

# Annual Report 2013

Shahzad Textile Mills Limited

The management system of

# Shahzad Textile Mills Limited

Head Office: 19-A, Off Zafar Ali Road, Gulberg - V,  
Lahore, Pakistan

has been assessed and certified as meeting the requirements of

## ISO 9001:2008

For the following activities

**The Scope of registration appears on page 2 of this certificate.**

Further clarifications regarding the scope of this certificate and the applicability of ISO 9001:2008 requirements may be obtained by consulting the organisation

This certificate is valid from 16 August 2011 until 15 August 2014  
and remains valid subject to satisfactory surveillance audits.  
Re certification audit due before 15 July 2014  
Issue 4. Certified since 16 August 2005

This is a multi-site certification.  
Additional site details are listed on the subsequent page.

Authorised by



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SGS United Kingdom Ltd Systems & Services Certification  
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## Shahzad Textile Mills Limited

### ISO 9001:2008



Issue 4

Detailed scope

### Manufacturing and Export of 100% Cotton, Blended, Pure Synthetic, Combed, Carded and Double Yarn

Further Clarifications regarding the scope of this certificate and the applicability of ISO 9001:2008 requirements may be obtained by consulting the organisation

Additional facilities

Site 01 : 34th Km, Sheikhupura Road,  
Sheikhupura, Pakistan  
Site 02 : 7th Km Sheikhupura- Faisalabad Road,  
Sheikhupura, Pakistan



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FOR THE YEAR ENDED JUNE 30, 2013

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## COMPANY INFORMATION

Board of Directors	Mian Parvez Aslam	Chairman
	Mr. Imran Aslam	Chief Executive
	Mrs. Nazish Imran	
	Mrs. Sara Irfan	
	Mr. Naveed Sheikh	
	Syed Raza Ali Bokhari	
	Mr. Humayun Bakht	
Chief Financial Officer	Mr. Humayun Bakht	
Company Secretary	Mr. Hassan-ud-Din Ansari	
Auditors	Horwath Hussain Chaudhry & Co. Chartered Accountants	
Audit Committee	Mr. Naveed Sheikh	Chairman
	Mrs. Nazish Imran	Member
	Syed Raza Ali Bokhari	Member
Human Resource & Remuneration Committee	Mr. Naveed Sheikh	Chairman
	Mr. Imran Aslam	Member
	Mrs. Nazish Imran	Member
Bankers	NIB Bank Ltd.	
	Habib Metropolitan Bank Ltd.	
	J S Bank Ltd.	
	National Bank of Pakistan	
	Bank Al- Falah (Islamic Banking)	
	United Bank Limited.	
Share Registrar	Hameed Majeed Associates (Pvt.) Ltd. H.M. House, 7- Bank Square, Lahore	
Registered Office	19-A Off. Zafar Ali Road, Gulberg-V, Lahore. Ph: +92 (42) 35754024-27 Fax: +92 (42) 35712313	
Mills	Units # 1,3 & 4	34th KM Lahore Sheikhpura Road, Sheikhpura
	Unit # 2	7th KM Sheikhpura Faisalabad Road, Sheikhpura.

## VISION STATEMENT

We aim at seeing our mills to be a model manufacturing unit producing high quality yarn by complying with the requirements of Quality Management System and continuously improving its effectiveness for total customers' satisfaction. We wish to play a leading role in the spinning sector by keeping a substantial presence in the export and local markets.

## MISSION STATEMENT

1. To install state of the art machinery and to acquire sophisticated process technology to achieve maximum growth in a competitive quality environment.
2. To make strenuous efforts to enhance profitability of the mills ensuring a fair return to the investors, shareholders and employees of the company.
3. To exercise maximum care for improvement of quality of our products by employing a team of highly skilled technicians and professional managers.
4. To strive hard to explore new customers for the sale of our products in export and local markets.
5. To improve customers' satisfaction level by adhering strictly to quality requirements of our customers in local and export markets and by improving communications with customers for receiving prompt feed backs about quality of our products.
6. To attend and prompt resolution of customers' quality complaints by taking timely corrective measures.
7. To improve logistic facilities for our customers dispatch programme and issue all shipments / delivery documents well in time.
8. To make comprehensive arrangements for the training of our workers / technicians.
9. To promote team work, sense of transparency, creativity in our professionals and technical people.

## STATEMENT OF ETHICS AND BUSINESS PRACTICES

Shahzad Textile Mills Limited has laid down the following business ethics and principles, the observance of which is compulsory for all the directors and staff members of the company in the conduct of company's business in order to protect and safeguard the reputation and integrity of the company at all levels of its operations. Any contravention of these ethics is regarded as misconduct. The company will ensure that all the executives and subordinate staff members are fully aware of these standards and principles.

**1. Conflict of interest**

All staff members are expected not to engage in any activity which can cause conflict between their personal interests and company's interests, such as:

- a. In effecting the purchases for the company and selling its products the directors and the staff members are forbidden from holding any personal interest in any organization supplying goods or services to the company or buying its products.
- b. The staff members should not engage in any outside business while serving the company.
- c. Staff members are not permitted to conduct personal business in company's premises or use company's facilities for the same.
- d. If a staff member has direct or indirect relationship with an outside organization dealing with the company he must disclose the same to the management.

**2. Confidentiality**

All staff members are required not to divulge any secrets / informations of the company to any outsider even after leaving the service of the company unless it is so required by a court of law. During the course of service in the company they should not disseminate any information relating to business secrets of the company without the consent of management.

**3. Kickbacks**

All staff members are strictly forbidden not to accept any favour, gifts or kick backs from any organization dealing with the company. In case if such a favour is considered, in the interest of the company, the same should be disclosed clearly to the management.

**4. Proper Books of Account**

All funds, receipts and disbursements should be properly recorded in the books of accounts of the company. No false or fictitious entries should be made or misleading statement pertaining to the company or its operations should be issued. All agreements with agents, dealers and consultants should be made in writing supported with required evidence.

**5. Relationship with government officials suppliers, agents etc.**

The dealings of the company with Government officials, suppliers, buyers, agents and consultants of the company should always be such that the integrity of the company and reputation is not damaged. Members having queries in connection with how to deal with these requirements should consult the management.

**6. Health and Safety**

Every staff member is required to take care of his health and safety and of those working with him. The management is responsible for keeping its staff members insured as per government rules and regulations.

**7. Environment**

To preserve and protect the environment all staff members are required to operate the company's facilities and processes so as to ensure maximum safety of the adjoining communities, and strive continuously to improve environmental awareness and protections.

**8. Alcohol, Drugs**

All types of gambling and betting at the company's work places are strictly forbidden. Also bringing alcohols or drugs inside the work places are not allowed. If any staff member, not abiding by these prohibitions will attract disciplinary as well as penal action.

**9. Coordination among staff members to maintain discipline**

All staff members will work in close coordination with their co-workers, seniors and colleagues. Every member will cooperate with other members so that the company's work could be carried out effectively and efficiently. All cases of non-cooperation among staff members should be reported to the management for necessary and suitable action. Strict disciplinary action will be taken against those staff members who violate the rules and regulations of the company.

**10. Workplace harassment**

All staff members will be provided an environment that is free from harassment and in which all employees are equally respected. Work place harassment means any action that creates an intimidating, hostile or offensive environment which may include sexual harassment, disparaging remarks based on gender, religious, race or ethnicity.



## SIX YEARS FINANCIAL SUMMARY

	2013	2012	2011	2010	2009	2008
	Rupees in Thousand					
Sales	4,977,944	4,172,217	4,513,244	3,116,385	2,223,397	1,190,419
Gross Profit	479,565	345,286	389,170	346,644	125,216	52,107
Profit/(Loss) before taxation	258,799	143,224	200,474	164,838	(55,491)	4,178
Provision for tax	8,889	(25,830)	(68,359)	(22,447)	(2,539)	(4,847)
Profit/(Loss) after taxation	267,688	117,394	132,115	142,391	(58,030)	(669)
Total Assets	2,463,687	2,127,009	1,971,948	1,857,692	1,675,246	1,146,849
Current liabilities	635,105	536,127	413,192	367,594	326,444	383,904
	<b>1,828,582</b>	<b>1,590,882</b>	<b>1,558,757</b>	<b>1,490,098</b>	<b>1,348,802</b>	<b>762,945</b>
Represented By :						
Equity & Surplus	1,505,947	1,218,474	1,108,167	981,374	798,867	504,919
Long Term Loans & leases	77,014	125,264	190,162	282,750	334,641	152,225
Deferred Liabilities	245,621	247,144	260,427	225,974	215,294	105,801
	<b>1,828,582</b>	<b>1,590,882</b>	<b>1,558,757</b>	<b>1,490,098</b>	<b>1,348,802</b>	<b>762,945</b>

Statement of Compliance with the Code of Corporate Governance (Appendix-B)  
[See clause (xl)]

Name of company **SHAHZAD TEXTILE MILLS LIMITED** Year Ending 30th June, 2013.

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No.35 of Listing Regulations of the 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 CCG in the following manner:

1. The company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category		Names
Independent Director	1.	Mr. Naveed Sheikh
Executive Directors	2.	Mr. Imran Aslam
-do-	3.	Mr. Humayun Bakht
Non Executive Directors	4.	Mian Parvez Aslam
-do-	5.	Syed Raza Ali Bokhari
-do-	6.	Mrs. Nazish Imran
-do-	7.	Mrs. Sara Irfan

The independent directors meets the criteria of independence under clause I (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven 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 DFI or an NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred on the board during the year. However, election of directors was held in the Extra-ordinary General Meeting held on 30th March, 2013.
5. The company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
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 CEO, other executive and non-executive directors, have been taken by the board/shareholders.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose 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. In accordance with the criteria specified on clause (xi) of CCG, Two of Directors of the Company are exempted from the requirement of Directors' training program, one director obtained the certification and rest of the Directors would be trained within due time.
10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The directors' report for the year has been prepared in compliance with the requirements of the CCG 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 CCG.
15. The board has formed an Audit Committee. It comprises three (3) members, of whom two (2) are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises three (3) members, of whom two (2) are non-executive directors and the chairman of the committee is an independent director.
18. The board has set up an effective internal audit function who is suitably experienced and is conversant with the policies and procedures of the Company. The internal audit function was duly reviewed and ratified by the Audit Committee and approved by the Board of Directors of the Company.

19. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, 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 the ICAP.
20. 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.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied.

Lahore  
Dated: September 23, 2013

**IMRAN ASLAM**  
Chief Executive

## 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 Shahzad Textile Mills Limited to comply with the Listing Regulation No. 35 of both the Karachi Stock Exchange and Lahore Stock Exchange, 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.

Further, Sub-Regulation (x) of Listing Regulations 35 of Karachi and Lahore Stock Exchanges requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2013.

**HORWATH HUSSAIN CHAUDHURY & CO.**  
Chartered Accountants

LAHORE

Dated: September 23, 2013

(Engagement Partner: Muhammad Nasir Muneer)

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Thirty Fifth Annual General Meeting of the Shareholders of **SHAHZAD TEXTILE MILLS LIMITED** will be held at Company's Registered Office, 19-A, Off. Zafar Ali Road, Gulberg-V, Lahore on Monday, October 21, 2013 at 12.15 p.m. to transact the following business:

**ORDINARY BUSINESS:**

1. To receive, consider and adopt the Audited Financial Statements of the Company for the year ended June 30, 2013 together with the Directors' and Auditors' Report thereon.
2. To approve and declare the payment of Final Cash Dividend @ 15.00% i.e. Rs.1.50 per share of Rs.10/- each as recommended by the Board of Directors.
3. To appoint auditors of the Company for the year ending June 30, 2014 and fix their remuneration. The present auditors M/s Horwath Hussain Chaudhry & Co., Chartered Accountants, retire and offer themselves for re-appointment.

**SPECIAL BUSINESS**

4. To consider and if deemed fit, to pass the following resolution, with or without modification, addition or deletion, as a Special Resolution in term of Section 208 of the Companies Ordinance, 1984.

"RESOLVED that the Company be and is hereby authorized in terms of Section 208 of the Companies Ordinance, 1984 to provide loans and advances to the extent of Rs. 100 million (Rupees one hundred million only) as and when deemed appropriate, to be adjustable/repayable within a period of one year to Sargodha Jute Mills Limited, an associated company at the mark up rate of 3 months KIBOR plus 3% per annum to be determined on 1st day of each quarter, the mark up will be paid quarterly."

"RESOLVED FURTHER that the Chief Executive of the Company be and is hereby authorized to take and/or cause to be taken and do all necessary actions, deeds and things including signing of any documents and agreements for carrying out the purposes aforesaid and giving full effect to this resolution."

By order of the Board

Place: Lahore  
Dated: September 23, 2013

**(HASSAN-UD-DIN ANSARI)**  
Company Secretary

**NOTES:**

1. The Share Transfer Books of the Company will remain closed from October 14, 2013 to October 21, 2013 (both days inclusive). Transfers received in order at Company's Independent Share Registrar's Office, Hameed Majeed Associates (Pvt.) Limited, H.M. House, 7- Bank Square, Lahore by the close of business October 13, 2013, will be treated in time for the entitlement of dividend to the transferees and to attend the meeting.
2. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her.

3. The instrument appointing a proxy and the power of attorney or other authority under which it is signed or a notarially attested copy of the power of attorney must be deposited at the Registered Office of the Company at least 48 hours before the time of the meeting.
4. Members are requested to submit declaration for zakat on the required format and to advise change in address, if any.
5. Members are requested to send copies their Computerized National Identity Cards (CNICs) to the Company's Independent Share Registrar, M/s Hameed Majeed Associates (Pvt.) Limited, H.M. House, 7- Bank Square, Lahore to enable the Company to comply with the direction of the Securities and Exchange Commission of Pakistan contained in SRO-831(1)/2012, Dated 05 July, 2012 for mentioning of CNIC Number of the Shareholders on the Dividend Warrants to be issued for Final Cash Dividend @ 15% announced by the Company.
6. In order to make process of payment of cash dividend more efficient, e-dividend mechanism has been envisaged when shareholders can get amount of the dividend credited into their respective bank accounts electronically without any delay. In this way, dividends may be instantly credited to respective bank accounts and there are no chances of dividend warrants getting lost in the post, undelivered or delivered to the wrong address, etc. The Securities and Exchange Commission of Pakistan (SECP) through Notice No.8(4)SM/CDC 2008, Dated April 05, 2013 has advised all listed companies to adopt e-dividend mechanism due to the benefits it entails for shareholders. In view of the above, you are hereby encouraged to provide a dividend mandate in favor of e-dividend by providing dividend mandate form duly filled in and signed.
7. CDC Account Holder will further have to follow the under mentioned guidelines as laid down in Circular No.1 of 2000, Dated 26th January, 2000 issue by The Securities and Exchange Commission of Pakistan.

**A. For Attending the Meeting**

- a. In case of Individuals, the account holder and/or sub-account holder and their registration details are uploaded as per the CDC Regulations, shall authenticate his/her identity by showing his/her original CNIC or, original Passport at the time of attending the Meeting.
- b. In case of corporate entity, the Board's resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

**B. For Appointing Proxies**

- a. In case of individuals, the account holder and/or sub-account holder and their registration details are uploaded as per the CDC Regulations, shall submit the proxy form as per above requirements.
- b. The proxy form shall be witnessed by two persons, whose names, addresses and CNIC number shall be mentioned on the form.
- c. Attested copies of the CNIC or the passport of beneficial owners and the proxy shall be furnished with the proxy form.
- d. The proxy shall produce his original CNIC or original passport at the time of the Meeting.
- e. In case of corporate entity, the Board's resolution/power of attorney with specimen signature shall be furnished (unless it has been provided earlier) along with proxy form to the Company.

**STATEMENT OF MATERIAL FACTS UNDER SECTION 160(1)(B)  
OF THE COMPANIES ORDINANCE, 1984**

This statement sets out the material facts pertaining to the special business to be transacted at the Thirty Fifth Annual General Meeting of the Company to be held on October 21, 2013.

**Loans and Advances to Associated Company**

Sargodha Jute Mills Limited is a Public Limited Company having assets of Rs.2141.004 million with Paid-up Capital of Rs.224.570 million. The Company has reserves/un-appropriated profits amounting Rs.487.737 million as on 30-06-2013. The Company manufactures and deals in all types of Jute Products. The Directors of the Company intend to provide loans and advances of up to Rs.100.000 million to the Associated Company at such time at terms and conditions mentioned in the proceed resolution. The information required Regulation 3 (1) (b) of the Companies (Investment in Associated Companies or Associated Undertaking Regulations, 2012) is given below:-

- |   |  |           |         |          |         |            |        |         |         |                     |        |        |         |                |        |          |         |              |        |          |         |
|---|--|-----------|---------|----------|---------|------------|--------|---------|---------|---------------------|--------|--------|---------|----------------|--------|----------|---------|--------------|--------|----------|---------|
| (i) Name of Associated Company and criteria based on which the associated relationship is established;  | Sargodha Jute Mills Limited (SJML).<br>The Company holds 36.16% shares of SJML.  |           |         |          |         |            |        |         |         |                     |        |        |         |                |        |          |         |              |        |          |         |
| (ii) The amount of loans and advances;  | Up to Rs.100 million.  |           |         |          |         |            |        |         |         |                     |        |        |         |                |        |          |         |              |        |          |         |
| (iii) The purpose of loans and advances and its benefits likely to accrue to the Company and its shareholders;                                  | The purpose of short term loans and advances is to earn better return. The investing company and its shareholders will be benefited in a manner that their investment will fetch a return of 1% above the prevailing short term borrowing rate from banks.   |           |         |          |         |            |        |         |         |                     |        |        |         |                |        |          |         |              |        |          |         |
| (iv) The complete detail of any loan has already been granted to the associated company;  | In the annual general meeting held on October 30, 2012, the shareholders approved loan and advance to the extent of Rs.100 million (Rupees one hundred million only) to Sargodha Jute Mills Limited. However, during the year 2012-2013 no loans and advances were made.   |           |         |          |         |            |        |         |         |                     |        |        |         |                |        |          |         |              |        |          |         |
| (v) A brief about the financial position of the investee company on the basis of its latest financial statements for the year ended 30-06-2013. | <table border="0"> <tr> <td>Net Sales</td> <td>Rupees</td> <td>2765.430</td> <td>Million</td> </tr> <tr> <td>Equity-Net</td> <td>Rupees</td> <td>712.306</td> <td>Million</td> </tr> <tr> <td>Long Term Financing</td> <td>Rupees</td> <td>30.000</td> <td>Million</td> </tr> <tr> <td>Current Assets</td> <td>Rupees</td> <td>1336.181</td> <td>Million</td> </tr> <tr> <td>Total Assets</td> <td>Rupees</td> <td>2141.004</td> <td>Million</td> </tr> </table> | Net Sales | Rupees  | 2765.430 | Million | Equity-Net | Rupees | 712.306 | Million | Long Term Financing | Rupees | 30.000 | Million | Current Assets | Rupees | 1336.181 | Million | Total Assets | Rupees | 2141.004 | Million |
| Net Sales   | Rupees   | 2765.430  | Million |          |         |            |        |         |         |                     |        |        |         |                |        |          |         |              |        |          |         |
| Equity-Net  | Rupees   | 712.306   | Million |          |         |            |        |         |         |                     |        |        |         |                |        |          |         |              |        |          |         |
| Long Term Financing   | Rupees   | 30.000    | Million |          |         |            |        |         |         |                     |        |        |         |                |        |          |         |              |        |          |         |
| Current Assets  | Rupees   | 1336.181  | Million |          |         |            |        |         |         |                     |        |        |         |                |        |          |         |              |        |          |         |
| Total Assets  | Rupees   | 2141.004  | Million |          |         |            |        |         |         |                     |        |        |         |                |        |          |         |              |        |          |         |



- (vi) Average borrowing cost of the Company; The rate of mark up of average short term borrowings of the Company is 3 months KIBOR plus 2%.
- (vii) Rate of mark up to be charged; Mark up will be charged on loans and advances at the rate of 3 months KIBOR plus 3% per annum to be determined on 1st day of each quarter.
- (viii) Sources of funds from where loans or advances will be given; Loans and advances will be given out of the Company's own funds.
- (ix) Particulars of collateral security to be obtained against loan to the borrowing company, if any; No security is considered necessary as both the companies are associated companies.
- (x) Repayment Schedule; The loans and advances are adjustable within a period of twelve months. The mark up will be payable quarterly.
- (xi) Salient feature of all agreements entered or to be entered with the associated company with regards to proposed investment. Loans and advances will be for period of one year. The mark up will be 3 months KIBOR plus 3% to be paid quarterly.
- (xii) Direct or indirect interest of directors, sponsors, majority shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration; The Directors, sponsors and majority shareholders do not have any interest except to the extent of their shareholdings in the associated company. Some of them are director of the associated company. The shareholdings of Directors, sponsors and majority shareholders in associated company are as under:-

Name	No. of Shares
Mian Parvez Aslam	722,120
Mrs. Fakhra Parvez	255,500
Mr. Imran Aslam	4,379,515
Mr. Irfan Aslam	4,379,515
Mian Shahzad Aslam	2,144,576
Mian Sajjad Aslam	528,794

The associated company hold 14,990 Shares of the Company and its directors and sponsors are also shareholder/director of the investing company.

**Other information to be disclosed to the members;**

In the Annual General Meeting held on October 30, 2012, the shareholders approved loans and advances to the extent of Rs.100.000 million (Rupees one hundred million only) in Sargodha Jute Mills Limited. However, during the year no investments were made as the funds were not required by Sargodha Jute Mills Limited at any time during the year 2012-2013.

The directors submit that they have carried out necessary due diligence for the proposed investment in the associated company.

The duly signed recommendation of the due diligence report and the audited financial statements of the associated company shall be available for inspection of the members in the general meeting.

## Directors' Report

On behalf of directors, it is my great pleasure to present the 35th Annual Report together with the Audited Statements of Accounts for the year ended on June 30, 2013 along with auditors' report thereon which reflects the affairs of the company.

**Financial and operational performance:**

The financial results of the Company are summarized below:

	2013 Rupees	2012 Rupees
Profit before Taxation and share of Associate	216,301,735	129,265,518
Share of net profit of associate	42,496,854	13,957,753
Profit before Taxation	258,798,589	143,223,271
Taxation	8,889,080	(25,829,590)
Profit after Taxation	267,687,669	117,393,681

During the year under report, the Company, by the grace of Allah (SWT) has achieved a turnover of Rs. 4,977.943 million as compared to Rs. 4,172.217 million during the previous financial year and the successful operations for the year under review has resulted into Net Profit of Rs. 267.688 million. The management has achieved these results through sustained and continued pursuit of our strategy to work with magnificent innovation ideas, developing new areas of its activities and reducing cost of products through process innovation.

**Expansion Plan**

During the year under review the company has made addition to Plant & Machinery for Rs. 273.066 million by implementing its expansion plan in order to improve efficiency and production of the company. The machinery includes replacement of old blow room with the latest imported blow room machines along with imported cards, drawing frames, simplex machines, imported ring frames and latest schlaforst winding machines which have been successfully installed and productively started operation. This is undoubtedly a lucrative addition to our existing plant of Mill Unit 2.

**Earning per Share**

The earnings per share of the Company for the year ended June 30, 2013 is Rs.14.90 as compared to earnings per share of Rs.6.53 per share in the preceding year.

**Dividend**

The Board of Directors has proposed a cash dividend 15% (i.e., @Rs.1.50 per share) for the year ended June 30,2013.

**Future Prospects**

There has been no improvement in the adverse power scenario prevailing in the country. The Electric and sui-gas supply remains suspended for hours in a day. Moreover, the un-scheduled tripping without any prior notice by LESCO is causing heavy damages to the quality of yarn and machines. Current flood has also badly affected and spoiled the cotton crops standing in the fields. Ever increasing power rates and heavy taxation are also becoming part of major hurdles in long term planning for production and sales which eventually effects the profitability of the company. In presence of this adverse situation continuation of current state of profitability cannot be accurately predicted. However, the management is working with same spirit and zeal to post better financial results in the coming periods.

### ISO 9001-2008 Certification

The company continues to operate the high standard of quality and had obtained latest version of ISO 9001-2008 Certification which is renewed every year after a detail verification that quality control system is being effectively implemented. The quality control certification helps to build up the trust of new customers and strengthen the confidence of our old clients.

### Related Parties

The transactions between the related parties were made at arm's length prices determined in accordance with the comparable uncontrolled price method. The company has fully complied with the best practices of the transfer pricing as contained in the Listing Regulations. The related party transactions were approved by the Board on the recommendation of Audit Committee.

### Corporate and Financial Reporting Frame Work

- a) The financial statements prepared by the management of the Company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- b) Proper books of account for the company have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Financial Reporting Standards as applicable in Pakistan have been followed in preparation of financial statements.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts upon the company's ability to continue as going concern.
- g) Key operating and financial data for last six years is annexed.
- h) In accordance with the criteria specified on clause(xi) of CCG, Two of Directors of the Company are exempted from the requirement of Directors' training program, one director obtained the certification and rest of the Directors would be trained within due time.
- i) There are no overdue taxes and levies as on June 30, 2013.
- j) The form 34 and Pattern of Shareholding as on June 30, 2013 as required by the section of 236 of the Companies Ordinance 1984 and Code of Corporate Governance is annexed with this report.
- k) The company has adopted practices of Corporate Governance as per listing regulations of stock exchange.
- l) No material change of commitment affecting financial position occurred between June 30, 2013 and date of directors' report.
- m) No trades in the shares of the Company carried out by its Directors, CEO, executives, their spouses and minor children.
- n) The Company operates an unfunded gratuity scheme covering its permanent employees. Employers are eligible for benefits under the gratuity scheme after completion of one year continuous service.

## Corporate Social Responsibility

The Company recognizes that the key to successful and sustainable business is to give back to the society from where we derive economic benefits. We create value for our local community, employees and the government by providing a vast array of facilities to our employees, financial assistance to the families of our deceased employees, promoting a better work life balance amongst our employees, contributing regularly to the national exchequer as per law.

### Health, safety and Environment:

We work continuously to ensure that our employees work in safe and healthy working environment. Besides, the Company is registered with Social Security Department of the Government and pay regular contribution for the health of workers of the company.

### Work-life balance:

In order to promote a healthy –life balance we strictly follow a 9am to 5pm working routine. This ensures that our employees have plenty of time after work for extra curricular activities with their families and friends.

### Business ethics and anti corruption measures:

The management is committed to conduct all business activities with integrity, honesty and in full compliance with the current laws and regulations. A code of conduct has been developed and approved by the board, which is signed by all employees.

### Contribution to the National Exchequer:

To meet our legal and social obligation towards the development of the economy of the country, the company has contributed Rs.127.787 million in the year 2012-13 into the Government exchequer on account of taxes, levies, excise duty and sales tax. Moreover, foreign exchange amount of USD\$ 16.841. Million was also earned for the country from export during financial year.

### Energy Conservation

The company has taken many measures at mill premises to conserve the energy by fixing energy conserving devices.

### ABSTRACT UNDER SECTION 218(1) OF THE COMPANIES ORDINANCE, 1984

During the year ended 30 June 2013, the Board of Directors have revised the remuneration of Mr.Rashid Ahmad from Rs.267,800/- to Rs.287,800/- per month and the remuneration of Mr.Hassan-ud-Din Ansari from Rs.56,700/- to Rs.61,700/- per month effective 01 July 2013. There was no change in other terms and conditions of their appointment.

Mr. Rashid Ahmad and Mr.Hasan-ud-Din Ansari both are elected directors of the Company and are considered as interested in the aforesaid variation of their terms of appointments. These directors were however retired on 30 March 2013. No other director is concerned or interested in the aforesaid variation.

### Board of directors Meetings

During the period under review, thirteen meetings of the Board of Directors were held from July 1, 2012 to June 30, 2013. The attendance of the Board members was as follows:

<u>Name of Directors</u>	<u>No. of Meetings Attended</u>
Mian Parvez Aslam	13
Mr.Imran Aslam	12
Mrs.Nazish Imran	12
Mrs.Sara Irfan (Elected on 30-03-2013)	04
Mr. Naveed Sheikh	09
Syed Raza Ali Bokhari (Elected on 30-03-2013)	04
Mr. Humayun Bakht	13
Mr.Rashid Ahmad (Retired on 30-03-2013)	09
Mr.Hassan-ud-Din Ansari (Retired on 30-03-2013)	09

### Audit Committee

The Board of Directors in compliance of Code of Corporate Governance has established an Audit Committee which consists of following directors:

Mr. Naveed Sheikh	Chairman
Mrs. Nazish Imran	Member
Syed Raza Ali Bukhari	Member

The Audit committee actively review the efficacy of prevailing internal control system and recommends modern techniques for making the system more effective. During the period under review six(6) meetings of audit committee of the company were held from July 01, 2012 to June 30, 2013 and attendance of Audit Committee members was as follows:

<b>NAME OF MEMBER</b>	<b>NO OF MEETINGS ATTENDED</b>
Mr.Naveed Sheikh	06
Mr. Nazish Imran	06
Mr.Rashid Ahmad (Retired on 30-03-2013)	05
Syed Raza Ali Bokhari (Elected on 17-04-2013)	01

**Human Resource and Remuneration (HR & R) Committee**

In compliance with the Code of Corporate Governance the Board of Directors has formed a Human Resource and Remuneration Committee(HR & R Committee) comprising three Directors named below. The HR & R Committee shall provide assistance to the Board of directors in functioning Company's Human Resources efficiently. Further, the HR & R Committee will also assesses and makes recommendations to ensure that the Company's Human Resource policies are objectively associated with its overall business.

**Names Of The Members Of The Committee**

Mr.Naveed Sheikh	Chairman
Mr.Imran Aslam	Member
Mrs. Nazish Imran	Member

**Corporate Governance**

Statement of compliance with the code of Corporate Governance is annexed.

**Appointment of Auditors**

The Auditors M/s Horwath Hussain Chaudhury and Company, Chartered Accountants, will retire and are eligible for re-appointment as auditors for the company for the next year.

The Audit Committee and the Board have endorsed their re-appointment for consideration of the members at the forthcoming annual general meeting of the Company.

**Acknowledgement**

The Labor and management relations remained cordial during the year. The directors place on record their appreciation to all the bankers of the company for their valuable financial support extended to the company. The directors also wish to thank the suppliers and all other who have extended their valuable support during this time. The Last but not least, the directors also express their heartfelt thanks to the employees of all levels , staff and officers who remained part of our team in smooth running the affairs of the company during this period. The directors are also thankful to the shareholders for their continued support to the Company.

For and on behalf of the Board

Lahore  
Dated: September 23, 2013

**Mr. Imran Aslam**  
Chief Executive

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **SHAHZAD TEXTILE MILLS LIMITED** as at June 30, 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion;
  - (I) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - (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, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2013 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

**HORWATH HUSSAIN CHAUDHURY & CO.**  
Chartered Accountants

LAHORE

Dated: September 23, 2013

(Engagement Partner: Muhammad Nasir Muneer)



## BALANCE SHEET AS AT

	Note	2013 Rupees	2012 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b>Share Capital and Reserves</b>			
Authorized capital: 21,000,000 (2012: 21,000,000) ordinary shares of Rs. 10 each		210,000,000	210,000,000
Issued, subscribed and paid up capital	6	179,713,720	179,713,720
Reserves	7	809,096,088	540,019,357
		988,809,808	719,733,077
<b>Surplus on Revaluation of Property, Plant and Equipment</b>	8	517,136,980	498,740,449
<b>Non Current Liabilities</b>			
Long term financing	9	77,014,000	125,264,472
Staff retirement benefits	10	49,649,533	38,577,451
Deferred tax liability	11	195,970,958	208,566,819
		322,634,491	372,408,742
<b>Current Liabilities</b>			
Trade and other payables	12	278,053,370	223,028,197
Accrued mark up	13	23,987,354	8,426,605
Short term borrowings	14	269,089,786	184,491,427
Current portion of non current liabilities	15	20,462,676	66,216,110
Provision for taxation	16	43,512,223	53,964,992
		635,105,409	536,127,331
<b>Contingencies and Commitments</b>	17	-	-
		2,463,686,688	2,127,009,599

The annexed notes form an integral part of these financial statements.

**CHIEF EXECUTIVE**

JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Property, plant and equipment	18	1,551,878,363	1,282,549,101
Long term investment	19	257,324,323	216,056,865
Long term deposits	20	13,290,329	2,860,329
		1,822,493,015	1,501,466,295
<b>Current Assets</b>			
Stores and spares	21	50,047,400	50,449,752
Stock in trade	22	337,353,500	361,705,962
Trade debts	23	100,172,733	83,501,858
Advances, trade deposits, prepayments and other receivables	24	68,454,997	68,695,382
Short term investments	25	612,359	751,061
Tax refunds due from Government	26	51,264,498	17,718,776
Cash and bank balances	27	33,288,186	42,720,513
		641,193,673	625,543,304
		<u>2,463,686,688</u>	<u>2,127,009,599</u>

DIRECTOR

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
Sales	28	4,977,943,500	4,172,216,660
Cost of sales	29	(4,498,378,404)	(3,826,931,050)
<b>Gross Profit</b>		479,565,096	345,285,610
<b>Operating Expenses</b>			
Selling and distribution costs	30	(57,843,976)	(52,530,383)
Administrative expenses	31	(90,943,902)	(83,498,159)
		(148,787,878)	(136,028,542)
<b>Operating Profit</b>		330,777,218	209,257,068
Finance cost	32	(53,129,938)	(66,884,584)
Other operating expenses	33	(70,621,099)	(18,303,347)
Other income	34	9,275,554	5,196,381
Share of net profit of associate	19	42,496,854	13,957,753
		(71,978,629)	(66,033,797)
<b>Profit before Taxation</b>		258,798,589	143,223,271
Taxation	35	8,889,080	(25,829,590)
<b>Net Profit for the Year</b>		267,687,669	117,393,681
<b>Earnings per Share - Basic and Diluted</b>	37	14.90	6.53

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

**STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED JUNE 30, 2013

	<b>2013</b>	<b>2012</b>
	Rupees	Rupees
<b>Net Profit for the Year</b>	267,687,669	117,393,681
<b>Other comprehensive income for the year</b>		
<b>Items that will not be reclassified to profit and loss</b>		
Transferred from surplus on revaluation of property, plant and equipment on incremental depreciation charged in current year (net of deferred tax)	15,844,244	21,049,077
Surplus realized on disposal of revalued property, plant and equipment (net of deferred tax) transferred to retained earnings	968,646	372,415
	16,812,890	21,421,492
<b>Items that may be reclassified subsequently to profit and loss</b>		
Share of other comprehensive income (net of deferred tax) of associate	2,547,544	1,792,137
	19,360,434	23,213,629
<b>Total Comprehensive Income for the Year</b>	<b>287,048,103</b>	<b>140,607,310</b>

The annexed notes form an integral part of these financial statements.

**CHIEF EXECUTIVE**

**DIRECTOR**

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
<b>CASH GENERATED FROM OPERATIONS</b>	36	429,262,815	288,641,292
Income tax paid		(37,282,280)	(77,255,613)
Gratuity paid		(8,076,414)	(9,295,910)
Finance cost paid		(40,731,486)	(69,106,422)
Workers' (profit) participation fund paid		(7,341,954)	(10,519,864)
Workers' welfare fund		(2,836,844)	-
<b>Net Cash generated from Operating Activities</b>		332,993,837	122,463,483
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Property, plant and equipment		(21,312,556)	(7,720,557)
Capital work in progress		(307,012,341)	(11,230,178)
Long term deposits		(10,430,000)	(1,941,800)
Proceeds from disposal of property, plant and equipment		4,953,101	1,095,086
Proceeds from disposal of short term investments		1,021,299	-
<b>Net Cash used in Investing Activities</b>		(332,780,497)	(19,797,449)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Repayment of long term financing from banking company		(73,523,845)	(55,995,214)
Loan repaid to related parties		(5,000,000)	-
Dividend received from associated undertaking		4,060,000	4,060,000
Dividend paid to shareholders		(17,970,400)	(8,954,823)
Liabilities against assets subject to finance lease		(1,809,781)	(1,529,924)
Short term borrowings		84,598,359	(6,309,152)
<b>Net Cash used in Financing Activities</b>		(9,645,667)	(68,729,113)
<b>Net (Decrease) / Increase in Cash and Cash Equivalents</b>		(9,432,327)	33,936,921
Cash and cash equivalents at the beginning of the year		42,720,513	8,783,592
<b>Cash and Cash Equivalents at the End of the Year</b>		<u>33,288,186</u>	<u>42,720,513</u>

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Share Capital</b>	<b>Share Premium</b>	<b>Unappropriated Profit</b>	<b>Total</b>
	Rupees	Rupees	Rupees	Rupees
<b>Balance as at June 30, 2011</b>	179,713,720	5,796,000	402,601,733	588,111,453
Total comprehensive income for the year	-	-	140,607,310	140,607,310
Final dividend for the year ended June 30, 2011	-	-	(8,985,686)	(8,985,686)
<b>Balance as at June 30, 2012</b>	179,713,720	5,796,000	534,223,357	719,733,077
Total comprehensive income for the year	-	-	287,048,103	287,048,103
Final dividend for the year ended June 30, 2012	-	-	(17,971,372)	(17,971,372)
<b>Balance as at June 30, 2013</b>	<u>179,713,720</u>	<u>5,796,000</u>	<u>803,300,088</u>	<u>988,809,808</u>

The annexed notes form an integral part of these financial statements.

**CHIEF EXECUTIVE**

**DIRECTOR**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

## Note 1

**The Company and its Operations**

Shahzad Textile Mills Limited (the Company) is incorporated in Pakistan as a Public Limited Company under the Companies Act, 1913 (now the Companies Ordinance, 1984). The shares of the Company are quoted on Karachi and Lahore Stock Exchanges of Pakistan and its registered office is situated at 19-A, Off Zafar Ali Road, Gulberg - V, Lahore. The Company manufactures and deals in all types of yarn.

## Note 2

**Basis of Preparation****2.1 Statement of compliance**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

**2.2 Basis of measurement**

These financial statements have been prepared under the historical cost convention except for the following:

Staff retirement benefits	Note 10	Present value
Certain property, plant and equipment	Note 18	Revalued amount
Long term investment	Note 19	Equity method
Investments in quoted companies	Note 25	Fair value

**2.3 Functional and presentational currency**

These financial statements are prepared and presented in Pak Rupees which is the Company's functional and presentation currency. All financial information presented in Pak Rupees have been rounded off to the nearest rupee, unless otherwise stated.

## Note 3

**Use of Estimates and Judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under circumstances, results of which form the basis of making judgment about carrying amounts of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are as under:

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**Note 3, Use of Estimates and Judgments - Contd...****3.1 Property, plant and equipment**

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in the management's estimates might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

**3.2 Doubtful receivables**

The Company records its trade and other receivables after deducting appropriate provisioning using its prudence and experience. This estimate is subjective in nature. Recoveries of amounts already provided and / or the need of further provisioning cannot be determined with precision.

**3.3 Staff retirement benefits**

The Company has recorded its employees' retirement benefits at fair value using actuarial assumptions regarding increase in salaries in subsequent years, remaining working lives of employees and an estimate of discount rates. Change in actuarial assumptions over the period of time may affect the fair value of post-employment benefits payable and the charge for such liability accounted for in any given period.

**3.4 Inventories**

The Company has recorded its inventories using lower of cost and net realizable value. Valuation of this inventory is reviewed at regular intervals for determination of possible impairment, if any. Any possible impairment may change the future value of inventories.

**3.5 Taxation**

The Company takes into account the current income tax laws and decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the tax department at the assessment stage and the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

The management believes that the change in outcome of estimates would not have a material effect on the amounts disclosed in these financial statements.

**Note 4****Amendments to Existing Standards and Forthcoming New Standards and Interpretations**

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Since July 1, 2012, International Accounting Standards Board (IASB) has made certain amendments into the existing standards and introduced one new interpretation (IFRIC 20). These amendments seek to enhance the disclosure requirements in the financial statements and are as under:



## Note 4 - Amendments to Existing Standards .... Contd.

<b>Revision / improvements / amendments to IFRS and interpretations</b>	<b>Effective Date</b> (Period beginning on or after)
- IAS 32: Financial instruments: Presentation - Offsetting Financial Assets and Financial Liabilities	January 1, 2014
- IFRS 1: First-time Adoption of International Financial Reporting Standards - Government Loans	January 1, 2013
- IFRS 7: Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities	January 1, 2013
- IFRS 9: Financial Instruments - Mandatory Effective Date and Transition Disclosures	January 1, 2015
- IFRS 10: Consolidated Financial Statements - Transition Guidance	January 1, 2013
- IFRS 11: Joint Arrangements - Transition Guidance	January 1, 2013
- IFRS 12: Disclosures of Interest in Other Entities - Transition Guidance	January 1, 2013
- Annual Improvements 2009-2011 Cycle	January 1, 2013
- IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

## Note 5

**Summary of Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company.

**5.1 Provisions**

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and of which a reliable estimate can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

**5.2 Staff retirement benefits****Defined benefit plan**

The Company operates an unfunded gratuity scheme covering its permanent employees. Employees are eligible for benefits under the gratuity scheme after completion of one year of continuous service. The benefit is calculated based upon the number of completed years of service and last drawn gross salary.

Net cumulative unrecognized actuarial gains / losses relating to previous reporting periods in excess of the higher of 10% of present value of defined benefit obligation or 10% of the fair value of plan assets are recognized as income or expense over the estimated remaining working lives of the employees.

## Note 5, Summary of Significant Accounting Policies - Contd...

**5.3 Taxation****Current**

Charge for taxation for the year on taxable profit is based on applicable tax rates after taking into account all tax credits and rebates available, if any.

**Deferred**

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent of potential available taxable profits against which temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

**5.4 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 future for goods and services received, whether or not billed to the Company.

**5.5 Contingent liabilities**

Contingent liability is disclosed when there is a possible obligation that arises from past events and whose existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

A contingent liability is also disclosed when there is present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits would be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

**5.6 Property, plant and equipment****Owned**

Property, plant and equipment are stated at cost less accumulated depreciation except freehold land which is stated at revalued amount and buildings and plant and machinery which are stated at revalued amounts less accumulated depreciation.

The management reviews market value of land, building and plant and machinery at each balance sheet date to ascertain whether the fair value of revalued assets has differed materially from the carrying value of revalued assets, thus necessitating further revaluation.

Depreciation on property, plant and equipment has been provided for using the reducing balance method at the rates specified in Note 17 and is charged to the profit and loss account. Depreciation on additions is charged from the month in which the asset is available for use up to the month in which the asset is disposed off.

## Note 5, Summary of Significant Accounting Policies - Contd...

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. Gain or loss on disposal of property, plant and equipment, if any, is shown in the profit and loss account.

**Leased**

Leases where the Company has substantially all the risks and rewards of ownership are classified as 'finance lease'. Assets subject to finance lease are initially recognized at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. Subsequently these assets are stated at cost less accumulated depreciation and any identified impairment loss.

Related rental obligations, net of finance charges are included in liabilities against assets subject to finance lease. Liabilities are classified as current and long term depending upon the timing of payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit over the lease term.

Assets acquired under a finance lease are depreciated over the useful life of the asset using the reducing balance method at the same rates as used for owned assets. Depreciation of leased assets is charged to the profit and loss account. Depreciation on additions to leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off.

**Capital work-in-progress**

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

**5.7 Impairment**

Carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of the fair value less costs to sell and value in use. In the absence of any information about the fair value of a cash-generating unit, the recoverable amount is deemed to be the value in use.

"Impairment loss is recognized as expense in the profit and loss account. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the profit and loss account. Reversal of impairment loss is restricted to the original cost of asset."

**5.8 Investment in associate**

An associate is an entity in which the Company holds more than 20% voting power or over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The operating results, assets and liabilities of associates are incorporated in the financial statements using the equity method. This method is applied from the date when significant influence is established until the date when the significant influence ceases. The Company's share of income and expenses of associates are recognized based upon their latest audited financial statements after realigning their accounting policies, if required.

The Company's investment is reduced to zero in recognition of its share of losses of the associate. Further losses are recognized only when the Company has made payments on behalf of the associate or has an obligation to make payments on its behalf.

## Note 5, Summary of Significant Accounting Policies - Contd...

Unrealized gains and losses, if any, arising from transactions with associates are eliminated under the equity method. The Company's share of changes recognized directly in associate's equity are recognized directly in the equity of the Company and disclosed in the statement of other comprehensive income.

Investments in associates, not accounted for under the equity method are classified as "Available for Sale".

### 5.9 Stores, spares and stock in trade

These are valued at lower of cost and net realizable value; cost being determined as under:

Stores and spares	-	At moving average cost
Raw materials	-	At average cost
Material in transit	-	At cost comprising invoice value plus incidental charges
Work in process	-	At estimated average manufacturing cost
Finished goods	-	At average manufacturing cost
Wastes	-	At net realizable value

Manufacturing cost in relation to work-in-process and finished goods comprises cost of material, labour and appropriate manufacturing overheads.

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

### 5.10 Trade debts and other receivables

All outstanding receivables are reviewed at the balance sheet date. The Company recognizes and carries these receivables at original invoice amount less an allowance for uncollectible amounts, if any. Bad debts are written off as incurred and provision is made against debts considered doubtful when the collection of full amount is no longer probable.

### 5.11 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand, cash at bank and short term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

### 5.12 Financial instruments

#### 5.12.1 Financial assets

The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its financial assets at the time of initial recognition. The Company classifies its financial assets in the following categories:

#### At fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

## Note 5, Summary of Significant Accounting Policies - Contd...

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise advances, deposits and other receivables in the balance sheet.

**Held to maturity**

Held to maturity are financial assets with fixed or determinable payments and fixed maturity, where management has the intention and ability to hold till maturity are carried at amortised cost.

**Available-for-sale**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the management intends to dispose off the investments within twelve months from the balance sheet date, in which case these financial assets are classified as short term investments in the balance sheet.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised directly in equity are included in the profit and loss account as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for sale equity instruments are recognised in the profit and loss account when the Company's right to receive payments is established.

**Measurement criteria**

All financial assets are recognised at the time when the company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognised at trade date that is the date on which the Company commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. 'Loans and receivables' and 'held to maturity' investments are carried at amortised cost using effective interest rate method.

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active (for unlisted securities), the Company measures the investments at cost less impairment in value, if any.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

**5.12.2 Financial liabilities**

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective yield method.

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**Note 5, Summary of Significant Accounting Policies - Contd...**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange and modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in respective carrying amounts is recognised in the profit and loss account.

**5.13 Offsetting**

Financial assets and financial liabilities and tax assets and tax liabilities are set off in the balance sheet, only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

**5.14 Foreign currency translation**

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

**5.15 Related party transactions**

Transactions with related parties are based on the transfer pricing policy that all transactions between the Company and the related party or between two or more segments of the Company are at arm's length prices using the comparable uncontrolled price method except in circumstances where it is not in the interest of the Company to do so.

**5.16 Revenue recognition**

- Revenue from sale of goods is recognised at the time of dispatch to customers.
- Dividend on equity investments is recognized as income when the Company's right to receive the dividend is established.

**5.17 Borrowing costs**

Borrowing costs are charged to income as and when incurred except those costs that are directly attributable to acquisition, construction or production of qualifying assets that are capitalized as part of the cost of assets.

**5.18 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. Segment results, assets, and liabilities include items directly attributable to a segment. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

**5.19 Dividends**

Dividends are recognized as a liability in the period in which these are declared.

## Note 6

**Issued, Subscribed and Paid Up Capital**

2013		2012		2013		2012	
No. of Shares				Rupees		Rupees	
12,240,569	12,240,569	Ordinary shares of Rs. 10 each fully paid in cash		122,405,690		122,405,690	
4,418,803	4,418,803	Ordinary shares of Rs. 10 each issued for consideration otherwise than in cash		44,188,030		44,188,030	
1,312,000	1,312,000	Ordinary shares of Rs. 10 each issued as fully paid bonus shares		13,120,000		13,120,000	
<u>17,971,372</u>	<u>17,971,372</u>			<u>179,713,720</u>		<u>179,713,720</u>	

**6.1 Movement in number of shares during the year**

	Number	Number
Opening number of shares	17,971,372	17,971,372
Shares issued / (cancelled) during the year	-	-
Closing number of shares	<u>17,971,372</u>	<u>17,971,372</u>

**6.2** Sargodha Jute Mills Limited, an associate, held 14,990 (2012: 14,990) ordinary shares of the Company as at the balance sheet date.

## Note 7

**Reserves**

		2013	2012
		Rupees	Rupees
<b>Capital</b>	Note		
Share premium reserve	7.1	5,796,000	5,796,000
<b>Revenue</b>			
Unappropriated profit		803,300,088	534,223,357
		<u>809,096,088</u>	<u>540,019,357</u>

**7.1** This reserve can be utilized by the Company only for the purpose specified in section 83(2) of the Companies Ordinance 1984.

## Note 8

**Surplus on Revaluation of Property, Plant and Equipment**

		<b>2013</b>	<b>2012</b>
	Note	Rupees	Rupees
Land - freehold			
- Opening balance		180,886,920	180,886,920
- Revaluation during the year		16,605,000	-
		197,491,920	180,886,920
Buildings on freehold land:			
- Opening balance		44,999,946	47,964,312
- Revaluation during the year		4,319,126	-
		49,319,072	47,964,312
Plant and machinery			
- Opening balance		272,853,584	291,205,011
- Revaluation during the year		10,412,825	-
		283,266,409	291,205,011
Power house		3,597,576	-
		533,674,977	520,056,243
Related deferred taxation		(4,096,482)	-
	8.1	529,578,495	520,056,243
Deferred tax relating to export	8.2	1,562,906	105,698
Deferred tax due to change in tax rate		2,808,469	-
Incremental depreciation (net of deferred tax) charged on revalued property, plant and equipment during the year transferred to retained earnings		(15,844,244)	(21,049,077)
Surplus realized on disposal of revalued property, plant and equipment (net of deferred tax) transferred to retained earnings		(968,646)	(372,415)
		<u>517,136,980</u>	<u>498,740,449</u>

**8.1** Revaluation of land, buildings and plant and machinery was carried out by an independent valuer as at September 30, 1995 resulting in revaluation surplus of Rs. 435.412 million. The following basis were used for revaluation:

Land	Market value
Building	Residual value
Plant and machinery	Residual value

Freehold land was further revalued by an approved valuer as at March 28, 2008 that resulted in revaluation surplus of 97.360 million. Market values of land in the vicinity of the factory area were used as basis of valuation.

As on June 30, 2010, the Company further revalued its property, plant and equipment by an approved valuer that resulted in revaluation surplus of Rs. 41.678 million. The following basis were used for revaluation:

Land	Market value
Buildings	Replacement value
Plant and machinery	Market value



## Note 8 , Surplus on Revaluation of Property, Plant and Equipment - Contd...

As on June 30, 2013, the Company has further revalued its property, plant and equipment by an approved valuer that has resulted in revaluation surplus of Rs. 34.935 million. The following basis have been used for revaluation:

Land	Market value
Buildings	Replacement value
Plant and machinery	Market value
Power house	Market value

**8.2** This represents amount transferred from deferred tax liability due to change in proportion of local and export sales resulting in change in estimate of deferred tax on surplus on revaluation of property, plant and equipment.

## Note 9

**Long Term Financing**

		<b>2013</b>	<b>2012</b>
	Note	Rupees	Rupees
<b>Loans from banking company - Secured</b>			
NIB Bank Limited	9.1	77,014,000	120,264,472
<b>Loans from related parties - Unsecured</b>			
Directors	9.2	-	5,000,000
		<u>77,014,000</u>	<u>125,264,472</u>
<b>9.1 Loans from banking company - NIB Bank Limited</b>			
Term finance - I		-	30,179,039
State Bank of Pakistan LTF - EOP Scheme		20,462,676	63,807,482
Freezed mark-up	13	77,014,000	90,800,091
		<u>97,476,676</u>	<u>184,786,612</u>
Current portion transferred to current liabilities	15	(20,462,676)	(64,522,140)
		<u>77,014,000</u>	<u>120,264,472</u>

9.1.1 This represents long term financing obtained from NIB Bank Limited. During the year 2009, the Company reached an interim period agreement with the Bank to restructure / reschedule its outstanding liabilities. As per the terms of the interim period agreement, the Company paid Rs. 34.200 million towards its outstanding liabilities up to June 30, 2009; the payment of its principal and mark-up, both overdue and not yet due, were frozen. During the year 2010, the Company further reached a rescheduling agreement with the Bank as under:

- The loan is to be repaid by April 2014 in monthly instalments. Entire term finance - I has been repaid during the year.
- Mark-up on loan to be levied effective from January 1, 2010 and worked out @ 3 months KIBOR minus 1.5% per annum. In case of default in payment of three consecutive instalments, the entire package to be withdrawn and mark-up to be charged @ 3 months KIBOR plus 4.25% - 4.50% per annum with retrospective effect.
- State Bank of Pakistan's LTF - EOP loan to be settled subsequent to the settlement of term finances I & ii
- Overdue mark-up accruing up to December 31, 2009 amounting to Rs. 77.014 million to be frozen and waived off subject to the payment of outstanding principal and mark-up in accordance with the rescheduling agreement.

## Note 9, Long Term Financing - Contd...

- Repayments to be settled against the outstanding principal and mark-up as per the repayment schedule mutually agreed by the Company and the bank and certain portion of the mark-up to be frozen that would be payable after the entire outstanding principal is repaid.
  - The loan is secured against first charge of Rs. 419.27 million on property, plant and equipment and personal guarantees of sponsoring directors of the Company.
- 9.2** This unsecured loan was obtained from director of the Company to meet the working capital and other liquidity requirements. It has been repaid during the year.

## Note 10

**Staff Retirement Benefits**

	Note	2013 Rupees	2012 Rupees
Staff retirement benefits - Gratuity	10.1	49,649,533	38,577,451

**10.1** The Company operates an unfunded gratuity scheme covering its permanent employees subject to completion of minimum prescribed period of service. Actuarial valuation of the scheme is carried out every year by an independent actuary and the latest actuarial valuation has been carried out as at June 30, 2013. The disclosures made in note 10.2 are based on the information included in that actuarial report.

**10.2 Actuarial assumptions**

Discount rate	10.5%	13%
Expected rate of salary increase in future years	9.5%	12%
Average expected remaining working life time of employees	5 years	5 years
Expected mortality rate for active members	As per EFU (61-66) Mortality Table	
Actuarial valuation method	Projected Unit Credit Method	

**10.3 Company's liability**

Balance sheet liability as previously reported		38,577,451	29,948,793
Charge for the year	10.3.3	19,148,496	17,924,568
		57,725,947	47,873,361
Benefits paid to outgoing employees		(8,076,414)	(9,295,910)
		49,649,533	38,577,451

**10.3.1 Reconciliation**

Present value of defined benefit obligation		56,724,989	37,110,984
Unrecognized actuarial (loss) / gain	10.3.2	(7,075,456)	1,466,467
Liability recognized in financial statements		49,649,533	38,577,451

**10.3.2 Unrecognized actuarial (loss) / gain**

Unrecognized actuarial gain / (loss) at the beginning of the year		1,466,467	(1,004,504)
Actuarial (loss) / gain arose during the year		(8,541,923)	2,470,971
Unrecognized actuarial (loss) / gain at the end of the year		(7,075,456)	1,466,467

## Note 10, Staff Retirement Benefits - Contd...

<b>10.3.3 Charge for the year</b>	<b>2013</b>	<b>2012</b>
	Rupees	Rupees
Current service cost	14,324,068	13,591,106
Interest cost	4,824,428	4,333,462
	<u>19,148,496</u>	<u>17,924,568</u>
<b>10.3.4 Charge for the year has been allocated as under</b>		
Cost of sales	15,605,497	13,311,510
Administrative expenses	3,542,999	4,613,058
	<u>19,148,496</u>	<u>17,924,568</u>

**10.3.5** The Company does not have any plan assets covering its post-employment benefits payable. The comparative statement of present value of defined benefit obligations is as under:

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
	Rupees	Rupees	Rupees	Rupees	Rupees
Present value of defined defined benefit obligation	56,724,989	37,110,984	30,953,297	20,730,830	15,918,326
Less: Unrecognized actuarial (loss) / gain	(7,075,456)	1,466,467	(1,004,504)	1,252,223	1,310,040
Net balance sheet liability	<u>49,649,533</u>	<u>38,577,451</u>	<u>29,948,793</u>	<u>21,983,053</u>	<u>17,228,366</u>

## Note 11

**Deferred Tax Liability - Net**

	<b>2013</b>	<b>2012</b>
	Rupees	Rupees
Deferred tax liability - Net	195,970,958	208,566,819
11.1 Credit / (Debit) balance arising in respect of:		
- Share of net profit of associate	19,172,432	15,045,686
- Accelerated tax depreciation	137,503,886	105,569,358
- Surplus on revaluation of property, plant and equipment	93,154,494	98,296,420
- Unused tax credits available	(38,044,127)	-
- Staff retirement benefits and others	(15,815,727)	(10,344,645)
	<u>195,970,958</u>	<u>208,566,819</u>

## Note 12

**Trade and Other Payables**

		<b>2013</b>	<b>2012</b>
	Note	Rupees	Rupees
Creditors for:			
- Goods supplied		26,871,088	19,415,216
- Services		33,814,820	31,880,304
Letter of credit payable		-	32,603,861
Accrued liabilities	12.1	187,245,874	119,402,613
Advances from customers		9,122,457	4,610,755
Workers' (profit) participation fund	12.2	14,176,084	7,047,562
Workers' welfare fund		1,526,438	4,635,784
Sales tax payable		1,358,126	-
Unclaimed dividend		312,109	311,137
Unclaimed wages		3,626,374	3,120,965
		<u>278,053,370</u>	<u>223,028,197</u>

**12.1** This includes Rs. 36.503 million (2012: 26.653 million) on account of fuel price adjustment.

**12.2 Workers' (profit) participation fund**

Opening balance	7,047,562	9,546,335
Provision for the year	14,176,084	7,047,562
Interest on funds utilized in the Company's business	294,392	973,529
	<u>21,518,038</u>	<u>17,567,426</u>
Paid during the year	(7,341,954)	(10,519,864)
Closing balance	<u>14,176,084</u>	<u>7,047,562</u>

## Note 13

**Accrued Mark-up**

		<b>2013</b>	<b>2012</b>
	Note	Rupees	Rupees
Long term financing		165,278	1,357,565
Transfer from / (to) frozen mark up	9.1	13,786,091	(1,357,565)
		13,951,369	-
Short term borrowings		10,035,985	8,426,605
		<u>23,987,354</u>	<u>8,426,605</u>

## Note 14

**Short Term Borrowings**

		<b>2013</b>	<b>2012</b>
	Note	Rupees	Rupees
<b>From banking companies - Secured</b>			
Cash / packing finances	14.1	269,089,786	184,491,427

**14.1** These represent utilized portion of funded and unfunded short term finance facilities of Rs. 1,620 million (2012: Rs. 1,133 million) available from various banks under mark up arrangements. These facilities shall expire on various dates latest by December 31, 2013. Mark up on these facilities is charged from 3 months KIBOR plus 2.00% to 3 month KIBOR plus 3.25%, (2012: 3 months KIBOR plus 2.00% to 3 month KIBOR plus 3.25%), payable quarterly. The aggregate short term finances are secured by ranking and hypothecation charge on property, plant and equipment, stocks and receivables of the Company; lien over export and import documents and personal guarantee of sponsoring directors of the Company.

Note 15

**Current Portion of Non-Current Liabilities**

		<b>2013</b>	<b>2012</b>
	Note	Rupees	Rupees
Long term financing	9.1	20,462,676	64,522,140
Liabilities against assets subject to finance lease	15.1	-	1,693,970
		<u>20,462,676</u>	<u>66,216,110</u>

**15.1** Finance lease arrangements were entered into with a financial institution for vehicles at finance cost ranging from 14.50% to 14.94% (approximately) per annum. These arrangements matured during the year and the Company has retained the vehicles against the adjustment of cash deposits of Rs. 0.708 million.

Note 16

**Provision for Taxation - Net**

		<b>2013</b>	<b>2012</b>
		Rupees	Rupees
Opening balance		53,964,992	45,470,369
Provision:			
- Current year		43,512,223	53,964,992
- Prior years		5,572,450	(6,131,043)
		49,084,673	47,833,949
Payments / adjustments against advance tax, tax credits and refunds		(59,537,442)	(39,339,326)
		<u>43,512,223</u>	<u>53,964,992</u>

**16.1** Assessments up to Tax Year 2012 are deemed finalized as income tax returns are filed under the self assessment scheme.

Note 17

**Contingencies and Commitments****Contingencies**

- The Company has provided bank guarantees / post dated cheques in the favour of following parties:

	<b>2013</b>	<b>2012</b>
	Rupees in Million	
- Sui Northern Gas Pipeline Limited	37.14	37.09
- Custom Authorities	40.62	1.00
	<u>77.76</u>	<u>38.09</u>

- The Company is contingently liable for Rs. 6.471 million (June 2012: 3.807) on account of electricity duty on self generation not acknowledged as debt as the case is pending before the Supreme Court of Pakistan.

**Commitments**

- The Company's outstanding commitments / contracts as at the balance sheet date are as under:

Capital expenditure	12.81	5.91
Letters of credit	24.09	41.46
Foreign bills of exchange purchased	149.42	254.48
	<u>186.32</u>	<u>301.85</u>

Note 18  
**Property, Plant and Equipment**

	Note	2013	2012
		Rupees	Rupees
Operating fixed assets		1,545,949,583	1,252,211,701
Capital work in progress		5,928,780	30,337,400
		<u>1,551,878,363</u>	<u>1,282,549,101</u>

**18.1 Operating fixed assets**

**Year ended June 30, 2013**

Description	Cost / Revalued Amounts			Rate %	Depreciation			Book Value as at 30-06-2013
	As at 01-07-2012	Additions / (Disposals)	Revaluation / (Adjustment)		Transfer to (from)	Total as at 30-06-2013	For the year	
	Rupees	Rupees	Rupees		Rupees	Rupees	Rupees	Rupees
<b>Owned</b>								
Land - freehold	185,688,750	-	16,605,000	-	-	-	-	202,293,750
Buildings on freehold land	139,327,181	58,590,664	4,319,126	5	13,125,274	8,017,757	(21,143,031)	181,093,940
Plant and machinery	880,221,990	272,830,297	10,412,825	5	81,821,025	42,153,399	(122,081,410)	1,026,183,702
Power house	187,385,431	-	3,597,576	20	74,961,180	22,484,850	(97,446,030)	93,536,977
Furniture and fixtures	5,867,172	-	-	10	5,032,137	83,504	-	5,115,641
Vehicles	20,688,771	20,913,385	-	20	8,799,673	5,619,914	-	15,504,704
Electric installations	31,340,696	235,501	-	10	19,121,507	1,234,156	-	20,355,663
Computers and equipment	3,221,744	163,670	-	20	1,899,475	277,037	-	2,176,512
Arms and ammunition	410,775	-	-	7	167,090	17,058	-	184,148
	1,454,152,510	352,733,517	34,934,527		204,927,361	79,887,675	(240,670,471)	43,336,668
		(16,755,832)	(240,670,471)			(3,076,547)		1,545,949,583
<b>Leased</b>								
Vehicles	4,892,000	-	-	20	1,905,448	363,202	-	(2,268,650)
	4,892,000	-	-		1,905,448	363,202	-	(2,268,650)
<b>June 30, 2013</b>	1,459,044,510	352,733,517	34,934,527		206,832,809	80,250,877	(240,670,471)	43,336,668
		(16,755,832)	(240,670,471)			(3,076,547)		1,545,949,583

## Note 18, Property, Plant and Equipment - Contd...

## 18.2 Operating fixed assets

Year ended June 30, 2012

Description	As at 01-07-2011			Cost / Revalued Amounts			Rate	Up to 01-07-2011			For the Year	Depreciation		Total as at 30-06-2012	Book Value as at 30-06-2012
	Rupees	Additions / (Disposals)	Revaluation / (Adjustment)	Rupees	Transfer to / (from)	Rupees		Rupees	Transfer to / (from)	Rupees		Rupees	Rupees		
<b>Owned</b>															
Land - freehold	185,688,750	-	-	-	-	-		-	-	-	-	-	-	-	185,688,750
Buildings on freehold land	142,050,666	-	-	(2,723,505)	(2,723,505)		5	6,891,953	6,621,761	(388,440)			13,125,274	126,201,907	
Plant and machinery	849,656,330	30,442,155	-	2,723,505	2,723,505		5	40,088,064	41,556,855	388,440			81,821,025	798,400,965	
		(2,600,000)							(212,334)						
Power house	187,385,431	-	-	-	-		20	46,855,117	28,106,063	-			74,961,180	112,424,251	
Furniture and fixtures	5,867,172	-	-	-	-		10	4,939,355	92,782	-			5,032,137	635,035	
Vehicles	19,732,296	545,975	-	410,500	410,500		20	5,717,155	2,803,028	279,490			8,799,673	11,889,098	
Electric installations	24,166,114	7,174,582	-	-	-		10	18,212,526	908,981	-			19,121,507	12,219,189	
Computers and equipment	3,577,524	-	-	-	-		20	1,965,631	258,263	-			1,899,475	1,322,269	
		(355,780)							(324,419)						
Arms and ammunition	410,775	-	-	-	-		7	148,748	18,342	-			167,090	243,685	
	1,418,535,078	38,162,712	-	410,500	410,500			124,818,549	80,366,075	279,490			204,927,361	1,249,225,149	
		(2,955,780)							(536,753)						
<b>Leased</b>															
Vehicles	5,302,500	-	-	(410,500)	(410,500)		20	1,508,172	676,766	(279,490)			1,905,448	2,986,552	
	5,302,500	-	-	(410,500)	(410,500)			1,508,172	676,766	(279,490)			1,905,448	2,986,552	
<b>June 30, 2012</b>	1,423,837,578	38,162,712	-	1,459,044,510	1,459,044,510			126,326,721	81,042,841	206,832,809			206,832,809	1,252,211,701	
		(2,955,780)							(536,753)						

18.3 Latest revaluation of land, building, plant and machinery and power house was carried out by an independent valuer as at June 30, 2013 as explained in Note 8. Had there been no revaluation, the cost, accumulated depreciation and book values of the revalued assets would have been as follows :

As on June 30, 2013		
Cost	Accumulated Depreciation	Book value
Rupees	Rupees	Rupees
4,801,830	-	4,801,830
196,122,396	77,437,683	118,684,713
1,260,649,515	581,258,564	679,390,951
187,385,431	97,446,030	89,939,401
1,648,959,172	756,142,277	892,816,895

### Note 18, Property, Plant and Equipment - Contd...

18.4 Depreciation charge for the year has been allocated as under:

	2013	2012
	Rupees	Rupees
Cost of sales	73,890,162	77,193,660
Administrative expenses	6,360,715	3,849,181
	<u>80,250,877</u>	<u>81,042,841</u>

### 18.5 Detail of items of property, plant and equipment having book value exceeding Rs. 50,000 sold during the year

Particulars	Cost / Revalued Rupees	Accumulated depreciation Rupees	Book value Rupees	Disposal proceeds Rupees	Gain / (Loss) Rupees	Mode of disposal	Particulars of buyer
<b>Plant and machinery</b>							
Savrio Winder	500,000	54,391	445,609	450,000	4,391	Negotiation	Attiq-ur-Rehman - Faisalabad
Savrio Winder	500,000	54,391	445,609	450,000	4,391	Negotiation	Attiq-ur-Rehman - Faisalabad
Savrio Winder	500,000	60,031	439,969	258,621	(181,348)	Negotiation	Muhammad Anwar - Faisalabad
Murata Twisting Machine	1,500,000	185,734	1,314,266	206,281	(1,107,985)	Negotiation	Faqir Muhammad - Faisalabad
Murata Twisting Machine	1,500,000	185,734	1,314,266	206,281	(1,107,985)	Negotiation	Faqir Muhammad - Faisalabad
Volk Man Twisting Machine	1,800,000	222,881	1,577,119	206,281	(1,370,838)	Negotiation	Abdur Rehman - Kasur
Volk Man Twisting Machine	1,800,000	222,881	1,577,119	206,281	(1,370,838)	Negotiation	Abdur Rehman - Kasur
Volk Man Twisting Machine	1,800,000	216,113	1,583,887	329,434	(1,247,685)	Negotiation	Salamat Ali - Kasur
Assembly Winding / Chase Winding	1,200,000	146,588	1,051,412	397,907	(653,505)	Negotiation	Salamat Ali - Kasur
Scutcher (Toyoda)	1,500,000	208,297	1,291,703	600,000	(691,703)	Negotiation	Zafar Iqbal - Kasur
Fork Lifter (Toyoda)	800,000	111,092	688,908	600,000	(88,908)	Negotiation	Tahir Bashir - Faisalabad
	15,200,000	1,893,014	13,306,986	4,240,520	(9,066,466)		Al Barkat Enterprises - Sheikhpura
<b>Vehicles</b>							
Suzuki Mehran	410,500	289,102	121,398	221,581	100,183	Terms of employment	Shafaqat Ali (Employee)
Honda Civic	1,022,242	793,124	229,118	450,000	220,882	Negotiation	Syed Aamir Shahzad - Lahore
	1,432,742	1,082,226	350,516	671,581	321,065		
Other operating fixed assets having individual net book value not exceeding Rs. 50,000	123,090	101,307	21,783	41,000	19,217	Negotiation	Various
<b>Total 2013</b>	<b>16,755,832</b>	<b>3,076,547</b>	<b>13,679,285</b>	<b>4,953,101</b>	<b>(8,726,184)</b>		
<b>Total 2012</b>	<b>2,955,780</b>	<b>536,753</b>	<b>2,419,027</b>	<b>1,095,086</b>	<b>(1,323,941)</b>		



Note 18, Property, Plant and Equipment - Contd...

	2013	2012
	Rupees	Rupees
<b>18.6 Capital Work in Progress</b>		
Buildings on freehold land		
Additions during the year	15,656,915	-
Transferred to buildings on freehold land	(15,656,915)	-
	-	-
<b>Plant and machinery</b>		
Opening balance	-	20,482,415
Additions during the year	272,830,297	13,936,628
	272,830,297	34,419,043
Transferred to :		
- Plant and machinery	(272,830,297)	(30,442,155)
- Electric installations	-	(2,706,450)
- Stores and spares	-	(1,270,438)
	-	-
<b>Advance for purchase of office</b>		
Opening balance	30,337,400	30,337,400
Additions during the year	12,596,349	-
	42,933,749	30,337,400
Transferred to buildings on freehold land	(42,933,749)	-
	-	30,337,400
<b>Advance for purchase of vehicle</b>		
	5,928,780	-
	5,928,780	30,337,400

Note 19

**Long Term Investment**

	2013	2012
	Rupees	Rupees
<b>Associates - Unquoted</b>		
Sargodha Jute Mills Limited:		
- 8,120,000 (2012: 8,120,000) fully paid ordinary shares of Rs. 10 each	216,056,865	204,167,850
Equity held 36.16% (2012: 36.16%)		
Cost of investment Rs. 65,600,000 (2012: Rs. 65,600,000)		
- Share in net profit for the year of associate	42,496,854	13,957,753
- Share in realized surplus on revaluation of property, plant and equipment of associate	3,085,126	2,621,370
- Share in deficit on revaluation of investments available for sale of associate	(254,522)	(630,108)
- Less: Dividend received	(4,060,000)	(4,060,000)
	257,324,323	216,056,865

**19.1** The Company holds 36.16% shareholding in Sargodha Jute Mills Limited and accounts for this investment under equity method as prescribed in IAS 28 (Investments in Associates). Summarized audited financial statements of Sargodha Jute Mills Limited are as follows:

	2013	2012
	Rupees in thousands	
Equity	712,306	598,182
Total assets	2,141,004	1,592,571
Revenue	2,765,430	2,473,423
Net profit for the year	117,524	38,600

## Note 20

**Long Term Deposits**

		2013	2012
	Note	Rupees	Rupees
Long term deposits	20.1	13,290,329	2,860,329

**20.1** These include Rs. 10.430 million deposited with LESCO during the year on account of security deposit.

## Note 21

**Stores and Spares**

		2013	2012
	Note	Rupees	Rupees
Stores and spares	21.1	50,047,400	50,449,752

**21.1** This includes stores in transit amounting to Rs. 1.851 million (2012: Rs. 1.275 million) as at the balance sheet date.

**21.2** Stores and spares include items which may result into fixed capital expenditure but those are not distinguishable as at the balance sheet date.

## Note 22

**Stock in Trade**

		2013	2012
		Rupees	Rupees
Raw materials		240,956,383	283,677,509
Work in process		37,056,910	34,358,032
Finished goods		59,340,207	43,670,421
		<u>337,353,500</u>	<u>361,705,962</u>

**22.1** Stocks amounting to Rs. 224.800 million (2012: Rs. 143.474 million) approximately are pledged against short term borrowings (refer to Note 14).

## Note 23

**Trade Debts**

		2013	2012
	Note	Rupees	Rupees
Local debts (Unsecured - considered good)		21,200,965	22,335,415
Foreign debts (Secured - considered good)		78,971,768	61,166,443
Foreign debts (Considered doubtful)		6,278,843	6,278,843
		106,451,576	89,780,701
Less : Provision for doubtful debts	23.1	(6,278,843)	(6,278,843)
		<u>100,172,733</u>	<u>83,501,858</u>

**23.1 Provision for doubtful debts**

Opening balance	6,278,843	-
Provision made during the year	-	6,278,843
	6,278,843	6,278,843
Bad debts written off	-	-
Closing balance	<u>6,278,843</u>	<u>6,278,843</u>

**23.2** There is no outstanding receivable from any related party as at the balance sheet date.

## Note 24

**Advances, Trade Deposits, Prepayments and Other Receivables**

		2013	2012
	Note	Rupees	Rupees
Advances - Considered good:			
- Employees	24.1	960,496	775,273
- Suppliers and others		6,072,129	5,197,315
Income tax deducted at source / Advance tax		56,386,872	59,278,551
Margins:			
- Letters of credit		66,770	78,511
- Export margin deposit		-	180,000
- Letters of guarantee		2,792,811	1,244,611
- Leased assets		-	708,300
Prepayments		1,604,773	857,194
Other receivables		571,146	375,627
		<u>68,454,997</u>	<u>68,695,382</u>

**24.1** Amount due from chief executive, directors and executives as at the balance sheet date was Nil (2012: Nil).

## Note 25

**Short Term Investments**

		2013	2012
	Note	Rupees	Rupees
<b>At fair value through profit or loss</b>			
Investment in quoted shares	25.1	<u>612,359</u>	<u>751,061</u>

**25.1** Investments are measured at fair value through profit and loss in accordance with IAS - 39 (Financial Instruments: Recognition and Measurement). The quoted market value in an active market is considered as the fair value of investment. The resulting difference between cost and fair value of investment is taken to the profit and loss account.

## Note 26

**Tax Refunds Due from Government**

	2013	2012
	Rupees	Rupees
Sales tax	25,258,255	17,718,776
Income tax	26,006,243	-
	<u>51,264,498</u>	<u>17,718,776</u>

## Note 27

**Cash and Bank Balances**

		2013	2012
	Note	Rupees	Rupees
Cash in hand		635,475	442,045
Cash at banks in:			
- Current accounts	27.1	32,502,711	42,122,797
- Deposit account		150,000	150,000
- Foreign currency account		-	5,671
		<u>32,652,711</u>	<u>42,278,468</u>
		<u>33,288,186</u>	<u>42,720,513</u>

**27.1** It carries interest at the rates ranging from 5% to 8.5% (2012: 5% to 7%) per annum approximately.

## Note 28

**Sales - Net**

	2013	2012
	Rupees	Rupees
Yarn:		
- Local	3,349,419,451	2,716,958,976
- Export	1,685,786,228	1,464,723,896
Wastes	42,204,048	40,765,910
	5,077,409,727	4,222,448,782
Less: Commission to selling agents	(73,358,145)	(47,341,730)
Sales tax	(26,108,082)	-
Discount allowed	-	(2,890,392)
	<u>4,977,943,500</u>	<u>4,172,216,660</u>

## Note 29

**Cost of Sales**

	2013	2012
	Rupees	Rupees
	Note	
Raw materials consumed	3,352,682,159	2,876,863,687
Stores and spares consumed	104,458,241	66,550,189
Packing materials consumed	85,583,830	74,438,348
Salaries, wages and other benefits	356,225,019	255,892,888
Fuel and power	516,460,239	390,015,230
Insurance	12,415,182	11,883,634
Repairs and maintenance	5,153,048	10,069,760
Other manufacturing expenses	9,879,188	8,551,912
Depreciation	18.4 73,890,162	77,193,660
	4,516,747,068	3,771,459,308
Opening work in process	34,358,032	32,095,429
Closing work in process	(37,056,910)	(34,358,032)
	(2,698,878)	(2,262,603)
	4,514,048,190	3,769,196,705
Cost of goods manufactured:		
- Opening finished goods	43,670,421	49,515,766
- Purchase of yarn	-	51,889,000
- Closing finished goods	(59,340,207)	(43,670,421)
	(15,669,786)	57,734,345
	<u>4,498,378,404</u>	<u>3,826,931,050</u>

## Note 30

**Selling and Distribution Costs**

	2013	2012
	Rupees	Rupees
Freight and octroi	13,152,510	13,733,671
Export sale expenses	44,691,466	38,796,712
	<u>57,843,976</u>	<u>52,530,383</u>

## Note 31

**Administrative Expenses**

		<b>2013</b>	<b>2012</b>
	Note	Rupees	Rupees
Salaries, wages and other benefits		51,143,679	45,959,010
Printing and stationery		940,050	1,221,916
Communication		1,671,265	1,480,903
Travelling and conveyance		1,469,928	678,386
Repairs and maintenance		963,860	557,348
Vehicles' running and maintenance		7,356,046	6,060,226
Rent, rates and taxes		2,109,859	1,825,325
Insurance		2,314,179	1,869,925
Legal and professional charges		996,475	1,477,000
Fee and subscription		3,592,304	7,756,828
Utilities		8,851,006	6,768,906
Entertainment		2,776,046	3,183,156
Advertisement		181,855	81,100
Donations		-	510,000
Miscellaneous		216,635	218,949
Depreciation	18.4	6,360,715	3,849,181
		<u>90,943,902</u>	<u>83,498,159</u>

## Note 32

**Finance Cost**

		<b>2013</b>	<b>2012</b>
		Rupees	Rupees
Interest / mark-up on:			
- Long term financing		4,830,857	14,565,229
- Liabilities against assets subject to finance lease		115,811	319,253
- Short term borrowings		37,675,287	42,465,524
		<u>42,621,955</u>	<u>57,350,006</u>
Bank charges and commission		9,147,402	7,682,018
Bank guarantee commission		1,066,189	879,031
Interest on workers' (profit) participation fund		294,392	973,529
		<u>53,129,938</u>	<u>66,884,584</u>

## Note 33

**Other Operating Expenses**

		<b>2013</b>	<b>2012</b>
	Note	Rupees	Rupees
Auditors' remuneration			
- Statutory audit		750,000	500,000
- Limited scope review		100,000	100,000
- Other attestation services		50,000	50,000
		<u>900,000</u>	<u>650,000</u>
Sales tax deposited under amnesty scheme	33.1	45,292,393	-
Loss on disposal of property, plant and equipment - Net		8,726,184	1,323,941
Provision for workers' (profit) participation fund		14,176,084	7,047,562
Provision for workers' welfare fund		1,526,438	2,340,686
Provision for doubtful debts		-	6,941,158
		<u>70,621,099</u>	<u>18,303,347</u>

**33.1** This represents sales tax deposited under the amnesty scheme introduced by the Federal Board of Revenue vide SRO 179(1) 2013.

## Note 34

**Other Income**

	<b>2013</b>	<b>2012</b>
	Rupees	Rupees
<b>Income from financial assets</b>		
Gain on revaluation of short term investments at fair value through profit or loss	259,179	4,010
Gain on disposal of short term investments	623,418	-
Profit on bank account	12,750	10,875
Exchange gain	1,531,787	1,824,620
	<u>2,427,134</u>	<u>1,839,505</u>
<b>Income from non financial assets</b>		
Profit on sale of raw material	4,571,805	3,243,277
Others	2,276,615	113,599
	<u>9,275,554</u>	<u>5,196,381</u>

## Note 35

**Taxation**

	<b>2013</b>	<b>2012</b>
	Rupees	Rupees
<b>Current:</b>		
- Current year	43,512,223	53,964,992
- Prior years		
- Adjustment on account of assessment	5,092,928	(6,131,043)
- Tax credits utilized	(44,890,203)	-
	<u>(39,797,275)</u>	<u>(6,131,043)</u>
	3,714,948	47,833,949
<b>Deferred</b>	<u>(12,604,028)</u>	<u>(22,004,359)</u>
	<u>(8,889,080)</u>	<u>25,829,590</u>

**35.1 Reconciliation of tax charge for the year:**

Profit before taxation	258,798,589	143,223,271
Tax @ 35% on profit before taxation	90,579,506	50,128,145
Prior year tax charge	5,092,928	(6,131,043)
Tax credits utilized and unutilized	(82,934,330)	-
Tax effect of exports under final tax regime	(7,324,154)	(1,047,067)
Tax effect on income taxed at reduced rate	(14,873,899)	(4,885,214)
Other adjustments	13,174,897	9,769,127
Deferred taxation	(12,604,028)	(22,004,359)
	<u>(8,889,080)</u>	<u>25,829,590</u>

Note 36

**Cash Generated from Operations**

	<b>2013</b>	<b>2012</b>
	Rupees	Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	258,798,589	143,223,271
Adjustments for:		
- Depreciation	80,250,877	81,042,841
- Share of net profit of associate	(42,496,854)	(13,957,753)
- Loss on disposal of property, plant and equipment - Net	8,726,184	1,323,941
- Gain on disposal of short term investments - Net	(623,418)	-
- Surplus on revaluation of short term investments - at fair value through profit or loss	(259,179)	(4,010)
- Provision for gratuity	19,148,496	17,924,568
- Exchange gain	(1,531,787)	(1,824,620)
- Provision for doubtful debts	-	6,941,158
- Provision for workers' (profit) participation fund	14,176,084	7,047,562
- Provision for workers' welfare fund	1,526,438	2,340,686
- Interest on workers' (profit) participation fund	294,392	973,529
- Liabilities written back	(1,798,940)	-
- Finance cost	42,621,955	65,911,055
	<u>120,034,248</u>	<u>167,718,957</u>
<b>Operating profit before working capital changes</b>	<b>378,832,837</b>	<b>310,942,228</b>
Decrease / (increase) in current assets:		
- Stores and spares	402,352	(1,350,422)
- Stock in trade	24,352,462	(136,208,325)
- Trade debts	(15,139,088)	(12,987,178)
- Advances, trade deposits, prepayments and other receivables	(2,651,294)	5,813,246
- Tax refunds due from Government	(7,539,479)	5,692,985
Increase / (decrease) in current liabilities:		
- Trade and other payables	51,005,025	116,738,758
	<u>50,429,978</u>	<u>(22,300,936)</u>
<b>Cash generated from operations</b>	<b><u>429,262,815</u></b>	<b><u>288,641,292</u></b>

## Note 37

**Earnings per Share - Basic and Diluted**

		<b>2013</b>	<b>2012</b>
		Rupees	Rupees
Basic earning per share is based on			
Net profit for the year attributable to ordinary shareholders	Rupees	267,687,669	117,393,681
Weighted average number of ordinary shares outstanding during the year	Number	17,971,372	17,971,372
Earnings per share - Basic	Rupees	<u>14.90</u>	<u>6.53</u>

**37.1 Diluted Earnings per Share**

There is no dilutive effect on the basic earnings per share of the Company as the Company has no such commitments that would result in dilution of earnings of the Company.

## Note 38

**Transactions with Related Parties**

Related parties and associates comprise related group companies, local associates, staff retirement funds, directors and key management personnel. Transactions with related parties and associates, other than remuneration and benefits to key management personnel under the term of their employment are as follows:

	<b>2013</b>	<b>2012</b>
<b>Associate</b>	Rupees	Rupees
- Dividend income received	4,060,000	4,060,000
- Rent received from leasehold land	432,000	108,000
- Purchase of materials, goods and services	291,753	180,200
- Sale of materials, goods and services	227,496	279,654
- Dividend paid	14,990	7,495
<b>Director</b>		
- Loan from director repaid	5,000,000	-
- Mark up on loan from director charged	150,337	639,705

There were no transactions with key management personnel other than undertaken as per terms of their employment that have been disclosed in Note 39. Sale and purchase transactions have been carried out on commercial terms and conditions under comparable uncontrolled price method.



## Note 39

**Chief Executive's, Directors' and Executives' Remuneration**

The aggregate amounts charged in the financial statements for the year as remuneration and benefits to the chief executive, directors and executives of the Company are as follows:

	2013			2012		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Managerial remuneration	6,272,727	-	17,408,007	6,272,727	7,358,182	6,930,868
Medical	627,273	-	1,735,121	627,273	735,818	693,088
Bonus	575,000	-	1,594,645	350,000	523,378	606,688
Staff retirement benefits	575,000	-	1,370,511	575,000	617,800	710,350
	<u>8,050,000</u>	<u>-</u>	<u>22,108,284</u>	<u>7,825,000</u>	<u>9,235,178</u>	<u>8,940,994</u>
Number of persons	1	-	18	1	3	7

**39.1** The chief executive, two directors and eight executives are provided with free use of Company maintained vehicles. Executive is defined as an employee with basic salary exceeding Rs. 500,000.

**39.2** No meeting fee has been paid during the year.

**39.3** Remuneration and benefits paid to executive directors retired during the year have been disclosed as paid to executives.

## Note 40

**Segment Information**

For management purposes, the activities of the Company are recognized into one operating segment, i.e. manufacturing and sales of yarn. The Company operates in the said reportable operating segment based on the nature of the product, risk and return, organizational and management structure and internal financial reporting systems. Accordingly, the figures reported in these financial statements related to the Company's only reportable segment. Entity-wide disclosures regarding reportable segment are as follows:

	2013	2012
	Percentage	Percentage
<b>40.1 Information about products:</b>		
Yarn	99.17%	99.03%
<b>40.2 Major customers:</b>		
3 customers (2012: 2 customers)	15.10%	17.59%

**40.3 Geographical Information:**

Company's revenue from external customers and geographical location is given as under:

	2013	2012
	Rupees in thousand	
Asia	1,171,353	994,800
Europe	463,280	429,444
Africa	48,750	5,290
North America	2,404	35,191
Pakistan	3,365,515	2,757,725
	<u>5,051,302</u>	<u>4,222,450</u>

**40.4** All non-current assets of the Company are located and operated in Pakistan as at the reporting date.

Note 41

**Plant Capacity and Production**

	2013	2012
	Kilograms	Kilograms
Plant capacity converted into 20/S count based on three shifts per day for 365 days (2012: 365 days)	38,320,778	35,301,278
Actual production converted into 20/S count	34,382,004	31,976,020

**Reasons for shortfall**

The main reason of shortfall in actual production was on account of availability of additional capacity installed towards the end of the year. Other factors attributable to under utilization are spindle speed, maintenance of machinery, power shutdown etc.

Note 42

**Financial Risk Management****42.1 Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management policies focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board). The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, price risk, interest rate risk, credit risk and liquidity risk.

**(a) Market risk****(i) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising with respect to the United States Dollar (USD). Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable from / payable to foreign entities. The Company hedges its export bills proceeds through discounting, when considered appropriate. As at the balance sheet date, the Company's exposure to currency risk was as follows:

	2013	2012
	Rupees in thousand	
Trade debts	85,251	67,445
Outstanding commitments against letters of credit	(24,089)	(41,461)
Outstanding commitments against foreign bills of exchange purchased	(149,417)	(254,478)
Net exposure	<u>(88,255)</u>	<u>(228,494)</u>

## Note 42, Financial Risk Management - Contd...

The following significant exchange rates were applied during the year:

**Rupees per US Dollar**

Average rate	100.10	89.93
Reporting date rate	100.90	94.25

**Sensitivity analysis**

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD with all other variables held constant, the impact on profit before taxation for the year would have been Rs. 4.413 million (2012: Rs. 11.425 million) respectively higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. This sensitivity analysis reflects exposure as at reporting date and is unrepresentative of the exposure during the year.

**(ii) Price risk**

Price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instrument traded in the market. The Company is exposed to equity and commodity price risk in respect of short term investments carried at market value. Following analysis shows the impact of change in equity and commodity price.

	Year	Change in Commodity Prices	Effect on Profit and Loss Account
		%	Rupees in Thousand
Equity instruments	2013	+10%	61.24
	2013	-10%	(61.24)
Equity instruments	2012	+10%	75.11
	2012	-10%	(75.11)

There is no impact of change in equity and commodity price on statement of other comprehensive income.

**(iii) Interest rate risk**

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant long-term interest-bearing assets. The Company's interest rate risk arises from long term financing, short term borrowings and bank balance in saving accounts. As the borrowings are obtained at variable rates, these expose the Company to cash flow interest rate risk.

As at the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was as follows:

## Note 42, Financial Risk Management - Contd...

	2013	2012
<b>Floating rate instruments</b>		
	Rupees in thousand	
<b>Financial liabilities</b>		
Long term financing	97,477	189,787
Liabilities against assets subject to finance lease	-	1,694
Short term borrowings	269,090	184,491
<b>Financial assets</b>		
Bank balances - deposit account	150	150

**Cash flow sensitivity analysis for variable rate instruments**

The following analysis demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit and loss account. This analysis is prepared assuming the amounts of floating rate instruments outstanding at balance sheet dates were outstanding for the whole year.

	Changes in interest rates	Long term financing	Liabilities against assets subject to finance lease	Short term borrowings	Bank balances deposit account	Total effects on Profit and Loss Account
	%	----- Rupees in thousand -----				
<b>June 30, 2013</b>						
	+1.00	(974.77)	-	(2,690.90)	1.50	(3,664.16)
	-1.00	974.77	-	2,690.90	(1.50)	3,664.16
<b>June 30, 2012</b>						
	+1.00	(1,897.87)	(16.94)	(1,844.91)	1.50	(3,758.22)
	-1.00	1,897.87	16.94	1,844.91	(1.50)	3,758.22

**(b) Credit risk**

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Carrying amounts of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2013	2012
	Rupees in thousand	
Long term deposits	13,290	2,860
Trade debts	100,173	83,502
Trade deposits and other receivables	3,364	2,509
Short term investments	612	751
Bank balances	32,653	42,278

Company exposure relating to credit risk and impairment losses relating to trade debt is disclosed in relevant notes to the financial statement.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

Note 42, Financial Risk Management - Contd...

	Rating		Rating Agency	2013	2012
	Short term	Long term			
				Rupees in thousand	
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	16,808	10,067
MCB Bank Limited	A1+	AAA	PACRA	8,837	7,581
Habib Bank Limited	A1+	AAA	JCR-VIS	3,080	1,465
Allied Bank Limited	A1+	AA+	PACRA	2,614	3,423
JS Bank Limited	A1	A+	PACRA	931	9,230
National Bank of Pakistan	A1+	AAA	JCR-VIS	209	224
United Bank Limited	A1+	AA+	JCR-VIS	167	45
Bank Alfalah Limited	A1+	AA	PACRA	7	10,115
NIB Bank Limited	A1+	AA-	PACRA	-	129
				32,653	42,278

**(c) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages its liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. As at the balance sheet date, the Company had Rs. 1,351.93 million (2012: 578.12 million) worth unavailed short term borrowing limits available (both funded and unfunded) from financial institutions and Rs. 33.288 million (2012: Rs. 42.721 million) cash and bank balances. Following are the contractual maturities of financial liabilities, including interest payments.

**Contractual maturities of financial liabilities as at June 30, 2013:**

	Carrying Amount	Contractual cash flows	Within 1 year	2-5 Years	More than 5 years
	----- Rupees in thousand -----				
Long-term finances*	97,477	22,918	22,918	-	-
Trade and other payables	251,870	251,870	251,870	-	-
Accrued interest	23,987	23,987	23,987	-	-
Short term borrowings	269,090	277,539	277,539	-	-
	642,424	576,314	576,314	-	-

\*Rs. 77.014 million represents the frozen mark-up and will be waived off subject to the payment of outstanding principal and mark up in accordance with the rescheduling agreement (Refer to Note 9).

**Contractual maturities of financial liabilities as at June 30, 2012:**

	Carrying Amount	Contractual cash flows	Within 1 year	2-5 Years	More than 5 years
	----- Rupees in thousand -----				
Liabilities against leased assets	1,694	1,788	1,788	-	-
Long-term finances*	189,787	110,967	72,265	38,702	-
Trade and other payables	206,734	206,734	206,734	-	-
Accrued interest	8,427	8,427	8,427	-	-
Short term borrowings	184,491	184,491	184,491	-	-
	591,133	512,407	473,705	38,702	-

## Note 42, Financial Risk Management - Contd...

\*Rs. 90.800 million represents the freezed mark-up and will be waived off subject to the payment of outstanding principal and mark up in accordance with the rescheduling agreement (Refer to Note 9).

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / mark up rates effective as at 30 June. The rates of interest / mark up have been disclosed in relevant notes to these financial statements.

## 42.3 Financial instruments by categories

**Financial assets as at June 30, 2013**

	Cash and Cash Equivalents	Loans and advances	Fair value through profit or loss	Total
----- Rupees in thousand -----				
Long term deposits	-	13,290	-	13,290
Short term investments	-	-	612	612
Trade debts	-	100,173	-	100,173
Trade deposits and other receivables	-	3,364	-	3,364
Cash and bank balances	33,288	-	-	33,288
	<u>33,288</u>	<u>116,827</u>	<u>612</u>	<u>150,727</u>

**Financial assets as at June 30, 2012**

	Cash and Cash Equivalents	Loans and advances	Fair value through profit or loss	Total
----- Rupees in thousand -----				
Long term deposits	-	2,860	-	2,860
Short term investments	-	-	751	751
Trade debts	-	83,502	-	83,502
Trade deposits and other receivables	-	2,509	-	2,509
Cash and bank balances	42,721	-	-	42,721
	<u>42,721</u>	<u>88,871</u>	<u>751</u>	<u>132,343</u>

**Financial liabilities at amortized cost**

	2013	2012
Rupees in thousand		
Long term financing	97,477	189,787
Liabilities against assets subject to finance lease	-	1,694
Trade and other payables	251,870	206,734
Accrued mark-up	23,987	8,427
Short term borrowings	269,090	184,491
	<u>642,424</u>	<u>591,133</u>

#### 42.4 Fair values of financial assets and liabilities

Carrying values of all financial assets and liabilities reflected in these financial statements approximate to their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

Note 43

#### Capital Risk Management

While managing capital, the objectives of the Company are to ensure that it continues to meet the going concern assumption, enhance shareholders' wealth and meets stakeholders' expectations. The Company ensures its sustainable growth viz. maintaining optimal capital structure, keeping its finance cost low, exercising the option of issuing right shares or repurchasing shares, if possible, selling surplus property, plant and equipment without affecting the optimal production and operating level and regulating its dividend payout thus maintaining smooth capital management.

In line with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non current) and finance leases less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus net debt.

As at the balance sheet date, the gearing ratio of the Company was as under:

	2013	2012
	Rupees in thousand	
Total borrowings	366,566	375,972
Cash and bank balances	(33,288)	(42,721)
<b>Net Debt</b>	<b>333,278</b>	<b>333,251</b>
<b>Equity</b>	<b>988,810</b>	<b>719,733</b>
<b>Total Capital</b>	<b>1,322,088</b>	<b>1,052,985</b>
<b>Gearing Ratio</b>	<b>25.21%</b>	<b>31.65%</b>

Note 44

#### Number of Employees

	2013				
	Permanent		Contractual		Total
	Head office	Mills	Head office	Mills	
	Number	Number	Number	Number	Number
Employees as at the year end	35	2,082	3	76	2,196
Average employees during the year	35	2,055	3	72	2,165

  

	2012				
	Permanent		Contractual		Total
	Head office	Mills	Head office	Mills	
	Number	Number	Number	Number	Number
Employees as at the year end	35	2,032	3	77	2,147
Average employees during the year	35	1,919	3	73	2,030

Note 45

**Proposed Dividend**

The directors in their meeting held on September 23, 2013 have recommended a final cash dividend of Rs. 1.5 (2012: Rs. 1.00) per share in respect of the year ended June 30, 2013.

Note 46

**Authorization of Financial Statements**

These financial statements were authorized for issuance on September 23, 2013 by the Board of Directors of the Company.

Note 47

**Corresponding Figures**

Comparative figures have been re-arranged / reclassified, wherever necessary, to facilitate comparison. Following rearrangements have been made in these financial statements for better presentation of the financial statements.

<b>From</b>	<b>Amount (Rupees)</b>	<b>To</b>	<b>Amount (Rupees)</b>
Repairs and maintenance (Note 31)	(405,145)	Utilities (Note 31)	405,145
Others (Note 34)	(3,243,277)	Profit on sale of raw material (Note 34)	3,243,277

**CHIEF EXECUTIVE****DIRECTOR**



PATTERN OF HOLDING OF SHARES  
HELD BY THE SHAREHOLDERS AS AT 30TH JUNE, 2013

No. of Shareholders	Share Holding		Total Shares Held
	From	To	
482	1	100	12,509
237	101	500	56,284
45	501	1,000	32,230
53	1,001	5,000	111,361
4	5,001	10,000	27,571
4	10,001	15,000	50,974
2	15,001	20,000	35,061
1	20,001	25,000	21,174
2	35,001	40,000	75,715
1	50,001	55,000	52,900
1	75,001	80,000	79,706
1	95,001	100,000	95,529
1	105,001	110,000	105,907
1	120,001	125,000	124,045
1	265,001	270,000	265,553
1	380,001	385,000	382,517
1	385,001	390,000	386,710
1	430,001	435,000	432,131
1	445,001	450,000	448,289
2	450,001	455,000	903,015
1	545,001	550,000	548,531
1	615,001	620,000	617,991
1	735,001	740,000	739,954
1	760,001	765,000	760,382
1	830,001	835,000	835,000
1	835,001	840,000	837,470
1	1,070,001	1,075,000	1,074,917
1	1,680,001	1,685,000	1,682,217
2	3,585,001	3,590,000	7,175,729
<b>852</b>			<b>17,971,372</b>

**CATEGORIES OF SHAREHOLDERS**  
AS AT 30-06-2013

Sr. No.	Categories of Shareholders	Physical	CDC	Total
<b>1</b>	Directors, Chief Executive and Their Spouses and Minor Children			
	Mr. Imran Aslam - Chief Executive/Director	-	3,587,865	3,587,865
	Mian Parvez Aslam - Director	-	1,074,917	1,074,917
	Mr. Naveed Sheikh - Director	650	-	650
	Syed Raza Ali Bokhari - Director	650	-	650
	Mr. Humayun Bakht - Director	650	-	650
	Mrs. Nazish Imran - Director	650	-	650
	Mrs. Sara Irfan - Director	650	-	650
	Mrs. Fakhra Parvez - Spouse	-	837,470	837,470
		<u>3,250</u>	<u>5,500,252</u>	<u>5,503,502</u>
<b>2</b>	Executives	-	-	-
<b>3</b>	Associated Companies, Undertakings & Related Parties			
	Sargodha Jute Mills Limited	-	14,990	14,990
	Total:	<u>-</u>	<u>14,990</u>	<u>14,990</u>
	Related Parties			
	Mr. Irfan Aslam	-	3,587,864	3,587,864
	Mrs. Saima Hassan	-	451,508	451,508
	Sadaf Parvez	-	451,507	451,507
	Total:	<u>-</u>	<u>4,505,869</u>	<u>4,505,869</u>

**CATEGORIES OF SHAREHOLDERS**  
AS AT 30-06-2013

Sr. No.	Categories of Shareholders	Physical	CDC	Total
<b>4</b>	<b>Public Sector, Companies and Corporations</b>			
	National Investment Trust Limited	410	-	410
	Investment Corporation of Pakistan	8,900	-	8,900
		<b>9,310</b>	<b>-</b>	<b>9,310</b>
<b>5</b>	<b>Mutual Funds</b>			
	Golden Arrow Selected Stock Fund Limited	122	-	122
<b>6</b>	<b>Banks, NBFC's, DFI's, Takaful, Pension Funds</b>	2200	-	2,200
<b>7</b>	<b>Modarabas</b>	-	-	-
<b>8</b>	<b>Insurance Companies</b>	600	-	600
<b>9</b>	<b>Other Companies, Corporate Bodies, Trust etc.</b>	3,209	8,759	11,968
<b>10</b>	<b>General Public- Local</b>	3,664,418	4,258,393	7,922,811
	<b>Total</b>			
	<b>Grand Total:</b>	<b>3,683,109</b>	<b>14,288,263</b>	<b>17,971,372</b>
	<b>Shareholders more than 5% shareholding</b>			
	Mian Parvez Aslam	-	1,074,917	1,074,917
	Mian Shahzad Aslam	760,382	1,682,217	2,442,599
	Mr. Imran Aslam	-	3,587,865	3,587,865
	Mr. Irfan Aslam	-	3,587,864	3,587,864
	No trade in the shares of the company carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children.	-	-	-

## PROXY FORM

I/We \_\_\_\_\_, being member(s) of **Shahzad Textile Mills Limited** and holder of \_\_\_\_\_ Shares as per Folio No. \_\_\_\_\_ CDC Participant ID # \_\_\_\_\_ and Sub Account # \_\_\_\_\_ do hereby appoint \_\_\_\_\_ of \_\_\_\_\_ or failing him/her \_\_\_\_\_ of \_\_\_\_\_ as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of **Shahzad Textile Mills Limited** scheduled to be held on **Monday, October 21, 2013 at 12.15 p.m.** at 19-A, Off. Zafar Ali Raod, Gulberg-V, Lahore and at any adjournment thereof.

As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_ 2013

Please affix here Revenue  
Stamp of Rs.5/-

\_\_\_\_\_  
Members' Signature

**Notes:**

1. A member entitled to attend and vote at a General Meeting is entitled to appoint a proxy.
2. Proxies, in order to be effective, must be received at the Company's Registered Office, 19-A, Off. Zafar Ali Road, Gulberg-V, Lahore, not later than 48 hours before the time for holding the meeting and must be duly stamped, signed and witnessed.
3. CDC account holders will further have to follow the under-mentioned guidelines as laid down in circular #1, dated 26th January, 2000 of The Securities and Exchange Commission of Pakistan.
  - i) In case of individuals, the account holder and/or sub-account holder whose securities and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.
  - ii) The proxy form shall be witnessed by two persons, whose names, addresses and CNIC numbers shall be mentioned on the form.
  - iii) Attested copies of the CNIC or the passport of beneficial owners and the proxy shall be furnished with the proxy form.
  - iv) The proxy shall produce his original CNIC or original passport at the time of the Meeting.

In case of corporate entity, the Board's resolution/power of attorney with specimen signatures of the proxy holder shall be submitted (unless it has been provided earlier) along with proxy form to the Company.