized up to 83.75% of its Capacity.

Decline in production due to shortage of working capital and closure of Mirpur Plant since May 1999.

NUMBER OF EMPLOYEES

Number of employees at the year end	246	242

GENERAL

Figures have been rounded off to the nearest rupee.

These financial statements have been authorized for issue on October 09, 2004, by the Board of

Directors of the Company.