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COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. Sohail Maqsood (Chairman)
Mr. Tanveer Ahmed (Chief Executive)
Mr. Muhammad Yousaf
Mr. Umer Hayat Gill
Mr. Riaz Ahmed
Mr. Muhammad Shafiq
Mr. Iftikhar Ali

AUDIT COMMITTEE

Mr. Muhammad Shafiq (Chairman)
Mr. Umer Hayat Gill
Mr. Sohail Maqsood

HR & REMUNERATION COMMITTEE

Mr. Sohail Maqsood (Chairman)
Mr. Tanveer Ahmed
Mr. Muhammad Shaifq

CHIEF FINANCIAL OFFICER

Mr. Aaqib Rauf

COMPANY SECRETARY

Mr. Javaid Iqbal

AUDITORS

M/s. Mushtaq & Co.
Chartered Accountants,
Karachi.

LEGAL ADVISOR

M/s. Akhter Javed-Advocate

TAX CONSULTANT

M/s. Sharif & Company - Advocate

SHARE REGISTRAR OFFICE

M/s. Hameed Majeed Associates (Pvt) Ltd.
Karachi Chamber,
Hasrat Mohani Road, Karachi.
Ph : 32424826, 32412754
Fax: 32424835

REGISTERED OFFICE

2nd Floor, Finlay House,
I.I. Chundrigar Road, Karachi.

REGIONAL OFFICE

2nd Floor, Garden Heights,
8 Aibak Block, New Garden Town, Lahore.

MILLS

Jumber Khurd Tehsil Chunnain Distt. Kasur.

Corporate Vision / Mission Statement

Vision

We aim at transforming Gulistan Spinning Mills Limited into a complete Textile unit to further explore international market of very high value products. Our emphasis would be on product and market diversifications, value addition and cost effectiveness. We intend to fully equip the Company to acquire pioneering role in the economic development of the Country.

Mission

The Company should secure and provide a rewarding return on investment to its shareholders and investors, quality products to its customers, a secured and environment friendly place of work to its employees and present itself as a reliable partner to all business associates.

Notice of Annual General Meeting

Notice is hereby given that Annual General Meeting of **Gulistan Spinning Mills Limited** (the "Company") will be held at Trading Hall, Karachi Cotton Association Building, I.I. Chundrigar Road, Karachi on **Tuesday, May 21, 2013 at 12:00 Noon**, to transact the following business:

1. To confirm the minutes of the last Annual General Meeting of the Company.
2. To receive, consider and adopt the audited financial statements of the Company for the financial year ended on June 30, 2012 together with Directors' and Auditors' Reports thereon.
3. To appoint Auditors of the Company for the next financial year 2012-13 and fix their remuneration. The retiring Auditors being eligible have offered themselves for reappointment as Auditors of the Company.
4. To transact any other business with the permission of the Chairman.

By Order of the Board

Lahore :

Dated : April 30, 2013

Company Secretary

NOTES:

1. The share transfer books of the company will remain closed and no transfer of shares will be accepted for registration from **14th May, 2013 to 21st May, 2013 (both days inclusive)**.
2. A member entitled to attend and vote at the general meeting may appoint any other member as proxy in writing to attend the meeting and vote on his/her behalf.
3. Duly completed form(s) of proxy must be deposited with the Company at the Registered Office of the Company not later than 48 hours before the time fixed for the meeting.
4. CDC Account holders will further have to follow the under-mentioned guidelines as laid down in circular 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

For Attending the Meetings

In case of individuals, the account holders or sub-account holders whose registration details are uploaded as per regulations, shall authenticates his/her original valid Computerized National Identity Card (CNIC) or original passport at the time of attending meeting.

In case of Corporate Entity, Board of Director's Resolution/Power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of meeting.

For Appointment of Proxies:

- i. In case of individuals, the account holder or sub-account holders whose registration details are uploaded as per regulations, shall submit the proxy form as per above requirement.
- ii. Attested copy of CNIC or the passport of beneficial owners and proxy shall be furnished with the Proxy Form.
- iii. The Proxy shall produce his CNIC or the passport at the time of meeting.
- iv. In case of corporate entity, the Board of Director's Resolution/Power of attorney with specimen signature shall be submitted (unless provided earlier) along with Proxy Form.
- v. The Proxy form shall be witnessed by two persons whose name, CNIC No. and address shall be mention on Proxy Form.
5. Members are requested to notify immediately changes of their addresses (if any) to our Shares Registrar M/s Hameed Majeed Associates (Pvt) Limited, Karachi Chamber, Hasrat Mohani Road, Karachi.

Directors' Report to the Shareholders

The Directors of your Company are pleased to place their report together with the Auditor's Report and audited Financial Statements of the Company for the year ended June 30, 2012 at the Annual General Meeting of company.

Overview

The year under review has been proved toughest period since inception of the Company. During the year under review highest levels of volatility in cotton and yarn prices were observed. Abnormal Gas and electricity load shedding further exacerbated the situation coupled with rising trends of energy costs; depreciating rupee against major currencies increased the cost of inputs day by day making it very difficult for local industries to remain competitive in international markets. The interest rate in Pakistan was highest in the region during the period under review and is badly hurting the profitability and competitiveness of our businesses.

The cotton prices remained volatile in this period with substantial fluctuations on month to month basis. Our credit lines were approved by financial institutions at the time when cotton price was around Rs. 3,000/- per maund. Due to volatility in cotton prices, the cotton price touched to Rs. 13,000/- per maund, during the year under review, as a result of which the working capital requirement was increased. The company approached the financial institutions to approve the additional funding for the cotton purchase but instead of approving the additional funding, some of them abruptly curtailed the existing lines which created a disaster for the company as the production declined due to non procurement of cotton in time and we could not purchase cotton at cheaper rates. These adverse eventualities had a compounding effect on the company as the availability of working capital lines at the right time were not at our disposal. Due to the company's inability to purchase raw materials adequately it was unable to maximize production capacity which subsequently declined 35% of installed capacity. This hindered the Company's plan to achieve the desired production targets which badly affected our sales turnover as well as export orders.

In view of unilateral decision regarding blockage of working capital lines by the Financial institutions, adjustment of financial obligations from sale proceeds, delays in release of security, charging of high mark-up etc. forced the Company to file a suit before Honorable Lahore High Court jointly against financial institutions under section 9 of the Financial Institutions (Recovery of Finances) Ordinance, 2001 for redemption / release of security, rendition of accounts, and recovery of damages, permanent injunction and ancillary reliefs. Since the matter is prejudice in the Honorable Lahore High Court, the company has not acknowledged its liability until the amount of principal and mark up is reconciled with the financial institutions in accordance with the above mentioned suit.

The debt amortization profile, higher interest cost and associated liquidity problems have forced the company to consider the restructuring of its debt obligations subject to reconciliation of financial obligations to ensure continued timely discharge of its commitments to its lenders. The company has initiated the debt restructuring process with the help of the key lending financial institutions. Once achieved, it would improve the company's financial health and liquidity of the Company.

Increasing global options available to long standing customers and competitive strategies adopted by other textile manufacturing countries in the region created further pressure on margins at a time when local cost of operations has continued to go up due to across the board increased utility cost and inflationary pressures. Inflationary pressures burdened our cost of production despite Company's efforts to implement cost cutting measures. Persistent and unprecedented energy crisis in the Country compelled the Company to generate required energy through higher cost substitutes. Increasing competition from local textile manufacturers also restricted our margins.

The company enjoyed very good reputation in the international as well as local market since its inception which is evident from its export turnover which was around 50% during the last three years.

We have been conscious of the issues that are affecting our profitability and are committed to plans to turn Company into profit by implementing the restructuring process for better financial position, strengthening our operations through proficient acumen, improving manufacturing processes and offering better service to our customers.

Operating & Financial Performance

Operating indicators	2012 Rupees	2011 Rupees
Sales	1,602,248,153	2,662,982,274
Gross (loss) / Profit	(1,237,300,539)	324,019,194
Financial cost	122,764,187	174,466,762
Pre tax (loss) / Profit	(1,542,028,549)	85,841,380
Provision for taxation	22,114,252	(33,446,243)
(Loss) / Profit after taxation	(1,519,914,297)	52,395,137

Future Prospects

Due to economic recession around the globe businesses conditions have been adversely affected in preceding three years. Though there have been some recovery of economies from the recession however, its effect is still far from over. In addition to global economic recession, serious internal issues also affected Pakistan's textile industry very significantly. The high cost of production resulting from higher cotton prices, rising energy costs, increasing prices of imported inputs due to depreciation of Pakistani rupee, double digit inflation, highest financial cost in the region and prolonged power cuts are posing serious threats to textile sector. On these fronts the situation is expected to remain volatile in the future.

Directors' Report to the Shareholders

Going forward, the Company is focusing on strategy to consolidate its customer base, rationalize production volume and achieve pricing targets to increase profitability. Bottle neck in achieving these milestones was non-availability of working capital lines. This impediment is expected to be over in near future as the restructuring process is expected to be completed soon and this would result in better financing opportunities vis-a-vis reduction in finance cost for the Company. Once the ongoing reconciliation & restructuring process is completed, we would be in better position to embark upon timely better priced procurement of the required raw materials, interest costs, energy prices and rising inflation.

To increase profitability and improve performance, wide ranging and significant measures are being implemented by the Company focusing on cost reduction and increase in margins. Considering focus of stakeholders and support of management, challenges would be overcome and success would be achieved through consistent team effort. It is expected that the Company will emerge on stronger footings.

Auditors' Observations

Due to pending litigation in the High Court against all banks/financial institutions for reconciliation of amounts and recovery of damages the company has not provided accrued markup in these accounts. Consequently banks/financial institutions have not confirmed the amounts which are already disputed by the company.

Regarding the auditor's observation for liquidity issues and its repercussions, the company is very hopeful that with reconciliation of amounts, release of security as per pending litigation with the Lahore High Court and in post re-profiling scenario, the financial health of the company will be improved which will enable the company to purchase cost effective timely raw material, manage the resources properly, combat the pressures of local and global market and tackle with energy crises.

Corporate Governance

Your Company has been complying with the rules & regulations of Securities and Exchange Commission of Pakistan and has implemented better internal control policies with more rigorous checks and balances.

Board meetings and attendance

Six (6) meetings of the Board of Directors were held during the period under review. Attendance by each director is as follows:

Name of Director	No of meeting attended
Mr. Tanveer Ahmed	6
Mr. Riaz Ahmed	6
Mr. Sohail Maqsood	5
Mr. Umer Hayat Gill	4
Mr. Muhammad Yousaf	5
Mr. Abdul Shakoor (Resigned on 26.12.2011)	2
Mr. Muhammad Shafiq (Appointed on 26.12.2011)	3
Mr. Naseer Ahmed (Retired on 31-03-2102)	4
Mr. Iftikhar Ali (Appointed on 31-03-2012)	1

Leaves of absence were granted to the members who could not attend the meetings.

Audit Committee

The Board of Directors of the Company in compliance with the Code of Corporate Governance has established an Audit Committee. The names of its members are given in the Company information.

Internal Audit Function

The Board has implemented a sound and effective internal control system including operational, financial and compliance controls to carry on the business of the Company in a controlled environment in an efficient manner to address the Company's basic objectives.

Internal audit findings are reviewed by the Audit Committee, where necessary, action taken on the basis of recommendations contained in the internal audit reports.

Corporate Governance & Financial Reporting Framework

As required by the code of corporate governance, directors are pleased to report that:

- The financial statements prepared by the management of the Company present fairly its true state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International accounting standards, as applicable in Pakistan have been followed in preparation of financial statements.
- The system of internal control is sound and has been effectively implemented and monitored.
- The Board is satisfied that Company is doing well and there is no concern as regard to going concern under the Code and as duly explained in note 1.3 of Financial Statements.
- There has been no material departure from the best practices of corporate governance as detailed in the listing regulations of the stock exchanges.

Directors' Report to the Shareholders

- Key operating and financial data for the last six years is annexed.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on June 30, 2012 except for those disclosed in the financial statements.
- No material changes and commitments affecting the financial position of your Company have occurred between the end of the financial year to which this Balance Sheet relates and the date of the Directors' Report except for those disclosed in the Financial Statements.

Earning / (Loss) Per Share

The earning per share of the company for the period ended June 30, 2012 was Rs. (103.81) as compared to the previous year of Rs. 3.58.

Dividends

Due to circumstances discussed above, the Board of Directors does not recommend dividend for the year ended on June 30, 2012.

Human Resource

The Company believes that highly skilled and motivated workforce is essential for success. It gives priority to Human Resource Development. An effective corporate strategy ensuring continuous investment, in order to maintain and build valuable resources, is being implemented. The Company continues to provide challenging opportunities for growth of over 500 employees. The Company has created a culture that promotes teamwork, collaboration, openness and transparency of all processes and builds trust by being just and transparent in granting rewards and recognition. Complying with our Human Resource Policies, the Company does not employ any child labour and is an equal opportunity employer. Moreover Company gives the opportunity to special persons to contribute to the economy with self respect, dignity and honour.

Safety, Health and Environment

Your Company complies with the standards and follows the safety rules and regulations. Company provides and maintains, so far as practicable equipment, systems and working conditions which are safe and without risk to the health and safety of our employees. The Board is pleased to inform that various sessions on safety awareness are held and by the grace of Almighty no major accident was reported during the year under review.

Management has maintained its strong commitment to a safe environment in all its operations throughout the year. Your Company actively strives to mitigate all adverse environmental impact arising out of our operations and strictly adheres to legal regulations.

As a commitment to comply with international standards, the Company opted to adopt Social Accountability Standard SA-8000 and is now a certificated Company.

Energy Conservation

Energy conservation is one of our key focus areas of the Management. Your Company however is trying its level best for benchmarking energy consumption levels with acceptable industrial standards and consistently works towards improving efficiencies further. In this regard Energy Management System has been established at all units of the Company. Theoretical and practical training has been imparted to a team by PISD, GTZ, SMEDA and APTMA. These Organizations have also carried out the Energy Audit of different Spinning units and their recommendations have effectively been implemented. Above Organizations are regularly visiting the spinning units for follow up on energy conservation activities.

Corporate Social Responsibility

Investing in the communities where we operate is part of the Company's culture. Even in financial crunch the company continues to focus its Corporate Social Responsibility initiatives to address the most pressing needs in the communities. During 2011-12, the Company contributed Rs. 552,210/- towards the above initiatives.

Information Technology

The Information Technology provides requisite leverage to the Company to boost its performance. We are fully focused to develop this key resource of the Company in line with the increasing requirements of the business. Our IT department spent significant time on introducing new IT systems in various processes as well as upgrading integration of running applications at various locations. Head Office, Registered Office and Mills sites are now connected through radio link over a High Speed Wide Area Network which has a high level of security through firewalls and state of the art technology. The centralized database is being managed at head office for easy access to MIS reports and information. E portal services are being introduced. Moreover different locations of the Company are now equipped with Video Conferencing facility and meetings of the Company are conducted more economically and efficiently.

To enhance efficiencies and as a part of business process re-engineering for continuous improvements, the Company is initiating implementation of Enterprise Resource Planning (ERP) system for its financial, supply chain, manufacturing, production and human resource management system. In order to support this ERP, state of the art servers are being selected.

Related Party Transactions

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 on transfer pricing as contained in the listing regulations of stock exchanges in Pakistan.

Trading in Company's Shares

No trading in shares of the Company was carried out by the Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minor children during the year under review.

Directors' Report to the Shareholders

Statement on Value of Staff Retirement Benefit

As on June 30, 2012 deferred liability for gratuity is Rs. 16.490 Million.

Auditors

Messrs Mushtaq & Company, Chartered Accountants being eligible have offered themselves for re-appointment. The Audit Committee has also recommended their appointment as External Auditors of the Company for the next financial year 2012-2013.

Pattern of Shareholding

The pattern of shareholding as at June 30, 2012 including the information under the code of corporate governance is annexed.

Acknowledgement

Finally, the Board avail this opportunity to thank our valued customers and financial institutions whose faith and support over the years has fostered a mutually beneficial relationship which played a pivotal role in improving our products, services and contributions to the economy.

The Board also wishes to place on record its appreciation for the employees members of management team for their efforts, commitment and hard work and to the shareholders for the trust and confidence reposed in it.

On behalf of the board

Lahore:
Dated: April 27, 2013

TANVEER AHMED
Chief Executive

Review Report to the members on statement of compliance with best practices of the 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 **Gulistan Spinning Mills Limited** to comply with the Listing Regulation of the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited where the company is listed.

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

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

Further, Sub- Regulation (xiii a) of Listing Regulation No. 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 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 under taken at arm's length price.

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, 2012.

Karachi.
Dated: April 27, 2013

MUSHTAQ & COMPANY
Chartered Accountants
Engagement Partner:
Mushtaq Ahmed Vohra
FCA

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of listing regulations of Karachi Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board of Directors includes Five (5) non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than seven listed companies, including this Company.
3. All the resident directors are registered as taxpayers and none of them has defaulted in their personal capacity in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancies occurring in the Board during the period under review.
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 business operations of the Company are carried out in accordance with the Company's 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 chief executive officer and 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. The directors on the Board are well conversant with their responsibilities as directors of corporate bodies as the company has arranged briefings for its directors to apprise them of their duties and responsibilities. Two (2) Directors of the Company are exempt from directors training programme due to 14 years of education and approximately over 14 years of experience on the board of a listed company.
10. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The directors' report for this 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 members, of whom two are non-executive directors including the chairman of the committee.
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. After implementation of revised Code of Corporate Governance, 2012, the board has formed an HR and Remuneration Committee. It comprises of following three board members:

Name	Type of Directorship	Position
a) Mr. Sohail Maqsood	Non-Executive	Chairman
b) Mr. Tanveer Ahmed	Executive	Member
c) Mr. Muhammad Shafiq	Non-Executive	Member

18. The board has set up an effective internal audit function who are considered suitably qualified and experience for the purpose and are conversant with the policies and procedures 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.

Auditors' Report to the Members

We have audited the annexed Balance sheet of **Gulistan Spinning Mills Limited** as at June 30, 2012 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 purpose 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 the 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 verifications, we report that;

- a) As fully explained in note 25.1 the company has not accounted for finance cost aggregating and approximate to Rupees 50.211 million, Rupees 7.206 million and Rupees 0.292 million on outstanding balances in respect of short term borrowings, long term financing and liabilities against assets subject to finance lease respectively after going into litigation with banking companies and financial institutions. Had the company accounted for finance cost, the loss for the year would have been higher by Rupees 57.709 million and consequently accrued markup would have been increased by the same amount;
- b) We have not received balance confirmations from banks and financial institutions in respect of current portion of long term financings amounting to Rupees 180.000 million (note 20.3), current portion of liabilities against assets subject to finance lease amounting to Rupees 18.970 million (note 22.3) and short term borrowings amounting to Rupees 1.230 billion (note 26.1), due to pending litigation with these banks and financial institutions.
- c) in our opinion, except for the matters referred in paragraph (a) and (b) proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;
- d) in our opinion;
 - (i) Except for the matters referred in paragraph (a) and (b) 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 accounts 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;
- e) in our opinion and to the best of our information and according to the explanations given to us, except for the matters referred in paragraph (a) and (b) 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, 2012 and of the loss, total comprehensive loss, its cash flows and changes in equity for the year then ended; and
- f) 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..

Without qualifying our opinion, we draw attention to note 1.3 to the financial statements, which indicates that the company incurred net loss of Rupees 1.520 billion during the year ended June 30, 2012 and, as of that date, the Company's current liabilities exceeds its current assets by Rupees 1.419 billion. These conditions, along with other matters as set-forth in note 1.3, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements, however, have been prepared on the going concern basis on the assumptions as detailed in aforesaid note. Attention is also drawn to note 28.1.4 of the financial statements, which describes the uncertainty related to the outcome of the law suits filed by and against the Company. Since the matters are pending adjudication before various courts, the ultimate outcome of these matters cannot presently be determined.

Karachi.
Dated: April 27, 2013

MUSHTAQ & COMPANY
Chartered Accountants
Engagement Partner:
Mushtaq Ahmed Vohra
FCA

BALANCE SHEET

as at June 30, 2012

	Note	2012 Rupees	2011 Rupees
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	5	1,637,133,807	539,604,656
Long term investments	6	12,667,534	58,913,782
Long term deposits	7	2,008,468	5,332,480
CURRENT ASSETS			
Stores, spare parts and loose tools	8	28,408,507	41,126,292
Stock in trade	9	339,813,495	1,087,453,617
Trade debts	10	69,173,024	154,579,673
Loans and advances	11	2,818,536	30,984,379
Trade deposits and short term prepayments	12	12,154,318	10,648,548
Interest accrued	13	286,091	178,397
Tax refunds due from Government	14	14,512,386	24,488,082
Cash and bank balances	15	12,495,117	48,516,342
		479,661,474	1,397,975,330
		<u>2,131,471,283</u>	<u>2,001,826,248</u>
SHARE CAPITAL AND RESERVES			
Authorized capital			
15,000,000 (June 30, 2011: 15,000,000) ordinary shares of Rs. 10 each		150,000,000	150,000,000
Issued, subscribed and paid up capital	16	146,410,000	146,410,000
Reserves	17	25,000,000	25,000,000
Accumulated (loss) / profit		(1,321,282,501)	207,423,976
		(1,149,872,501)	378,833,976
Surplus on revaluation of property, plant and equipment	18	1,039,008,931	88,252,649
Deferred income	19	-	-
NON CURRENT LIABILITIES			
Long term financing	20	-	-
Long term financing from director	21	103,000,000	103,000,000
Liabilities against assets subject to finance lease	22	-	16,106,747
Deferred liabilities	23	240,916,293	47,321,352
CURRENT LIABILITIES			
Trade and other payables	24	443,110,306	253,812,341
Accrued mark up / interest	25	1,674,902	38,483,910
Short term borrowings	26	1,241,786,407	1,027,829,424
Current portion of:			
Long term financing	20	180,000,000	-
Liabilities against assets subject to finance lease	22	18,969,781	23,071,352
Provision for taxation	27	12,877,164	25,114,497
		1,898,418,560	1,368,311,524
CONTINGENCIES AND COMMITMENTS			
	28	-	-
		<u>2,131,471,283</u>	<u>2,001,826,248</u>

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

Chief Executive

Director

PROFIT AND LOSS ACCOUNT for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees
Sales - net	29	1,602,248,153	2,662,982,274
Cost of sales	30	2,839,548,692	2,338,963,080
Gross (loss) / profit		(1,237,300,539)	324,019,194
Other operating income	31	130,156	21,523,858
		(1,237,170,383)	345,543,052
Distribution cost	32	46,417,009	55,498,480
Administrative expenses	33	30,493,362	26,183,339
Other operating expenses	34	56,974,392	7,728,985
Finance cost	35	122,764,187	174,466,762
		(256,648,950)	(263,877,566)
		(1,493,819,333)	81,665,486
Share of profit from associates		(48,209,216)	4,175,894
(Loss) / profit before taxation		(1,542,028,549)	85,841,380
Taxation	36	22,114,252	(33,446,243)
(Loss) / profit for the year		(1,519,914,297)	52,395,137
(Loss) / earnings per share - basic and diluted	37	(103.81)	3.58

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended June 30, 2012

	<u>2012</u> Rupees	<u>2011</u> Rupees
(Loss) / profit for the year	(1,519,914,297)	52,395,137
Other comprehensive income		
Total comprehensive (loss) / income for the year	<u>(1,519,914,297)</u>	<u>52,395,137</u>

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

CASH FLOW STATEMENT for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit before taxation		(1,542,028,549)	85,841,380
Adjustments for:			
Depreciation		23,422,274	25,162,261
Provision for staff retirement benefits - gratuity		7,634,511	6,088,380
Share of profit from associates		48,209,216	(4,175,894)
Finance cost		122,764,187	174,466,762
Amortization of deferred income		-	(379,170)
Impairment on equity instruments		53,231,254	-
Gain on disposal of non-current asset held for sale		-	(18,202,716)
Interest accrued		(130,156)	(2,941,972)
Cash flows before change in working capital		(1,286,897,263)	265,859,031
Changes in working capital	38	1,061,637,014	(184,472,919)
Cash (used in) / generated from operations		(225,260,249)	81,386,112
Finance cost paid		(159,573,195)	(168,333,348)
Dividend paid		(8,792,180)	(8,795,216)
Staff retirement benefits - gratuity paid		(8,153,905)	(3,915,848)
Income taxes paid		(10,373,559)	(15,938,825)
Net cash used in operating activities		(186,892,839)	(196,983,237)
		(412,153,088)	(115,597,125)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(12,636,014)	(15,941,986)
Long term investments - purchased		-	(9,862,690)
Defence saving certificates en-cashed		11,656,236	-
Long term deposits		3,324,012	2,109,823
Interest received		22,462	2,920,179
Dividend received		16,502	-
Net cash generated from / (used in) investing activities		2,383,198	(20,774,674)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term financing - net		180,000,000	(6,660,500)
Payment of liabilities against assets subject to finance lease		(20,208,318)	(36,676,124)
Short term borrowings - net		223,057,383	110,803,417
Net cash generated from financing activities		382,849,065	67,466,793
Net decrease in cash and cash equivalents		(26,920,825)	(68,905,006)
Cash and cash equivalents at the beginning of year		27,928,463	96,833,469
Cash and cash equivalents at the end of year	40	1,007,638	27,928,463

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

STATEMENT OF CHANGES IN EQUITY for the year ended June 30, 2012

	Share capital Rupees	Reserves		Total Rupees
		Capital Share premium Rupees	Revenue Accumulated profit / (loss) Rupees	
Balance as at July 01, 2010	146,410,000	25,000,000	163,824,055	335,234,055
Dividend for the year ended June 30, 2010 @ 10 percent per share	-	-	(8,795,216)	(8,795,216)
Total comprehensive income for the year	-	-	52,395,137	52,395,137
Balance as at June 30, 2011	146,410,000	25,000,000	207,423,976	378,833,976
Dividend for the year ended June 30, 2011 @ 10 percent per share	-	-	(8,792,180)	(8,792,180)
Total comprehensive (loss) for the year	-	-	(1,519,914,297)	(1,519,914,297)
Balance as at June 30, 2012	146,410,000	25,000,000	(1,321,282,501)	(1,149,872,501)

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 The company is limited by shares, incorporated in Pakistan on February 25, 1987 under the Companies Ordinance, 1984 as a public limited company and is quoted on stock exchanges at Karachi and Lahore. The registered office of the company is situated at 2nd Floor, Finlay House, I.I. Chundrigar Road, Karachi in the province of Sindh, Pakistan.
- 1.2 The principal business of the company is to manufacture and sale of yarn. The manufacturing unit is located at District Kasur in the Province of Punjab.

1.3 Going concern assumption

Due to worldwide recessionary trends along with the undue and unjust curtailment of the available short term limits and freezing of the funds in current accounts by financial institutions and unusual price fluctuations of raw materials carried forward from last year the company has faced some severe liquidity problems. Raw materials could not be acquired in a timely manner and had to be procured at a relative higher price and quality constrains, which has resulted in lower net realizable value. Particularly the spinning units located in the province of Punjab suffered severe energy crisis in the form of unscheduled and unprecedented gas and electricity load shedding which catastrophically impaired the production of the company resulting in a major production short fall as compared to the last year. Devaluation of the currency, highest ever inflation rates and high finance cost also devastated the profitability of the company. Due to all these adverse factors, the company could not sustain its operation in normal manner and has incurred a loss after tax of Rs. 1.520 billion during the year ended June 30, 2012 and as on the said date its current liabilities exceed its current assets by Rs. 1.419 billion and its accumulated loss computed to Rs. 1.321 billion. The main reason of the loss was due to major consumption rate variance, use of old available stocks resulted in weight loss of moisture, high trash level in cotton consumed, low quality cotton resulted in lower yield. These conditions along with adverse key financial ratios and the pending litigations with the banking companies and financial institutions indicate the existence of material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. These financial statements, however, have been prepared under the going concern assumptions based on the following assumptions and mitigating factors:

- (a) the management along with leading financial institutions are negotiating with banks and financial institutions for reconciliation of amounts, rescheduling of repayment terms and restructuring of the Company's liabilities. Series of meetings have been held in this connection and the matter is being persuaded aggressively with the banks and financial institutions;
- (b) The management has prepared a eight years future plan showing profitability.
- (c) the management have made arrangements whereby third party cotton is being processed against processing fee for utilization of unutilized capacity in spinning segment;
- (d) the management has also undertaken adequate steps towards the reduction of fixed cost and expenses which are at various stages of implementation. Such steps include, but not limited to, rightsizing of the men power, resource conservation, close monitoring of other fixed cost etc. The management is certain to generate sufficient savings as consequences of adapting all such measures.

The management anticipates that above steps will not only bring the Company out of the existing financial crisis but also contribute significantly towards the improvement of the Company Financial Position in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commissioner of Pakistan (SECP) and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such international Financial Reporting Standards (IFRS's) as are notified by the provisions of and directives issued under the Ordinance. Wherever the requirements of the Ordinance or directives issued by the SECP differ from the requirements of the approved accounting standards, the Ordinance and the said directives have been followed.

2.2 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the Company's functional currency. All financial information presented in Pak Rupee has been rounded-off to the nearest Rupee except stated otherwise.

2.3 Standards, interpretations and amendments to approved accounting standards and interpretations that are effective in the current year

There are certain new standards, amendments to approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2011, but are considered not to be relevant or did not have any significant impact on the Company's financial statements and are, therefore, not detailed in these financial statements.

2.4 Standards, amendments to approved accounting standards and interpretations that are published and considered relevant but not yet effective

Following new standards and amendments to existing standards have been published that are mandatory for accounting periods beginning on the dates mentioned below:

- (a) IFRS 9, 'Financial Instruments' (effective for the periods beginning on or after January 1, 2015). This is the first standards issued as part of a wider project to replace IAS 39, 'Financial instruments: recognition and measurement' IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets at (a) amortised cost and (b) fair value. The basis of classification depends on entity's business model and the contractual cash flow characteristics of the financial assets. The Company is yet to assess the full impact of IFRS 9, however, initial indications are that it may not significantly affect the Company's financial assets.
- (b) IAS 1 (Amendments), 'Presentation of Financial Statements' (effective for the periods beginning on or after July 1, 2012). The main change resulting from these amendments is a requirement for the entities to group items presented in 'other comprehensive income' on the basis of whether they can be potentially reclassified to profit and loss subsequently (reclassification adjustment). Since, the Company currently does not have any items of other comprehensive income, the amendments are not expected to have a significant impact on the Company's financial statements.
- (c) IAS 19 (Amendments), 'Employee benefits' (effective for the periods beginning on or after January 1, 2013). The amendments (a) eliminate the 'corridor method' for recognizing immediately, (b) streamline the presentation in other comprehensive income and (c) enhance disclosure requirements for providing better information about the characteristics of the defined benefit plans and the risks that entities are exposed to through participation in these plans. The Company is yet to assess the full impact of these amendments.

2.5 Standards, amendments to approved accounting standards and interpretations that are not yet effective and are not considered relevant

There are other new accounting standards, amendments to approved accounting standards and interpretations that are mandatory for future years. However these are not expected to effect materially the financial statements of the Company for accounting periods on the dates prescribed therein.

3 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for revaluation of certain financial instruments at fair value, freehold land and property, plant and equipment at revalued amount and recognition of certain staff retirement benefits at present value.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

The company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows.

3.1 Provision for taxation

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

3.2 Staff retirement benefits - gratuity

Certain actuarial assumptions have been adopted as disclosed in relevant note to the financial statements for valuation of present value of defined benefit obligation. Any changes in these assumptions in future year might affect unrecognized gains and losses in those years.

3.3 Financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques based on assumptions that are dependent on market conditions existing at balance sheet date.

3.4 Property, plant and equipment

The company reviews recoverable amount, useful life, depreciation method, residual value and possible impairment on an annual basis. Any changes, if material in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding affect on the depreciation charge and impairment.

3.5 Stocks in trade and stores, spares and loose tools

The company reviews the net realizable value of stock in trade and stores and spares to assess any diminution in the respective carrying values. Any change in the estimates in future years might affect the carrying amounts of stock in trade and stores and spares with a corresponding affect on impairment. Net realizable value signifies the estimated selling price in the ordinary course of business less estimated cost of completion and the estimated costs necessary to make the sale. Valuation of raw material, work in process and finished goods as on June 30, 2012 has been made using the following accounting estimates and judgments:

3.5.1 Valuation of raw material

Raw material have been valued at cost or net realizable value which ever is lower as defined in International Accounting Standards (IAS) 2 "Inventories".

3.5.2 Valuation of finished goods

Finished goods have been valued at lower of cost or net realizable value as defined in International Accounting Standards (IAS) 2 "Inventories".

3.5.3 Valuation of work in process

Work in process has been valued at value of cotton as determined above plus overhead cost.

3.5.4 Valuation of waste

Waste has been valued at net realizable value as defined in International Accounting Standards (IAS) 2 "Inventories".

3.6 Other areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows.

3.6.1 Provision for doubtful debts

3.6.2 Computation of deferred taxation

3.6.3 Disclosure of contingencies

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

4.1 Property, plant and equipment - owned

Recognition

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses with the exception of free hold land which is measured at revalued amount less accumulated impairment losses, buildings, power houses, electric installation, factory installation, factory equipment, air conditioner and lease hold power house which are measured at revalued amount less accumulated depreciation and accumulated impairment losses.

Cost of items of property, plant and equipment comprises purchase price, including import duties and non refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition or construction, erection and installation. Major renewals and improvements to an item of property, plant and equipment are recognized in the carrying amount of the item if it is probable that the embodied future economic benefits will flow to the company and the cost of renewal or improvement can be measured reliably. The cost of day to day servicing of property, plant and equipment are recognized in profit and loss as incurred.

Surplus arising on revaluation of an item of property, plant and equipment is credited to surplus on revaluation of property, plant and equipment, except to the extent that it reverses deficit on revaluation of the same assets previously recognized in profit and loss, in which case the surplus is credited to profit and loss to the extent of deficit previously charged to income. Deficit on revaluation of an item of property, plant and equipment is charged to profit and loss to the extent that it exceeds the balance, if any held in surplus on revaluation of property, plant and equipment relating to previous revaluation of that item. On subsequent sale or retirement of revalued item of property, plant and equipment, the attributable surplus net of deferred tax, if any, remaining in the surplus on revaluation of property, plant and equipment is transferred directly to unappropriated profit. An amount equal to incremental depreciation, being the difference between the depreciation based on revalued amounts and that based on original cost, net of deferred tax, if any, is transferred from surplus on revaluation of property, plant and equipment to unappropriated profit every year.

Depreciation

Depreciation on all items of property, plant and equipment except for freehold land is charged to profit and loss applying the reducing balance method over the useful life of each item at the rates specified in the respective note. Depreciation on additions is charged from the month in which the asset is available for use, while on disposals depreciation is charged up to the month of disposal or when the item is classified as held for disposal.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with expected pattern of economic benefits from items of property, plant and equipment.

Derecognition

An item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the assets) is recognized in profit and loss in the year in which the asset is derecognized.

4.2 Accounting for leases and assets subject to finance lease

4.2.1 Finance lease

Recognition

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 commencement of the lease term at the lower of present value of minimum lease payments under the lease agreements and the fair value of the leased assets, each determined at the inception of the lease.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

Subsequently these assets are stated at cost less accumulated depreciation and any identified impairment loss. The related rental obligations, net off finance cost, are included in liabilities against assets subject to finance lease. The liabilities are classified as current and non current depending upon the timing of payments.

Financial charges

Lease payments are allocated between the liability and finance cost so as to achieve a constant rate on the balance outstanding. The finance cost is charged to income over the lease term.

Depreciation

Assets acquired under a finance lease are depreciated in the same manner and at the same rates used for similar owned assets, so as to depreciate these assets over their estimated useful lives in view of certainty of ownership of these assets at the end of lease term. Depreciation of the leased assets is charged to income.

Deferred income

Income arising from sale and lease back transaction, if any, which results in finance lease, is deferred and amortized equally over the lease period.

4.2.2 Operating lease

Leases where significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income on a straight line basis over the period of lease.

4.3 Non - current assets classified as held for sale

Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and depreciation on such assets to cease. Assets classified as held for sale and liabilities directly associated with the assets classified as held for sale to be presented separately in the balance sheet. Any impairment loss on reclassification recognized in profit and loss account. Any gain or loss on disposal recognized also in profit and loss account.

4.4 Capital work in progress

Capital work in progress is stated at cost less any identified impairment loss. Transfers are made to relevant fixed assets category as and when assets are available for use.

4.5 Investments

4.5.1 Regular way purchase or sale of investments

All purchases and sales of investments are recognized using trade date accounting. Trade date is the date that the company commits to purchase or sell the investment.

4.5.2 Investments in equity instruments of associated companies

Associates are all entities over which the company has significant influence but not control, investments in these are accounted for using the equity method of accounting and are initially recognized at cost.

The company's share of its associates' post acquisition profits or losses is recognized in the profit and loss account, and its share of post acquisition movements in reserves is recognized in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. Distribution received from an associate reduce the carrying amount of the investment.

After application of the equity method, including recognizing the associate's losses, the company applies the requirements of International accounting standard (IAS) 39, to determine whether it is necessary to recognize any additional impairment loss with respect to the net investment in associated undertakings.

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

The entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in IAS 39 indicates that the investment may be impaired. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

4.5.3 Available for sale investments

Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are remeasured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments for which a quoted market price is not available, are measured at cost as it is not possible to apply any other valuation methodology. Unrealized gains and losses arising from the changes in the fair value are included in fair value reserves in the period in which they arise.

All purchases and sales are recognized on the trade date which is the date that the company commits to purchase or sell the investment, except for sale and purchase of securities in future market which are accounted for at settlement date. Cost of purchase includes transaction cost.

At each balance sheet date, the company reviews the carrying amounts of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense. In respect of available for sale investments, cumulative impairment loss less any impairment loss previously recognized in profit and loss account, is removed from equity and recognized in the profit and loss accounts. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss accounts.

4.5.4 Other Investment

Other Investment like Defence saving certificate are held to maturity. Interest is accrued on these investments according to the rate provided by the issuer.

4.5.5 Derecognition

All investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

4.6 Long term deposits

These are stated at cost which represents the fair value of consideration given.

4.7 Stores, spare parts and loose tools

These are valued at lower of cost and net realizable value. Cost is determined by moving average method. Items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

4.8 Stock in trade

These are valued at lower of cost and net realizable value except waste which is valued at net realizable value. Cost is determined as follows.

4.8.1 Raw material

In hand	Weighted average cost
In transit	Cost comprising invoice value plus other charges incurred thereon

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

4.8.2 Finished goods and work in process Raw material cost plus appropriate manufacturing overheads

4.8.3 Waste Net realizable value

Net realizable value signifies the estimated selling prices in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sales.

4.9 Trade debts and other receivables

Trade debts originated by the company are recognized and carried at original invoice value less any allowance for uncollectible amounts. An estimated provision for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. The amount of provision is charged to income. Bad debts are written off as incurred. Other receivables are stated at amortized cost. Known impaired receivables are written off, while receivables considered doubtful are provided for.

4.10 Cash and cash equivalents

Cash in hand, cash at bank and short term deposits, which are held to maturity, are carried at cost. For the purpose of cash flow statements, cash and cash equivalent comprise cash in hand, with banks on current accounts & deposit certificates and temporary overdrafts.

4.11 Staff retirement benefits

Defined benefit plan

The company operates an unfunded gratuity scheme covering for all its permanent employees who have attained the minimum qualifying period for entitlement to the gratuity.

Provision is made annually to cover the obligation on the basis of actuarial valuation and charged to income currently. The most recent actuarial valuation was carried on June 30, 2012 using the Projected Unit Credit Method.

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

4.12 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account, except to the extent that it relates to items recognized directly in equity or below equity, in which case it is recognized in equity or below equity respectively.

4.12.1 Current

Provision for current taxation is based on taxability of certain income streams of the company under presumptive / final tax regime at the applicable tax rates and remaining income streams chargeable at current rate of taxation under the normal tax regime after taking into account tax credit and tax rebates available, if any. The charge for current tax includes any adjustment to past years liabilities.

4.12.2 Deferred

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

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profits will be available against which deferred tax asset can be utilized, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability that, at the time of transaction, affects neither the accounting nor taxable profits.

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

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

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

4.13 Trade and other payables

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

4.14 Provisions

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

4.15 Borrowings and borrowing costs

Borrowings are recorded at the proceeds received. Finance costs are accounted for on an accrual basis and are included in current liabilities to the extent of the amount remaining unpaid.

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs are capitalized as part of the cost of that asset up to the date of its commissioning.

4.16 Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and presents amount received or receivable for goods and services provided in the normal course of business.

Sale of goods are recognized when the goods are dispatched.

Dividend income on investment is recognized when the right to receive the dividend have been established.

Mark up on loans to related parties and profit on saving accounts is accrued on time basis, by reference to the principal outstanding and at the effective profit rate applicable.

4.17 Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Pak Rupee at the rate of exchange prevailing at the balance sheet date, except those covered by forward contracts, which are stated at contracted rates. Foreign currency transactions are translated into Pak Rupees at the rates prevailing at the date of transaction except for those covered by forward contracts, which are translated at contracted rates. Non monetary items are translated into Pak Rupee on the date of transaction or on the date when fair values are determined. Exchange differences are included in income currently.

4.18 Financial instruments

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the instrument and derecognized when the company loses control of contractual rights that comprise the financial assets and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account for the year.

All financial assets and financial liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

4.19 Offsetting of financial assets and liabilities

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

4.20 Impairment

At each balance sheet date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the greater of net selling price and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

4.21 Related party transactions

All transactions with related parties are carried out by the company at arm's length price using the method prescribed under the Companies Ordinance, 1984 (comparable uncontrolled price method) with the exception of loan taken from related parties which is interest / mark up free.

4.22 Government grants

Government grants for meeting revenue expenses are set off from respective expenses in the year in which they become receivable.

4.23 Research and development cost

Research and development cost is charged to profit and loss account in the year in which it is incurred.

4.24 Dividend

The dividend distribution to the shareholders is recognized as a liability in the period in which it is approved by the shareholders.

	Note	2012 Rupees	2011 Rupees
5 PROPERTY, PLANT AND EQUIPMENT			
Operating assets	5.1	1,637,133,807	527,474,705
Capital work in progress	5.2	-	12,129,951
		<u>1,637,133,807</u>	<u>539,604,656</u>

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

5.1 Operating assets

Cost	Owned assets										Leased assets			Total		
	Freehold land Rupees	Building on freehold land Rupees	Plant and machinery Rupees	Power house Rupees	Electric installation Rupees	Factory equipment Rupees	Air conditioning plant Rupees	Telephone installation Rupees	Office equipment Rupees	Furniture and fixtures Rupees	Arms and ammunitions Rupees	Vehicles Rupees	Plant and machinery Rupees		Power house Rupees	Vehicles Rupees
	8,667,500	111,460,334	535,464,452	-	40,935,622	30,084,930	7,595,890	160,000	3,940,881	4,185,087	6,230	10,841,541	76,438,065	72,649,180	7,995,000	1,063,614,712
Additions during the year	-	9,633,079	4,244,986	448,776	8,105,949	2,978,672	-	-	38,800	128,300	-	65,944	-	-	2,926,000	28,769,506
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer / adjustments / reclassification	-	-	52,217,659	-	-	-	-	-	-	-	-	-	(62,217,659)	-	-	-
Surplus on revaluation of property, plant & equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at June 30, 2011	8,667,500	121,293,413	641,927,097	448,776	49,012,571	33,063,602	7,595,890	160,000	3,974,681	4,313,387	6,230	10,907,485	24,240,406	72,649,180	10,923,000	1,062,384,218
Balance as at July 01, 2011	8,667,500	121,293,413	641,927,097	448,776	49,012,571	33,063,602	7,595,890	160,000	3,974,681	4,313,387	6,230	10,907,485	24,240,406	72,649,180	10,923,000	1,062,384,218
Additions during the year	-	12,188,205	8,854,319	-	1,596,037	1,195,063	-	-	764,654	65,137	-	102,550	-	-	-	24,765,966
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer / adjustments / reclassification	-	-	24,240,406	21,562,930	-	-	-	-	-	-	-	600,000	(24,240,406)	(21,562,930)	(600,000)	-
Surplus on revaluation of property, plant & equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation adjustments	40,020,500	260,665,656	533,175,623	11,619,420	56,732,560	75,324,777	102,316,071	-	-	-	-	-	-	28,463,694	-	1,188,315,411
	-	(6,197,003)	(401,793,945)	(5,466,126)	(19,261,169)	(17,323,443)	(6,911,961)	-	-	-	-	-	-	(19,549,654)	-	(58,278,501)
Balance as at June 30, 2012	121,888,000	326,715,477	806,406,500	28,160,000	88,079,999	92,259,999	103,000,000	160,000	4,739,335	4,378,524	6,230	11,610,035	-	60,000,000	10,323,000	1,657,187,693
Depreciation																
Balance as at July 01, 2010	-	62,469,447	358,653,673	-	16,175,381	13,789,094	6,751,533	142,507	1,617,982	2,661,972	5,270	8,819,079	15,013,599	20,760,335	2,387,380	464,231,654
Change for the year	-	2,684,409	13,296,053	11,152	1,476,469	1,707,341	84,436	1,749	212,631	155,219	96	404,492	1,269,433	2,594,442	1,314,339	25,943,326
Depreciation on disposals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer / adjustments	-	-	16,161,855	-	-	-	-	-	-	-	-	-	(16,161,855)	-	-	-
Revaluation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at June 30, 2011	-	65,163,856	386,351,561	11,152	17,651,650	15,496,435	6,835,969	144,256	2,030,613	2,817,191	5,366	9,223,571	121,177	23,354,777	3,701,719	554,989,515
Balance as at July 01, 2011	-	65,163,856	386,351,561	11,152	17,651,650	15,496,435	6,835,969	144,256	2,030,613	2,817,191	5,366	9,223,571	121,177	23,354,777	3,701,719	554,989,515
Change for the year	-	2,808,147	13,321,187	263,477	1,690,319	1,627,008	75,992	1,574	195,540	151,601	86	379,623	-	1,386,574	1,401,946	23,422,274
Depreciation on disposals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer / adjustments	-	-	121,177	5,191,497	-	-	-	-	-	-	-	388,448	(121,177)	(5,191,497)	(388,448)	-
Revaluation adjustments	-	(67,872,003)	(401,793,945)	(5,466,126)	(19,261,169)	(17,323,443)	(6,911,961)	-	-	-	-	-	-	(19,549,654)	-	(58,278,501)
Balance as at June 30, 2012	-	56,729,557	253,575,516	438,624	31,360,721	17,867,167	759,921	15,744	1,944,068	1,436,196	684	1,683,914	24,119,229	49,294,403	7,221,281	20,053,286
Written down value as at June 30, 2011	8,667,500	56,729,557	253,575,516	438,624	31,360,721	17,867,167	759,921	15,744	1,944,068	1,436,196	684	1,683,914	24,119,229	49,294,403	7,221,281	57,474,705
Written down value as at June 30, 2012	121,888,000	326,715,477	806,406,500	28,160,000	88,079,999	92,259,999	103,000,000	14,170	2,513,182	1,409,132	778	1,618,183	-	60,000,000	5,607,763	1,637,133,807
Rate of depreciation	-	5%	5%	5%	5%	10%	10%	10%	10%	10%	10%	20%	5%	5%	20%	

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees
5.1.1 Depreciation is allocated as follows:			
Cost of sales	30	21,293,364	23,075,580
Administrative expenses	33	2,128,910	2,086,681
		<u>23,422,274</u>	<u>25,162,261</u>
5.2 Capital work in progress			
Building on free hold land		-	12,129,951
		<u>-</u>	<u>12,129,951</u>

5.3 Property, plant and equipment except telephone installation, office equipment, furniture and fixtures, arms and ammunition and vehicles were revalued as on June 30, 2012 by an independent valuer Messer Maricon Consultants (Private) Limited. Previously, the company had its freehold land revalued on December 31, 2008 and June 30, 2006 by an independent valuer Messer Consultancy Support and Services, Karachi. The revaluation as at June 30, 2012 resulted in surplus on revaluation of property, plant and equipment amounting to Rs. 1,108,315,411 which was credited to surplus on revaluation of property, plant and equipment accounts to comply with the requirement of section 235 of Companies Ordinance 1984. The revaluation was based on fair value determined on present value basis. Accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

5.4 Had there been no revaluation the original cost and book value of revalued property, plant and equipment would have been as follows. Original cost and carrying value of revalued property, plant and equipment as at year ended on June 30, 2011 is same as revaluation is carried out during current year.

	2012			2011		
	Cost	Accumulated depreciation	Written down value	Cost	Accumulated depreciation	Written down value
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Owned assets						
Free hold land	3,180,032	-	3,180,032	3,180,032	-	3,180,032
Buildings on free hold land	133,481,618	67,972,003	65,509,615	121,293,413	65,163,856	56,129,557
Plant and machinery	675,021,822	401,672,768	273,349,054	641,927,097	388,351,581	253,575,516
Power house	22,012,706	274,629	21,738,077	449,776	11,152	438,624
Electric Installation	50,608,608	19,261,169	31,347,439	49,012,571	17,651,850	31,360,721
Factory Equipment	34,258,665	17,323,443	16,935,222	33,063,602	15,496,435	17,567,167
Air Conditioning Plant	7,595,890	6,911,961	683,929	7,595,890	6,835,969	759,921
Leased assets						
Plant and machinery	-	-	-	24,240,406	121,177	24,119,229
Power houses	51,086,250	19,549,854	31,536,396	72,649,180	23,354,777	49,294,403
	<u>977,245,591</u>	<u>532,965,827</u>	<u>444,279,764</u>	<u>953,411,967</u>	<u>516,986,797</u>	<u>436,425,170</u>

	Note	2012 Rupees	2011 Rupees
6 LONG TERM INVESTMENTS			
Equity instruments of associated companies	6.1	3,770,284	38,360,296
Defence saving certificates	6.2	8,897,250	20,553,486
		<u>12,667,534</u>	<u>58,913,782</u>

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees
6.1 Equity instruments of associated companies - equity method			
Quoted companies			
Gulistan Textile Mills Limited	6.1.1	35,028	169,424
Gulshan Spinning Mills Limited	6.1.2	169,487	575,768
Unquoted companies			
Gulshan Weaving Mills Limited	6.1.3	1,489,667	33,998,439
Gulistan Power Generation Limited	6.1.4	2,076,102	3,616,665
		<u>3,770,284</u>	<u>38,360,296</u>
6.1.1 Gulistan Textile Mills Limited			
Ordinary shares of Rs. 10 each fully paid : 1,049 (June 30, 2011 : 1,049)			
Equity held 0.0055% (June 30, 2011 : 0.0055%)			
Cost		117,091	118,140
		-	
Accumulated share of post acquisition profit		45,943	30,401
Share of (loss) / profit for the year		(486,791)	15,542
Dividend for the year		(1,049)	(1,049)
Share of surplus on revaluation of property, plant and equipment		359,834	6,390
		<u>(82,063)</u>	<u>51,284</u>
		<u>35,028</u>	<u>169,424</u>

The market value of investment in Gulistan Textile Mills Limited is Rs 21,599 (June 30, 2011: Rs. 19,511).

Summarized financial information of Gulistan Textile Mills Limited as at the year end is set out below:

	2012 Rupees	2011 Rupees
Total asset	8,958,952,613	11,297,114,642
Total Liabilities	9,939,599,604	8,289,314,333
Net assets	<u>(980,646,991)</u>	<u>3,007,800,309</u>
Company's share of associate's net assets	<u>35,028</u>	<u>169,424</u>
Sales -net	<u>5,689,048,838</u>	<u>9,678,222,127</u>
(Loss)/Profit for the year	<u>(9,434,722,671)</u>	<u>259,033,260</u>
Company's share of associate's (Loss)/profit for the year	<u>(486,791)</u>	<u>15,542</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

	<u>2012</u> Rupees	<u>2011</u> Rupees
6.1.2 Gulshan Spinning Mills Limited		
Ordinary shares of Rs. 10 each fully paid : 10,303 (June 30, 2011 : 10,303)		
Equity held 0.046% (June 30, 2011 : 0.046%)		
Cost	254,340	262,925
Accumulated share of post acquisition profit	209,309	126,844
Share of (loss) / profit for the year	(1,175,159)	82,465
Dividend for the year	(15,453)	(8,585)
Share of surplus on revaluation of property, plant and equipment	1,147,532	112,119
	<u>166,229</u>	<u>312,843</u>
	<u>420,569</u>	<u>575,768</u>
Impairment charged on investment	(251,082)	-
Carrying value of shares	<u>169,487</u>	<u>575,768</u>

The market value of investment in Gulshan Spinning Mills Limited is Rs. 51,515 (June 30, 2011: 113,335).

The impairment charge represents the written down of the carrying value of the investment to its recoverable amount in accordance with the International Accounting Standard (IAS) 36, "Impairment Of Assets". The recoverable amount is the higher of fair value less cost to sell or the value in use. The recoverable amount has been calculated as the value in use which equates to Rs. 16.45 per share aggregating to Rs.169,487 after considering the company's share of present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment as opposed to the fair value less cost to sell. Principal assumptions and critical judgments regarding the valuation of the investment have been discussed in note 41.2 of the financial statements.

Summarized financial information of Gulshan Spinning Mills Limited as at the year end is set out below:

	<u>2012</u> Rupees	<u>2011</u> Rupees
Total asset	5,649,494,166	4,848,894,515
Total Liabilities	4,745,658,897	3,588,238,793
Net assets	<u>903,835,269</u>	<u>1,260,655,722</u>
Company's share of associate's net assets	<u>169,487</u>	<u>575,768</u>
Sales	3,191,016,654	5,100,805,673
(Loss) / Profit for the year	<u>(2,574,820,351)</u>	<u>179,272,423</u>
Company's share of associate's (Loss) / profit for the year	<u>(1,175,159)</u>	<u>82,465</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

	2012 Rupees	2011 Rupees
6.1.3 Gulshan Weaving Mills Limited		
Ordinary shares of Rs. 10 each fully paid : 778,900 (June 30, 2011 : 778,900)		
Equity held 3.64% (June 30, 2011 : 3.64%)		
Cost	7,789,000	7,789,000
Accumulated share of post acquisition profit	17,429,580	13,321,304
Share of (loss) / profit for the year	(45,686,165)	4,108,276
Share of surplus on revaluation of property, plant and equipment	63,939,332	8,779,859
	35,682,747	26,209,439
	43,471,747	33,998,439
Impairment charged on investment	(41,982,080)	-
Carrying value of shares	1,489,667	-

As the equity of company is negative, the investment is being valued nil. The break up value of Gulshan Weaving Mills Limited as at June 30, 2011 was Rs. 44.23 per share.

The impairment charge represents the written down of the carrying value of the investment to its recoverable amount in accordance with the International Accounting Standard (IAS) 36, "Impairment Of Assets". The recoverable amount is the higher of fair value less cost to sell or the value in use. The recoverable amount has been calculated as the value in use which equates to Rs. 1.91 per share aggregating to Rs. 1,489,667 after considering the company's share of present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment as opposed to the fair value less cost to sell. Principal assumptions and critical judgments regarding the valuation of the investment have been discussed in note 41.2 of the financial statements.

	2012 Rupees	2011 Rupees
Summarized financial information of Gulshan Weaving Mills Limited as at year ended is set out.		
Total asset	3,984,426,110	3,342,202,500
Total Liabilities	2,767,115,017	2,394,486,717
Net assets	1,217,311,093	947,715,783
Company's share of associate's net assets	1,489,667	33,998,439
Sales	4,239,224,321	5,601,014,738
Share of (loss) / profit for the year	(1,173,842,946)	110,370,067
Company's share of associate's (loss) / profit for the year	(45,686,165)	4,108,276

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

	2012 Rupees	2011 Rupees
6.1.4 Gulistan Power Generation Limited		
Ordinary shares of Rs. 10 each fully paid : 110,000 (June 30, 2011 : 110,000)		
Equity held 1.506% (June 30, 2011 : 1.506%)		
Cost	1,000,000	1,000,000
Accumulated share of post acquisition profit	1,949,852	1,980,241
Share of loss for the year	(861,101)	(30,389)
Share of surplus on revaluation of property, plant and equipment	10,985,443	666,813
	<u>12,074,194</u>	<u>2,616,665</u>
	<u>13,074,194</u>	<u>3,616,665</u>
Impairment charged on investment	(10,998,092)	-
Carrying value of shares	<u>2,076,102</u>	<u>-</u>

The break up value of Gulistan Power Generation Limited as at June 30, 2011 was Rs. 26.70 per share

The impairment charge represents the written down of the carrying value of the investment to its recoverable amount in accordance with the International Accounting Standard (IAS) 36, "Impairment Of Assets". The recoverable amount is the higher of fair value less cost to sell or the value in use. The recoverable amount has been calculated as the fair value less cost to sell which equates to Rs. 18.87 per share aggregating to Rs. 2,076,102 after considering the company's share of present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment as opposed to the fair value less cost to sell. Principal assumptions and critical judgments regarding the valuation of the investment have been discussed in note 41.2 of the financial statements.

Summarized financial information of Gulistan Power Generation as at the year end is set out

	2012 Rupees	2011 Rupees
Total assets	1,057,363,310	343,051,184
Total liabilities	190,052,604	148,007,557
Net assets	<u>867,310,706</u>	<u>195,043,627</u>
Company's share of associate's net assets	<u>13,074,194</u>	<u>3,616,665</u>
Sales - net	334,410,406	533,181,356
Loss for the year	<u>(57,177,998)</u>	<u>(2,017,844)</u>
Company's share of associate's loss for the year	<u>(861,101)</u>	<u>(30,389)</u>

6.1.5 Investments in these companies are accounted for under the equity method of accounting as required by International Accounting Standard (IAS) 28 "Investments in Associates".

6.2 It represents investment in defence saving certificate purchased from the Government of Pakistan under 10 years maturity scheme. The certificates are encashable at par at any time. However, no profit is paid if encashment is made before completion of one year. It carries effective rate of return 12.15% percent per annum. The certificates of investments are under lien regarding guarantees provided by various financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees
7	LONG TERM DEPOSITS		
Deposits refundable		735,468	735,468
Lease key money	7.1	3,324,012	5,573,784
Other security deposits	7.2	1,273,000	1,273,000
		<u>5,332,480</u>	<u>7,582,252</u>
Less: current portion shown in current assets	12	<u>(3,324,012)</u>	<u>(2,249,772)</u>
		<u>2,008,468</u>	<u>5,332,480</u>
7.1	These are interest free deposits given to various leasing companies, modarabas and banking companies. The company has filed a suit in Honorable Lahore High Court jointly against financial institutions under section 9 of the Financial Institutions (Recovery of Finances) Ordinance, 2001 for redemption / release of security, rendition of accounts, recovery of damages, permanent injunction and ancillary reliefs. Since the matter is prejudice in the Honorable Lahore High Court, the company has not acknowledged its liability until the amount of principal and mark up is reconciled with the financial institutions in accordance with the above mentioned suit. The honorable Lahore high court vide its order, COS 134 of 2012 reference CM No 713-B of 2012 dated November 1, 2012 has ordered not to disturb the present position of current assets and fixed asset of the company. Due to on going litigations the confirmation from financial institutions have not been received. Due to the pending litigations, but without prejudice to the company's stance in the said litigations, the company's financial arrangements with the banking companies and financial institutions are disputed and in line with the provisions of International Accounting Standard on Presentation of financial statements (IAS - 1), all liabilities under these lease agreements have been classified as current liabilities. Based on the above mentioned fact, lease deposits amounted to Rs. 769,699 relating to the lease liabilities have been presented under the current assets.		
7.2	These are interest free refundable deposits given to various Government Agencies and Central Depository Company of Pakistan Limited.		
		<u>2012 Rupees</u>	<u>2011 Rupees</u>
8	STORES, SPARE PARTS AND LOOSE TOOLS		
Stores		12,927,940	19,644,120
Spare parts		7,593,622	8,777,718
Loose tools		993,383	853,741
Stores in transit		8,187,311	11,850,713
		<u>29,702,256</u>	<u>41,126,292</u>
Less: Provision for slow moving stores		<u>(1,293,749)</u>	-
		<u>28,408,507</u>	<u>41,126,292</u>
9	STOCK IN TRADE		
Raw material		216,503,026	669,786,817
Raw material in transit		32,360,813	58,726,490
Work in process		16,263,789	39,795,187
Finished goods		60,394,941	311,400,340
Waste		14,290,926	7,744,783
		<u>339,813,495</u>	<u>1,087,453,617</u>
9.1	The cost of raw material stock is Rs. 383,785,199 (June 30, 2011 : 750,773,160) which has been written down by Rs. 167,252,173 (June 30, 2011 : 80,986,343) and cost of finished goods is Rs.90,915,120 (June 30, 2011: 340,755,514) which has been written down by Rs. 30,520,179 (June 30, 2011: 29,355,174) due to NRV adjustment. The amount charged to profit and loss in respect of stocks written down to their net realizable value is Rs. 197,772,352 (June 30, 2011 : Rs. 110,341,517).		

The entire stocks except stock in transit are under charge with banks. Stocks were charged with financial institutions along with all other securities as explained at note 26.1. Due to the financial crunch as fully explained in note 1.3, the trading cycle of the company was severely affected, compounded by the rigidity of the financial institutions in releasing the charged stocks resulted in company procuring raw materials at higher prices as compared to its competitors which

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

led to increased losses. Certain financial institutions filed proceedings against the company claiming rights in respect of various securities jointly held by them with other financial institutions. The company has filed a suit in Honorable Lahore High Court jointly against financial institutions under section 9 of the Financial Institutions (Recovery of Finances) Ordinance, 2001 for redemption / release of security, rendition of accounts, recovery of damages, permanent injunction and ancillary reliefs. The Honorable Lahore High Court vide COS 134 of 2012 reference CM No 713-B of 2012 dated November 1, 2012 has ordered not to disturb the present position of current assets and fixed assets of the company.

	Note	2012 Rupees	2011 Rupees
10	TRADE DEBTS		
	Related parties (unsecured - considered good)		
	Gulistan Fibers Limited	8,438,213	-
	Gulshan Spinning Mills Limited	-	2,733,966
	Paramount Spinning Mills Limited	10,784,676	2,820,409
	Gulshan Weaving Mills Limited	18,627,923	19,134,019
		37,850,812	24,688,394
	Others		
	Yarn debtors (unsecured - considered good)	22,683,390	118,923,282
	Waste debtors (unsecured - considered good)	-	5,041,948
	Export debtors (secured through letters of credit - considered good)	8,638,822	5,926,049
		31,322,212	129,891,279
		<u>69,173,024</u>	<u>154,579,673</u>
11	LOANS AND ADVANCES		
	Advances - Unsecured - considered good		
	Suppliers	1,794,058	28,576,734
	Staff	969,478	1,629,191
	Contractors	55,000	778,454
		<u>2,818,536</u>	<u>30,984,379</u>
12	TRADE DEPOSITS AND SHORT TERM PREPAYMENTS		
	Short term prepayments	8,312,805	7,958,657
	Current portion of long term deposits	7.1 3,324,012	2,249,772
	Other receivables	517,501	440,119
		<u>12,154,318</u>	<u>10,648,548</u>
13	INTEREST ACCRUED		
	Interest accrued on		
	PLS term deposits	13.1 286,091	178,397
		<u>286,091</u>	<u>178,397</u>
13.1	It carries interest rate ranging from 5.6% to 12% (June 30, 2011: 5.6 % to 12 %).		

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees
14 TAX REFUNDS DUE FROM GOVERNMENT			
Export rebate receivable		675,880	757,759
Advance income tax	14.1	-	10,061,276
Sales tax refundable		13,836,506	13,669,047
		<u>14,512,386</u>	<u>24,488,082</u>
14.1 Advance Income tax			
Opening balance		10,061,276	7,758,811
Deducted during the year		<u>10,373,559</u>	<u>15,938,825</u>
		20,434,835	23,697,636
Adjusted against provision for taxation		<u>(20,434,835)</u>	<u>(13,636,360)</u>
Closing balance		<u>-</u>	<u>10,061,276</u>
15 CASH AND BANK BALANCES			
Cash in hand		31,628	20,877
Cash with banks			
Current accounts		8,061,224	45,578,473
Saving accounts	15.2	39,895	102,311
Certificates of deposit	15.2	<u>4,362,370</u>	<u>2,814,681</u>
		<u>12,495,117</u>	<u>48,516,342</u>
15.1	Due to on going litigation confirmations from the financial institution aggregating to Rs. 3,666,717 have not been received.		
15.2	These are under lien regarding guarantees provided by various financial institutions and carry mark up ranging from 5.6 percent to 10.50 percent (June 30, 2011 : 1.50 percent to 11.00 percent) per annum.		
16 ISSUED, SUBSCRIBED AND PAID UP CAPITAL			
		2012 No. of shares	2011 No. of shares
		6,838,330	6,838,330
		7,802,670	7,802,670
		<u>14,641,000</u>	<u>14,641,000</u>
		2012 Rupees	2011 Rupees
		68,383,300	68,383,300
		78,026,700	78,026,700
		<u>146,410,000</u>	<u>146,410,000</u>
16.1	Following shares were held by associates of the company as at balance sheet date.		
		2012 No. of shares	2011 No. of shares
		4,162,251	4,162,251
		202,777	202,777
		<u>4,365,028</u>	<u>4,365,028</u>

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

- 16.2 The shareholders' are entitled to receive all distributions to them including dividend and other entitlements in the form of bonus and right shares as and when declared by the company. All shares carry "one vote" per share without restriction.

	Note	2012 Rupees	2011 Rupees
17 RESERVES			
Capital reserve	17.1	25,000,000	25,000,000
		<u>25,000,000</u>	<u>25,000,000</u>

- 17.1 This represents share premium received on 5,000,000 ordinary shares of Rs. 10 each issued in 1994 at a premium of Rs. 5/- per share.

	Note	2012 Rupees	2011 Rupees
18 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT			
Surplus on revaluation of property, plant and equipment	18.1	962,576,790	78,687,468
Share of surplus on revaluation of property, plant and equipment of associates	18.2	76,432,141	9,565,181
		<u>1,039,008,931</u>	<u>88,252,649</u>

18.1 Surplus on revaluation of property, plant and equipment

Balance at the beginning of the year	18.1.1	78,687,468	78,687,468
Surplus arised during the period on owned & leased assets	18.1.2	1,108,315,411	-
Surplus on revaluation at the beginning of the year		1,187,002,879	78,687,468
Related deferred tax liabilities on:			
Revaluation at the beginning of the year		-	-
Surplus arised during the year	23.2	224,426,089	-
Incremental depreciation on revalued assets		-	-
		<u>224,426,089</u>	<u>-</u>
		<u>962,576,790</u>	<u>78,687,468</u>

- 18.1.1 This represents surplus over book values resulting from the revaluation of property, plant and equipment (free hold land) carried out on December 31, 2008, June 30, 2006 and February 03, 2009 by an independent valuer "Consultancy Support and Services". The valuation was based on fair value determined on present market value basis.

- 18.1.2 During the current year the company has revalued its freehold land, building on freehold land, plant and machinery and power house, electric installation, factory equipment, air conditioner and leased hold power house by an independent valuer "Maricon Consultants (Pvt.) Limited" on June 30, 2012. The valuation was based on fair value. Fair value of free hold and lease hold land is determined on present market value basis while buildings on free hold and lease hold land, plant and machinery and power houses are determined on depreciated replacement cost. The company has incorporated a surplus amounted to Rs. 1,108,315,411 on revaluation of above assets on the basis of said valuation report, surplus is credited to surplus on revaluation of fixed assets account to comply with the requirement of Section 235 of Companies Ordinance, 1984.

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees
18.2 Share of surplus on revaluation of property, plant and equipment of associates			
Balance at the beginning of the year		9,565,181	5,543,601
Surplus during the period		66,866,960	4,021,580
		76,432,141	9,565,181
		76,432,141	9,565,181
19 DEFERRED INCOME			
Gain on sale and lease back	19.1	-	379,170
Less : Amortization during the year		-	(379,170)
		-	-
19.1	This represents excess of sale proceeds over carrying amount in sale and lease back of assets. This amount is amortized over the lease term in equal proportion.		
20 LONG TERM FINANCING			
Secured from banking company :			
Faysal Bank Limited	20.1	30,000,000	-
Secured from financial institution company :			
PAIR Investment company limited	20.2	150,000,000	-
	20.3	180,000,000	-
Less : Current portion		-	-
Amount payable within twelve month		17,946,428	-
Amount payable after 30 June 2013	20.4	162,053,572	-
		(180,000,000)	-
		-	-
20.1	During the year company has converted short term borrowings into long term finance facility of Rs. 30 million from Faysal Bank Limited. It is repayable in 4 years in 7 equal semi annual installments including the grace period of six month commencing from July 30, 2012 . It is secured by way of demand promissory note of Rs. 48,757,339, first pari passu equitable mortgage and hypothecation charge on fixed asset (Land, Plant & Machinery) of company and memorandum of constructive deposit of title deeds amounting to Rs.100 Million. Sponsors'/ Directors loans shall be subordinated via formal subordination agreement as a security. The loan carries mark up 3 month Kibor plus 2.5% per annum payable quarterly. The charge is commonly shared for short term borrowing also.		
20.2	During the year company has obtained long term facility of Rs. 150 million from PAIR investment company Limited (formerly Pak Iran Joint Investment Company Limited) for the debt swap and balancing, modernizing and replacement (BMR). It is repayable in 5 year in 16 equal quarterly installment including the grace period of 12 months commencing from June 30, 2013. The long term facility carries mark up rate of 3 month Kibor plus 350 bps.		
	The loan is secured by way of Letter of hypothecation of Rs 467 million inclusive of margin of 25% over fixed asset of the company and a Letter of hypothecation of Rs. 267 million over current assets of the company in favor of PAIR. These charges shall be subordinate to the existing charges created in favor of the existing creditors. The charge over the fixed assets shall be upgraded to pari passu charge ranking pari passu with the charges created in favor of the existing creditor within 90 day of the date of first draw down.		

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

20.3 The company has filed a suit in Honorable Lahore High Court jointly against financial institutions under section 9 of the Financial Institutions (Recovery of Finances) Ordinance, 2001 for redemption / release of security, rendition of accounts, recovery of damages, permanent injunction and ancillary reliefs. It is specifically prayed in this suit that financial institutions have charged amounts on account of mark up / charges / penalties / liquidated damages, which were never legally due and payable by the company. Since the matter is prejudice in the Honorable Lahore High Court, the company has not acknowledged its liability until the amount of principal and mark up is reconciled with the financial institutions in accordance with the above mentioned suit. The Honorable Lahore High Court vide its order sheet, COS 134 of 2012 reference C.M No. 713-B of 2012, dated November 1, 2012 has ordered not to disturb the present position of current assets and fixed assets of the company. Due to ongoing litigation confirmation from financial institutions aggregating to Rs. 150,000,000 have not been received.

20.4 Due to the pending litigations, but without prejudice to the company's stance in the said litigations, the company's financial arrangements with the banking companies and financial institutions are disputed and in line with the provisions of International Accounting Standard on Presentation of financial statements (IAS - 1), all liabilities under these loan agreements have been classified as current liabilities. Based on the above, loan installments due as per terms with the banking companies and financial institutions after the period ended June 30, 2013 have been presented under the current portion of long term loans.

	Note	2012 Rupees	2011 Rupees
21	LONG TERM FINANCING FROM DIRECTOR - SUBORDINATED		
Unsecured - from director	21.1	103,000,000	103,000,000
		<u>103,000,000</u>	<u>103,000,000</u>

21.1 This is interest free, unsecured loan and not repayable within next twelve months. The loan is subordinated to banks Loan.

	Note	2012 Rupees	2011 Rupees
22	LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Opening balance		39,178,099	72,926,223
Assets acquired during the year		-	2,928,000
		<u>39,178,099</u>	<u>75,854,223</u>
Less: Repaid during the year		(20,208,318)	(36,676,124)
		<u>18,969,781</u>	<u>39,178,099</u>
Current portion			
Current maturity		13,125,873	23,071,352
Overdue installment	22.2	2,875,957	-
Due after June 30, 2013	22.2	2,967,951	-
	22.3	<u>18,969,781</u>	<u>23,071,352</u>
		<u>-</u>	<u>16,106,747</u>

22.1 These represent machinery and vehicles acquired under finance lease arrangements from various leasing, modaraba and banking companies. The financing rate used as discounting factor ranges from 7.00% to 16.87% (June 30, 2011 : 7.00% to 19.26%) percent per annum. The rentals are payable in equal monthly and quarterly installments expiring on various dates by November 2015.

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

Purchase options are available to the company after payment of last installment and on surrender of deposit at the end of lease period. The company intends to exercise its option to purchase the leased assets at its salvage value upon the completion of respective lease period. Taxes, replacement and insurance costs are borne by the company.

- 22.2** Due to the pending litigations, but without prejudice to the company's stance in the said litigations, the company's financial arrangements with the banking companies and financial institutions are disputed and in line with the provisions of International Accounting Standard on Presentation of financial statements (IAS - 1), all liabilities under these lease agreements have been classified as current liabilities. Based on the above, lease installments due as per agreed terms after the period ended June 30, 2013 amounted to Rs. 2,967,951 have been presented under the current portion.
- 22.3** The company has filed a suit in Honorable Lahore High Court jointly against financial institutions under section 9 of the Financial Institutions (Recovery of Finances) Ordinance, 2001 for redemption / release of security, rendition of accounts, recovery of damages, permanent injunction and ancillary reliefs. Since the matter is prejudice in the Honorable Lahore High Court, the company has not acknowledged its liability until the amount of principal and mark up is reconciled with the financial institutions in accordance with the above mentioned suit. The honorable Lahore high court vide its order, COS 134 of 2012 reference CM No 713-B of 2012 dated November 1, 2012 has ordered not to disturb the present position of current assets and fixed asset of the company. Due to on going litigations the confirmation from financial institutions have not been received. Due to the facts explained in note 22.2 above the entire amount of the lease has become payable on demand therefore, the amount of future finance charges are not ascertainable as at June 30, 2012. The disclosure of future lease payments is prepared according to existing repayment schedules and provided only to comply with the disclosure requirements of International Accounting Standard (IAS) 17, "Leases". According to the existing repayment schedule the future lease payments to which the company is committed under lease agreements are given below. Due to going litigations the confirmation from financial institutions have not been received.

	2012			2011		
	Minimum lease payments	Finance charges for future periods	Present value of minimum lease payments	Minimum lease payments	Finance charges for future periods	Present value of minimum lease payments
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Payable within one year	17,045,174	1,043,344	16,001,830	25,638,999	2,567,647	23,071,352
Payable after one year but not later than five years	3,391,724	423,773	2,967,951	17,397,501	1,290,754	16,106,747
	<u>20,436,898</u>	<u>1,467,117</u>	<u>18,969,781</u>	<u>43,036,500</u>	<u>3,858,401</u>	<u>39,178,099</u>

	Note	2012 Rupees	2011 Rupees
23 DEFERRED LIABILITIES			
Staff retirement benefits - gratuity	23.1	16,490,204	17,009,598
Deferred taxation	23.2	224,426,089	30,311,754
		<u>240,916,293</u>	<u>47,321,352</u>

23.1 Staff retirement benefits - gratuity

- 23.1.1** Actuarial valuation has been carried out as at June 30, 2012 using the "Projected Unit Credit Method" assuming a discount rate of 13 (June 30, 2011 : 14) percent per annum, expected rate of increase in salaries at 12 (June 30, 2011 : 11) percent per annum and average expected remaining working life time of employees is 10 (June 30, 2011 : 13) years.

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees			
23.1.2 Movement in the net liability recognized in the balance sheet						
Opening net liability		17,009,598	14,837,066			
Expense for the year	23.1.6	7,634,511	6,088,380			
Benefits paid during the year		(8,153,905)	(3,915,848)			
Closing net liability		<u>16,490,204</u>	<u>17,009,598</u>			
23.1.3 Reconciliation of net liability recognized in the balance sheet						
Present value of defined benefit obligation		19,395,764	17,924,888			
Unrecognized actuarial losses	23.1.5	(2,905,560)	(915,290)			
Balance at end of year		<u>16,490,204</u>	<u>17,009,598</u>			
23.1.4 Movement in present value of defined benefit obligation						
Present value of defined benefit obligation - opening		17,924,888	13,617,208			
Current service cost		5,125,027	4,454,315			
Interest cost		2,509,484	1,634,065			
Actuarial (gain)/loss		1,990,270	2,135,148			
Benefits paid		(8,153,905)	(3,915,848)			
Present value of defined benefit obligation - closing		<u>19,395,764</u>	<u>17,924,888</u>			
23.1.5 Movement in unrecognized actuarial losses						
Opening balance		(915,290)	1,219,858			
Actuarial gain/(loss) arising during the year		(1,990,270)	(2,135,148)			
Unrecognized actuarial gains/(losses) at the year end		<u>(2,905,560)</u>	<u>(915,290)</u>			
23.1.6 Expense recognized in the profit and loss account						
Current service cost		5,125,027	4,454,315			
Interest cost		2,509,484	1,634,065			
Net amount recognized in profit and loss account		<u>7,634,511</u>	<u>6,088,380</u>			
23.1.7 Historical information						
Present value of defined		<u>19,396</u>	<u>17,925</u>	<u>13,617</u>	<u>13,507</u>	<u>13,212</u>
Experience adjustments on plan liabilities (gains)/losses		<u>1,990</u>	<u>2,135</u>	<u>(2,500)</u>	<u>328</u>	<u>352</u>
23.1.8				Expected gratuity expense for the year ending June 30, 2013 computed to Rs. 8,043,801.		

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees
23.2 Deferred taxation			
The net liability for deferred taxation comprises timing differences relating to			
Taxable temporary differences (deferred tax liabilities)			
Accelerated tax depreciation - owned assets		45,455,294	27,878,259
Accelerated tax depreciation - assets held under finance lease		3,383,107	4,443,944
Surplus on property, plant and equipment		224,426,089	-
Deductible temporary differences (deferred tax assets)			
Staff retirement benefits - gratuity		(3,339,151)	(2,010,449)
Provisions and allowances		(1,435,156)	-
Brought forward tax losses		(307,354,282)	
		<u>(38,864,099)</u>	<u>30,311,754</u>
Opening balance		30,311,754	21,980,008
Charge/adjust during the year		-	8,331,746
Reversed during the year		(30,311,754)	
Deferred taxation - Revaluation surplus	18.1	224,426,089	-
Closing balance		<u>224,426,089</u>	<u>30,311,754</u>

23.2.1 During the year net deferred tax assets for the unused tax losses and other deductible differences amounting to Rs. 38,864,099 has arisen and existing deferred tax liability other than surplus on revaluation amounted to Rs. 30,311,754 is reversed against deferred tax asset. Components of deferred tax liability relating to timing differences on surplus on revaluation of property, plant and equipment have not been reversed against deferred tax assets arisen during the year. Amount of deferred tax asset has not been recognized because it is not probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

	Note	2012 Rupees	2011 Rupees
24 TRADE AND OTHER PAYABLES			
Creditors	24.1	372,739,088	188,454,617
Gulshan Spinning Mills Limited - related party		28,331,171	-
Gulistan Fibers Limited - related party		-	15,278,525
Advance from waste customers		6,393,608	-
Accrued liabilities	24.2 & 24.3	32,710,244	44,388,619
Workers' profit participation fund	24.4	-	4,338,564
Workers' welfare fund	24.5	-	244,514
Unclaimed dividend		1,836,398	543,606
Tax deducted at source		1,099,797	563,896
		<u>443,110,306</u>	<u>253,812,341</u>

24.1 Creditors includes foreign bills payable amounting to US dollar 546,292.88 (June 30, 2011 : US Dollar 449,858.61) which amounts to Rs. 51,460,789 as at June 30, 2012 (June 30, 2011: 38,026,548).

24.2 Accrued liabilities includes the amount of Electric duty payable amounting to Rs. 778,930 (June 30, 2011: Rs. 520,228). The company has obtained stay order from Lahore High Court against the payment of electric duty to LESCO as explained in note 28.1.2

24.3 Accrued liabilities includes the amount of fuel price adjustment amounting to Rs. 5,014,757 (June 30, 2011: Rs. 77,021). The company has filed a suit as explained in note no. 28.1.3.

24.4 The sponsors and the family members have waived off their share of dividend aggregating to Rs. 5.849 million.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees
24.5 Workers' profit participation fund			
Balance at beginning of year		4,338,564	4,828,731
Interest on funds utilized in the company's business	24.4.1	416,798	522,717
		<u>4,755,362</u>	<u>5,351,448</u>
Paid to the fund during the year		4,755,362	5,351,448
		<u>-</u>	<u>-</u>
Allocation / expense for the year	34	-	4,338,564
		<u>-</u>	<u>4,338,564</u>

- 24.5.1** The company retains workers' profit participation fund for its business operations till the date of allocation to the workers. The interest is charged at the prescribed rate under the act on funds utilized by the company till the date of allocation to the workers. Interest on the fund has been provided at the rate of 14.43 % (June 30, 2011 : 16.26%).

	Note	2012 Rupees	2011 Rupees
24.6 Workers' welfare fund			
Balance at beginning of year		244,514	2,477,182
Paid / adjusted during the year		(244,514)	(2,477,182)
Expense for the year		-	244,514
		<u>-</u>	<u>244,514</u>

25 ACCRUED MARK UP / INTEREST

Mark up / interest accrued on :

Long term financing	25.1	-	-
Liabilities against assets subject to finance lease	25.1	-	239,000
Short term borrowings	25.1	1,674,902	38,244,910
		<u>1,674,902</u>	<u>38,483,910</u>

- 25.1** The company has filed a suit in Honorable Lahore High Court jointly against financial institutions under section 9 of the Financial Institutions (Recovery of Finances) Ordinance, 2001 for redemption / release of security, rendition of accounts, recovery of damages, permanent injunction and ancillary reliefs. Since the matter is prejudice in the Honorable Lahore High Court, the company has not acknowledged its liability until the amount of principal and mark up is reconciled with the financial institutions in accordance with the above mentioned suit. Accordingly the company has not accounted for finance cost aggregating and approximate to Rs.50,211,330, Rs. 7,205,795 and Rs. 292,106 on outstanding balances in respect of short term borrowings, long term financing and liabilities against assets subject to finance lease respectively, as the company has gone onto litigation with the banking companies and financial institutions. The company had not accounted for finance cost amounting to Rs. 57,709,231. The honorable Lahore high court vide its order, COS 134 of 2012 reference CM No 713-B of 2012 dated November 1, 2012 has ordered not to disturb the present position of current assets and fixed asset of the company.

	Note	2012 Rupees	2011 Rupees
26 SHORT TERM BORROWINGS			
Secured - from banking companies and other financial institutions			
Short term borrowings	26.1	1,230,298,928	1,007,241,545
Book overdraft	26.2	11,487,479	20,587,879
		<u>1,241,786,407</u>	<u>1,027,829,424</u>

- 26.1** The company has aggregate borrowing facilities of Rs. 1,395 million (June 30, 2011 : Rs. 1,285 million). Short term borrowing are secured against charge of stocks with a margin of 10% to 25% , hypothecation of fixed assets, moveable & trade debts, work-in-process, stores, lien on export bills receivable, charge against fixed assets, current assets of the company and personal guarantees of some of the directors. These were payable on various dates by January 31, 2013. These carried mark up at the rate of 12.92 to 17.82 (June 30, 2011 : 3.43 to 18) percent per annum payable quarterly.

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

26.2 This represents cheques issued by the company in excess of balance with banks which would have been presented for payments in subsequent period.

26.3 The company has filed a suit in Honorable Lahore High Court jointly against financial institutions under section 9 of the Financial Institutions (Recovery of Finances) Ordinance, 2001 for redemption / release of security, rendition of accounts, recovery of damages, permanent injunction and ancillary reliefs. Since the matter is prejudice in the Honorable Lahore High Court, the company has not acknowledged its liability until the amount of principal and mark up is reconciled with the financial institutions in accordance with the above mentioned suit. The honorable Lahore high court vide its order, COS 134 of 2012 reference CM No 713-B of 2012 dated November 1, 2012 has ordered not to disturb the present position of current assets and fixed asset of the company. Due to on going litigations the confirmation from financial institutions aggregating to Rs. 514,886,422 have not been received.

	<u>2012</u> Rupees	<u>2011</u> Rupees
27 PROVISION FOR TAXATION		
Opening balance	25,114,497	13,636,360
Provided during the year	8,197,502	25,114,497
	<u>33,311,999</u>	<u>38,750,857</u>
Tax adjusted	(20,434,835)	(13,636,360)
Closing balance	<u>12,877,164</u>	<u>25,114,497</u>

28 CONTINGENCIES AND COMMITMENTS

28.1 Contingencies

28.1.1 Company has filed a suit against levy of Infrastructure fee, decision of the Honorable Sindh High Court dated September 17, 2008 in which the imposition of levy of infrastructure cess before December 28, 2006 has been declared as void and invalid. However, the Excise and Taxation Department has filed an appeal before the Honorable Supreme Court of Pakistan against the order of the Honorable Sindh High Court. During the current year, the Honorable Supreme Court of Pakistan has disposed off the appeal with a joint statement of the parties that during the pendency of the appeal, another law i.e. fifth version came into existence which was not the subject matter of in the appeal hence the case was referred back to High Court of Sindh with right to appeal to Supreme Court. On May 31, 2011, the High Court of Sindh has granted an interim relief on an application of petitioners on certain terms including discharge and return of bank guarantees / security furnished on consignment released up to December 27, 2006 and any bank guarantee / security furnished on consignment released after December 27, 2006 shall be encashed to extent of 50% of the guaranteed or secured amount only with balance kept intact till the disposal of petition. In case the High Court upholds the applicability of fifth version of the law and its retrospective application the authorities are entitled to claim the amounts due under the said law with the right to appeal available to petitioner. In the light of interim relief, subsequent to the year end company has paid Rs. 6,832,472 (50 percent of the of the total payable amount) of Infrastructure cess payable from December 27, 2006 to May 31, 2011. Subsequent imports of the company be released against 50 percent payment of Infrastructure cess to Excise and Taxation Department and furnishing of bank guarantee of balance amount. However the full amount of Infrastructure Cess form component of cost of imported items and provision recorded in books. Bank guarantees amounting to Rs. 8,957,572 (June 30, 2011 : Rs. 10,000,000) have been provided to the department.

28.1.2 The company has obtained stay order from honorable Lahore High Court against the payment of electric duty to LESCO . An amount of Rs.778,930 has been provided in the accounts on account of electric duty.

28.1.3 The company has filed a suit against the levy of the fuel price adjustment surcharge in honorable Islamabad High Court jointly against WAPDA, NEPRA and LESCO vide the WP no.1251 of 2012. An amount of Rs. 5,014,757 has been provided in the account of fuel price adjustment surcharge.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

28.1.4 The company has filed a suit in Honorable Lahore High Court jointly against financial institutions under section 9 of the Financial Institutions (Recovery of Finances) Ordinance, 2001 for redemption / release of security, rendition of accounts, recovery of damages, permanent injunction and ancillary reliefs. The Honorable Lahore High Court vide its order sheet dated October 23, 2012 has ordered not to disturb the present position of current assets and fixed assets of the company. Since the matter is prejudice in the Honorable Lahore High Court, the company has not acknowledged its liability until the amount of principal and mark up is reconciled with the financial institutions in accordance with the above mentioned suit. However, the liability in respect of principal outstanding is fully provided where as the mark up amounting to Rs. 57,713,632 is not provided in these financial statements due to the above stated reason. Banking companies and financial institutions including Silk Bank Limited, Habib Bank Limited, KASB Bank Limited, Burj Bank Limited, Askari Bank Limited and others have filed suits for recovery, sale of stocks under charge and injunction against the company in different Banking Courts, Civil Courts and High Courts. The aggregate amount claimed in the suits against the company is Rs. 315,103,691 and permanent injunction. The company is strongly contesting its case before various courts. As per Legal Opinion, all the above matters are being contested by the Company on merits as well as various cogent factual and legal grounds available to the Company under law as reflected in the respective pleadings.

	<u>2012</u> Rupees	<u>2011</u> Rupees
28.1.6 Bank guarantees issued on behalf of the company		
Sui Northern Gas Pipelines Limited	20,362,200	18,500,000
Director of Excise and Taxation	8,957,572	10,000,000
	<u>29,319,772</u>	<u>28,500,000</u>
28.1.7 Bill discounted with recourse	<u>186,235,758</u>	<u>267,450,248</u>
	<u>186,235,758</u>	<u>267,450,248</u>

28.2 Commitments

Irrevocable letters of credit

Capital expenditure	-	1,554,210
Other than capital expenditure	-	79,066,217
	<u>-</u>	<u>80,620,427</u>

	<u>Local</u> Rupees	<u>Export</u> Rupees	<u>2012</u> Rupees	2011 Rupees
29 SALES - NET				
Yarn	768,786,259	694,794,433	1,463,580,692	2,426,317,749
Waste	43,186,034	-	43,186,034	185,005,617
Cotton - Related Parties	125,390,278	-	125,390,278	114,425,204
	<u>937,362,571</u>	<u>694,794,433</u>	<u>1,632,157,004</u>	<u>2,725,748,570</u>
Less :				
Sales return	(30,008,968)	-	(30,008,968)	(63,128,615)
	<u>907,353,603</u>	<u>694,794,433</u>	<u>1,602,148,036</u>	<u>2,662,619,955</u>
Add : Export rebates	-	100,117	100,117	362,319
	<u>907,353,603</u>	<u>694,894,550</u>	<u>1,602,248,153</u>	<u>2,662,982,274</u>

29.1 Export sales includes exchange gain amounting to Rs. 18,867,654 (June 30, 2011 : Rs. 29,443,894).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees
30 COST OF SALES			
Raw material consumed	30.1	1,998,292,253	1,957,722,566
Raw material sold		215,273,388	121,238,442
Packing material consumed		29,290,950	25,523,836
Stores and spare parts consumed	30.2	26,296,063	13,579,785
Fuel and power consumed		147,827,525	122,290,469
Yarn processing charges		3,141,401	6,245,745
Salaries, wages and benefits	30.3	91,921,636	78,032,609
Insurance expense		3,895,281	4,362,042
Repair and maintenance		3,922,076	4,013,483
Depreciation	5.1.1	21,293,364	23,075,580
Others		2,316,301	2,278,540
		<u>2,543,470,238</u>	<u>2,358,363,097</u>
Work in process			
Opening stock		39,795,187	19,434,079
Closing stock		(16,263,789)	(39,795,187)
		<u>23,531,398</u>	<u>(20,361,108)</u>
Cost of goods manufactured		<u>2,567,001,636</u>	<u>2,338,001,989</u>
Finished stocks			
Opening stock		319,145,123	263,093,714
Finished goods purchased		28,087,800	57,012,500
Closing stock		(74,685,867)	(319,145,123)
		<u>272,547,056</u>	<u>961,091</u>
		<u><u>2,839,548,692</u></u>	<u><u>2,338,963,080</u></u>
30.1 Raw material consumed			
Opening stock		669,786,817	361,233,094
Purchases		1,760,281,850	2,387,514,731
		<u>2,430,068,667</u>	<u>2,748,747,825</u>
Raw material sold		(215,273,388)	(121,238,442)
Closing stock		(216,503,026)	(669,786,817)
		<u>1,998,292,253</u>	<u>1,957,722,566</u>
30.2	Store and spare parts consumed includes the provision for slow moving items amounting to Rs. 1,293,749 (June 30, 2011: Nil).		
30.3	Salaries, wages and benefits include staff retirement benefits amounting to Rs.4,906,795 (June 30, 2011: Rs. 4,094,753).		
		2012	2011
	Note	Rupees	Rupees
31 OTHER OPERATING INCOME			
Income from financial assets			
Profit on saving accounts		130,156	2,941,972
Gain on disposal of non current assets held for sale		-	18,202,716
Amortization of deferred income	19	-	379,170
		<u>130,156</u>	<u>21,523,858</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees
32	DISTRIBUTION COST		
Postage and telephone		183,050	281,604
Commission on export sales		11,901,745	19,104,376
Commission on local sales		5,359,992	4,599,960
Foreign currency charges on export		2,824,091	4,228,819
Freight and handling - export		22,570,455	21,840,884
Freight and handling - local		1,624,380	1,251,716
Export development surcharge		1,719,795	3,704,243
Others		233,501	486,878
		<u>46,417,009</u>	<u>55,498,480</u>
33	ADMINISTRATIVE EXPENSES		
Directors' benefits	33.1	366,123	155,964
Staff salaries and benefits	33.2	14,786,272	16,099,106
Rent, rates and taxes		1,021,443	1,147,978
Printing and stationery		591,766	655,871
Postage and telephone		655,063	555,514
Electricity, gas and water		132,343	138,502
Repair and maintenance		347,020	130,391
Vehicles running and maintenance		1,780,593	1,188,479
Advertising		176,350	90,000
Traveling and conveyance		2,215,338	743,849
Legal and professional		2,179,653	1,083,838
Auditors' remuneration	33.3	880,550	800,500
Fee and subscription		1,598,854	800,140
Insurance		353,025	254,418
Depreciation	5.1.1	2,128,910	2,086,681
Others		1,280,059	252,108
		<u>30,493,362</u>	<u>26,183,339</u>
33.1	This represents traveling expenses paid to one of the directors of the company.		
33.2	Staff salaries and benefits include staff retirement benefits amounting to Rs. 2,727,716 (June 30, 2011 : Rs. 1,993,627)		
33.3	Auditors' remuneration		
Annual audit		665,500	605,000
Half yearly review		124,300	113,000
Review report on code of corporate governance		90,750	82,500
		<u>880,550</u>	<u>800,500</u>
34	OTHER OPERATING EXPENSES		
Workers' profit participation fund	24.4	-	4,338,564
Workers' welfare fund		-	244,514
Donations	34.1	552,210	686,222
Foreign exchange loss		2,908,406	2,459,685
Zakat		282,522	-
Impairment charged on the equity instruments of associated companies		53,231,254	-
		<u>56,974,392</u>	<u>7,728,985</u>

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

34.1 This includes donations of Rs.552,210 (June 30, 2011 : Rs.686,222) to Haji Jamal ud Din charitable trust (unrecognized trust) in which at the time of making donations following directors were also trustees. Besides this, none of the directors and their spouses had any interest in donee institutions.

Mr. Abdul Shakoor	Director (Resigned)
Mr. Naseer Ahmed	Director (Retired)
Mr. Tanveer Ahmed	Chief Executive Officer

	Note	2012 Rupees	2011 Rupees
35 FINANCE COST			
Mark up			
Long term financing		2,258,763	145,968
Liabilities against assets subject to finance lease		2,087,219	5,658,274
Short term borrowings		107,949,413	163,316,863
Workers' profit participation fund	24.4	416,798	522,717
Bank charges and commission		10,051,994	4,822,940
		<u>122,764,187</u>	<u>174,466,762</u>

36 TAXATION

Current	36.1	6,921,780	25,114,497
Prior		1,275,722	-
		8,197,502	25,114,497
Deferred		(30,311,754)	8,331,746
	36.2	<u>(22,114,252)</u>	<u>33,446,243</u>

36.1 Current taxation charge has been worked out in accordance with the provisions of the Income Tax Ordinance, 2001. During the year company has declared gross loss before set off of depreciation and other inadmissible expenses under the Income Tax Ordinance, 2001. Therefore, entire provision for current taxation is calculated under section 169 of the Income Tax Ordinance 2001.

36.2 The relationship between tax expense and accounting profit has not been presented in these financial statements as the total taxable income of the company attracts final tax under Income Tax Ordinance, 2001.

37 (LOSS) / EARNINGS PER SHARE - BASIC AND DILUTED

The calculation of the basic earnings per share is based on the following data.

Earnings

Earnings for the purpose of basic earnings per share			
(Loss) / profit for the year	Rupees	<u>(1,519,914,297)</u>	<u>52,395,137</u>

Number of shares

Weighted average number of ordinary shares outstanding during the period	Number of shares	<u>14,641,000</u>	<u>14,641,000</u>
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Earnings per share - basic and diluted (Rupees per share)		<u>(103.81)</u>	<u>3.58</u>
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Earnings per share - basic and diluted for the prior year has been adjusted for the increase in the number of ordinary shares outstanding as a result of bonus issue.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

	2012 Rupees	2011 Rupees
38 CHANGES IN WORKING CAPITAL		
(Increase) / decrease in stores, spare parts and loose tools	12,717,785	(429,744)
(Increase) / decrease in stock in trade	747,640,122	(443,311,573)
(Increase) / decrease in trade debts	85,406,649	124,710,689
(Increase) / decrease in loans and advances	28,165,843	45,565,955
(Increase) / decrease in trade deposits and short term prepayments	(1,505,770)	(2,818,324)
(Increase) / decrease in sales tax refundable	(85,580)	(193,999)
(Decrease) / increase in trade and other payables	189,297,965	92,004,077
	<u>1,061,637,014</u>	<u>(184,472,919)</u>

39 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

No remuneration was paid to chief executive officer and directors. However the monetary value of other benefit provided to one director of the company is Rs. 366,123 (June 30, 2011 : Rs. 155,964). The remuneration paid to executives are as follows.

	2012 Rupees	2011 Rupees
Remuneration	2,934,352	2,411,981
House rent allowance	1,027,023	352,400
Conveyance allowance	847,728	422,820
Medical allowance	293,435	57,024
Utilities allowance	146,717	84,400
	<u>5,249,255</u>	<u>3,328,625</u>
Number of persons	<u>6</u>	<u>3</u>

Non executive directors are not given any remuneration and benefits.

40 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts.

Cash in hand	31,628	20,877
Cash with banks		
Current accounts	8,061,224	45,578,473
Saving accounts	39,895	102,311
Certificates of deposit	4,362,370	2,814,681
Temporary overdraft	(11,487,479)	(20,587,879)
	<u>1,007,638</u>	<u>27,928,463</u>

41 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

41.1 Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged or liability be settled between knowledgeable willing parties in an arm's length transaction. As at the reporting date, fair values of all financial instruments are considered to approximate their carrying amounts.

41.2 Methods of determining fair values

Fair values of financial instruments, with the exception of investment in associates, for which prices are available from the active market are measured by reference to those market prices. Fair values of financial assets and liabilities with no active market and those of investments in subsidiaries are determined in accordance with generally accepted pricing models based on discounted cash flow analysis based on inputs from other than observable market.

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

41.3 Discount/interest rates used for determining fair values

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve as at the reporting date plus in adequate credit spread.

41.4 Significant assumptions used in determining fair values

Fair values of financial asset and liabilities that are measured at fair value subsequent to initial recognition are determined by using discounted cash flow analysis. This analysis requires management to make significant assumptions and estimates which may cause material adjustments to the carrying amounts of financial assets and financial liabilities in future periods. These assumptions are not fully supportable by observable market prices or rates. Significant assumptions used by the Company in determining fair value of financial assets and liabilities and information about other estimation uncertainties are as follows:

Investments in associates

In determining the fair values of investments in associates, a risk-adjusted discount factor of 14% (June 30, 2011: nil) has been used. If discount factor was 1% higher or lower, the carrying amount of investment would decrease or increase by Rs.214,865 or Rs. 230,561 (June 30, 2011: Rs.nil or Rs. nil) respectively. The management also makes various other assumptions based on historical trends and future plans of the management. There are normal risks associated with these assumptions and may include effects of regulatory and legislative changes, increased competition, technological changes, pricing pressures, changes in labor and material costs and the prevalent general business and economic conditions. However, there are no other sources of estimation uncertainty that may have a significant risk of causing any material adjustment to the carrying amounts of investments.

41.5 Significance of fair value accounting estimates to the Company's financial position and performance

The Company uses fair value accounting for its financial instruments in determining its overall financial position and in making decisions about individual financial instruments. This approach reflects the judgment of the Company about the present value of expected future cash flows relating to an instrument. The management believes that fair value information is relevant to many decisions made by users of financial statements as it permits comparison of financial instruments having substantially the same economic characteristics and provides neutral basis for assessing the management's stewardship by indicating effects of its decisions to acquire, sell or hold financial assets and to incur, maintain or discharge financial liabilities.

42 FINANCIAL RISK EXPOSURE AND MANAGEMENT

The company has exposure to the following risk from its use of financial statements.

- 42.1 Credit risk
- 42.2 Liquidity risk
- 42.3 Market risk

The board of directors has overall responsibility for the establishment and oversight of company's risk management framework. The board is also responsible for developing and monitoring the company's risk management policies.

42.1 Credit risk

42.1.1 Exposure to credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the trade debts, loans and advances, trade deposits, short term prepayment and other receivable, accrued markup and cash and bank balances. Out of total financial assets of Rs.87.804 million (June 30, 2011: 212.925 million), financial asset which are subject to credit risk aggregate to Rs.75.309 million (June 30,2011: 164.409 million). The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

	<u>2012</u>	<u>2011</u>
	Rupees	Rupees
Long term deposits	2,008,468	5,332,480
Trade debts	69,173,024	154,579,673
Loans and advances	-	1,629,191
Trade deposits, prepayments and other receivables	3,841,513	2,689,891
Accrued mark up	286,091	178,397
Cash and bank balances	12,495,117	48,516,342
	<u>87,804,213</u>	<u>212,925,974</u>

42.1.2 The maximum exposure to the credit risk for trade debts at the balance sheet date by geographic is as follows.

	<u>2012</u>	<u>2011</u>
	Rupees	Rupees
Local debtors	60,534,202	148,653,624
Export debtors	8,638,822	5,926,049
	<u>69,173,024</u>	<u>154,579,673</u>

The majority of export debtors of the company are situated in Asia.

42.1.3 The maximum exposure to credit risk for trade debtors at the balance sheet date by type of customers is as follows.

	<u>2012</u>	<u>2011</u>
	Rupees	Rupees
Yarn	69,173,024	149,537,725
Waste	-	5,041,948
	<u>69,173,024</u>	<u>154,579,673</u>

42.1.4 The aging of trade debtors at the balance sheet is as follows.

Not past due	33,978,145	90,675,243
Past due 0 - 90 days	15,254,893	35,378,564
Past due 91 - 180 days	8,816,747	16,256,960
Past due 181 days - 1 year	9,966,941	10,559,370
More than one year	1,156,298	1,709,536
	<u>69,173,024</u>	<u>154,579,673</u>

42.2 Liquidity risk

Liquidity risk is the risk the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the company reputation. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements. As fully explained in note no.28 the company has filed a suit in Honorable Lahore High Court jointly against financial institutions under section 9 of the Financial Institutions (Recovery of Finances) Ordinance, 2001 for redemption / release of security, rendition of accounts, recovery of damages, permanent injunction and ancillary reliefs. Since the matter is prejudice in the Honorable Lahore High Court, the company has not acknowledged its liability until the amount of principal and mark up is reconciled with the financial institutions in accordance with the above mentioned suit. Disclosure below is presented only to comply the requirement of international Financial Reporting Standards (IFRS) and in accordance with the existing repayment term.

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

The following significant exchange rates applied during the year.

	Average Rates		Reporting date rates	
	2012 Rupees	2011 Rupees	2012 Rupees	2011 Rupees
US\$ to Rupee	89.93	84.45	94.00	85.85

Sensitivity analysis

5% strengthening of Pak Rupee against the following currencies at June 30, would have increased / (decreased) equity and profit and loss by the amount shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. 5% weakening of Rupee against the above currencies at period ends would have had the opposite effects on the above currencies to the shown below on the basis that all other variables remain constant.

	2012 Rupees	2011 Rupees
US Dollar	(431,942)	(278,681)

The sensitivity analysis prepared is not necessarily indicative of the effects on the profit for the year and liabilities of the company.

42.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates. Majority of the interest rate exposure arises from short and long term borrowing from banks and term deposits in PLS saving accounts with banks. At the balance sheet date the interest rate profile of company's interest bearing financial instrument is as follows.

	2012 Rupees	2011 Rupees
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	-	-
Variable rate instruments		
Financial assets	4,362,370	2,814,681
Financial liabilities	1,260,756,188	1,046,419,644

Fair value sensitivity for fixed rate instruments

The company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not effect profit and loss account.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates remain constant. The analysis is performed on the same basis for June 30,2012.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 2012

	Profit and Loss		Equity	
	100 bp increase Rupees	100 bp decrease Rupees	100 bp increase Rupees	100 bp decrease Rupees
Cash flow sensitivity - variable rate instruments 2012	<u>(12,607,562)</u>	<u>12,607,562</u>	<u>-</u>	<u>-</u>
Cash flow sensitivity - variable rate instruments 2011	<u>(10,464,196)</u>	<u>10,464,196</u>	<u>-</u>	<u>-</u>

42.4 Fair value of financial assets and liabilities

The carrying value of all financial instruments reflected in the financial statements approximate to their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

	2012 Rupees	2011 Rupees
42.5 Off balance sheet items		
Bill discounted with recourse	<u>186,235,758</u>	<u>267,450,248</u>
Bank guarantees issued in ordinary course of business	<u>29,469,772</u>	<u>28,500,000</u>
Letter of credit for capital expenditure	<u>-</u>	<u>1,554,210</u>
Letter of credit other than capital expenditure	<u>-</u>	<u>79,066,217</u>

42.6 The effective rate of interest / mark up for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

43 CAPITAL RISK MANAGEMENT

The company's prime object when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. The ratio is calculated as total borrowing divided by the total capital employed borrowing represent long term financing, long term financing from directors and short term borrowing. The capital employed includes total equity as shown in balance sheet plus borrowing.

	2012 Rupees	2011 Rupees
Borrowing	1,524,786,407	1,130,829,424
Total equity	(1,149,872,501)	378,833,976
Total capital employed	<u>374,913,906</u>	<u>1,509,663,400</u>
Gearing ratio	<u>406.70%</u>	<u>74.91%</u>

44 RELATED PARTY TRANSACTIONS

The related parties comprise holding company, subsidiaries and associated undertakings, companies with common directorship, other related group companies, directors of the company, key management personnel and post employment benefit plans.

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

	<u>2012</u> Rupees	<u>2011</u> Rupees
Nature of relationship		
Related parties due to significant influence		
Purchases	30,349,200	179,630,842
Sales	388,373,413	430,752,952
Processing charges	2,851,651	5,714,145
All material transactions with related parties are at arm's length.		
Compensation of key management personnel		
Remuneration and other benefits	5,249,255	-
Post employment benefits	3,391,998	1,143,000

The related party status of outstanding receivable / payable, and investments as at June 30, 2011 is disclosed in the respective notes to the financial statements.

Transactions with related parties essentially entail sale and purchase of goods and / or services. All transactions are carried out on commercial basis.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The company considers all members of their management team, including the chief executive officer and directors to be its key management personnel.

There are no transactions with key management personnel other than under their terms of employments / entitlements. Balance outstanding from related parties are unsecured and repayable on demand or as contracted. Amounts due to related parties are shown in the relevant notes to the financial statements.

	<u>2012</u> Rupees	<u>2011</u> Rupees
45 PLANT CAPACITY AND ACTUAL PRODUCTION		
Number of spindles installed	24,096	24,096
Number of spindles on the basis of shifts worked	18,213,477	26,168,256
Number of shifts worked	2 to 3	3
Installed capacity in kilograms after conversion into 20/s counts	8,029,854	8,029,854
Actual production of yarn in kilograms after conversion into 20/s counts	5,220,555	6,033,322
All counts production	4,926,814	6,407,105
45.1	It is difficult to precisely describe production capacity and the resultant production in the textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw material used, spindle speed, twist etc.	
45.2	Severe energy crisis in the form of unscheduled and unprecedented gas and electricity load shedding catastrophically impaired the production of the company resulting in a major production short fall as compared to the last year. During the year financial institutions also curtailed the short term limits, froze the funds in current accounts to clear the mark up and other dues. These all factors caused production short fall.	
45.3	The difference between installed capacity and actual production is in normal course of business.	
46 CORRIGENDUM OF ORIGINAL COST AND BOOK VALUE OF FREE HOLD LAND NOTE IN YEAR 2011		
	Last year original cost of book value of free hold land was corrected and presented in these financial statements at note 5.4.	

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2012

47 CORRESPONDING FIGURES

47.1 Nomenclature of the following accounts have been changed for better understanding and presentation.

Note	Previous year classification	Current year classification	Reason
20	Long Term Financing From Banking Companies	Long Term Financing	Better Presentation / Proper Classification

47.2 Figures have been rearranged / reclassified whenever necessary for the purpose of better presentation and comparison. No significant reclassification were made in these financial statements.

Note	Reclassification		Nature	Purpose	Rupees
	From	To			
5.1	Plant and machinery - at cost	Power House	Fixed assets	Better presentation	449,776
5.1	Plant and machinery depreciation	Power House	Fixed assets	Better Presentation	11,152

48 DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue on April 27, 2013 by the board of directors of the company. The company has obtained the extension from Securities and Exchange Commission of Pakistan (SECP) to hold the annual general meeting up to April 30, 2013.

KEY OPERATING AND FINANCIAL DATA for last six years

	2012 RUPEES	2011 RUPEES	2010 RUPEES	2009 RUPEES	2008 RUPEES	2007 RUPEES
OPERATING RESULTS						
Total number of Spindles installed	24,096	24,096	24,096	24,096	24,096	24,096
Total number of Spindles worked	18,213,477	26,168,256	26,168,256	26,168,256	26,133,556	26,127,676
Install capacity 20's Count	8,029,854	8,029,854	8,029,854	8,029,854	8,029,854	8,029,854
Production converted into 20's Count	4,926,814	6,033,322	7,161,957	7,416,142	7,402,973	7,595,685
Number of shifts worked	756	1,086	1,086	1,086	1,095	1,095
Turnover	1,602,248,153	2,662,982,274	1,851,263,217	1,371,413,538	1,198,784,642	1,043,360,920
Gross (Loss)/Profit	(1,237,300,539)	324,019,193	313,955,988	235,285,080	180,063,549	154,818,814
Operating (Loss)/Profit	(1,371,185,302)	234,608,390	235,587,283	169,439,852	137,789,603	114,847,268
Other Income	130,156	25,699,752	4,168,914	6,847,152	7,669,297	6,721,775
Financial & Other Charges	122,764,187	174,466,762	150,046,753	158,384,519	121,764,888	112,212,333
(Loss)/Profit for the year before taxation	(1,542,028,549)	85,841,380	92,742,621	20,710,522	24,547,842	11,068,907
Unappropriated carried forward	207,423,976	155,028,839	97,287,923	109,367,911	108,907,196	118,005,807
APPROPRIATION						
Proposed Dividend	0	10% Cash Dividend	10% Cash Dividend	10% Bonus	10% Bonus	10% Bonus
FINANCIAL POSITION						
Paid up Capital	146,410,000	146,410,000	146,410,000	133,100,000	121,000,000	110,000,000
Share Holder Equity	(1,149,872,501)	378,833,975	335,234,055	268,592,848	255,283,721	243,826,830
Long Term Loans	180,000,000	-	6,660,500	111,135,000	167,729,250	152,958,000
Obligation under Finance Leases	18,969,781	39,178,099	72,926,223	72,068,118	88,337,740	31,060,110
Deferred Liabilities	240,916,293	47,321,352	36,817,074	21,636,578	22,304,254	13,215,665
Current Liabilities	1,898,418,560	1,368,311,524	1,151,971,782	1,092,807,302	908,717,507	736,956,062
Fixed Assets	1,637,133,807	539,604,656	545,896,931	557,588,264	568,324,858	571,553,404
Long term Investments	12,667,534	58,913,782	40,853,618	27,160,724	24,273,968	23,290,157
Long term Deposit	2,008,468	5,332,480	74,423,030	9,991,235	9,438,485	10,292,127
Current Assets	479,661,474	1,397,975,329	1,173,633,329	1,073,758,059	919,701,735	740,108,247

PATTERN OF SHAREHOLDING as at June 30, 2012

Number of Shareholders	Shareholding		Shares Held	Percentage
	From	To		
1,000	1	100	15,876	0.11
268	101	500	53,575	0.37
248	501	1,000	183,016	1.25
110	1,001	5,000	268,822	1.84
32	5,001	10,000	236,262	1.61
16	10,001	15,000	199,688	1.36
7	15,001	20,000	118,201	0.81
3	20,001	25,000	65,323	0.45
5	25,001	30,000	134,605	0.92
4	30,001	35,000	128,713	0.88
3	35,001	40,000	110,233	0.75
3	40,001	45,000	128,139	0.88
1	45,001	50,000	46,609	0.32
1	50,001	55,001	51,091	0.35
2	65,001	70,001	135,619	0.93
1	75,001	80,000	76,859	0.52
1	80,001	85,000	81,625	0.56
2	85,001	90,000	177,587	1.21
1	90,001	95,001	92,082	0.63
1	115,001	120,000	119,543	0.82
1	120,001	125,000	120,434	0.82
1	135,001	140,000	137,971	0.94
1	145,001	150,000	148,828	1.02
1	150,001	155,000	150,049	1.02
1	165,001	170,000	169,103	1.15
1	200,001	205,000	202,777	1.38
1	275,001	280,000	277,500	1.90
2	290,001	295,000	582,358	3.98
1	320,001	325,000	323,536	2.21
1	750,001	755,000	750,653	5.13
1	870,001	875,000	871,252	5.95
1	1,065,001	1,070,000	1,066,835	7.29
1	1,350,001	1,355,000	1,350,655	9.23
1	1,900,001	1,905,000	1,903,330	13.00
1	4,160,001	4,165,000	4,162,251	28.43
1,725			14,641,000	100.00

* Note: There is no shareholding in the slab not mentioned

CATEGORIES OF SHAREHOLDERS as at June 30, 2012

Particulars	No. of Share holders	No. of Shares held	Percentage
Directors, Chief Executive Officer and their spouse and minor children	8	3,112,725	21.26
Associated Companies, Undertakings and Related Parties	2	4,365,028	29.81
NIT & ICP	3	293,049	2.00
Banks, Development Finance Institutions, Non- Banking Financial Institutions	3	454,133	3.10
Insurance Companies	2	40,649	0.28
General Public (Local)	1,699	4,985,196	34.05
Others Companies	8	1,390,220	9.50
	1,725	14,641,000	100.00

CATEGORIES OF SHAREHOLDERS

as at June 30, 2012

A) ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	SHARES
Paramount Spinning Mills Limited	202,777
Gulistan Textile Mills Limited	4,162,251
B) NIT & ICP	
IDBP (ICP UNIT)	464
Investment Corporation of Pakistan	500
National Bank of Pakistan Trustee Department	292,085
C) DIRECTORS, CHIEF EXECUTIVE OFFICER, THEIR SPOUSES AND MINOR CHILDREN	
<u>DIRECTORS</u>	
Mr. Tanveer Ahmed	2,041,301
Mr. Riaz Ahmed	1,986
Mr. Muhammad Shafiq	500
Mr. Sohail Maqsood	550
Mr. Umer Hayat Gill	500
Mr. Iftikhar Ali	500
Mr. Muhammad Yousuf	553
<u>SPOUSES</u>	
Mrs. Naureen Tanveer	1,066,835
D) BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, MODARABAS & MUTUAL FUNDS	
<u>BANKS</u>	
National Bank of Pakistan	176,633
The Bank of Punjab	277,500
<u>INSURANCE</u>	
The Crescent Star Insurance Company Limited	12,100
Habib Insurance Co. Limited	28,549

CATEGORIES OF SHAREHOLDERS as at June 30, 2012

E) OTHER COMPANIES

Sarfaraz Mahmood (Pvt.) Limited	146
Muhammad Ahmad Nadeem Securities (SMC-Pvt.) Limited	624
AWJ Securities (SMC-Pvt.) Limited	731
S.H. Bukhari Securities (Pvt.) Limited	731
Investec Securities Limited	1,464
Peridot Products (Pvt) Limited	1,350,655
Mazhar Hussain Securities (Pvt.) Limited	16,105
Creative Capital Securities (Pvt.) Limited	19,764

F) **General Public (Local)** 4,985,196

14,641,000

G) SHAREHOLDERS HOLDING 5% OR MORE

Gulistan Textile Mills Limited	4,162,251
Peridot Products(Pvt.) Limited	1,350,655
Mr. Tanveer Ahmed	2,041,301
Mrs. Naureen Tanveer	1,066,835
Mr. Jehangir Ahmed	871,252
Mrs. Mahrukh Zeenat Jehangir	750,653

H) **TRADING IN THE SHARES OF COMPANY DURING THE YEAR BY THE DIRECTORS, CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER, COMPANY SECRETARY AND THEIR SPOUSES AND MINOR CHILDREN**

NIL

Form of Proxy

Gulistan Spinning Mills Limited

I/We _____ being member of **Gulistan Spinning Mills Limited** holder of _____ ordinary shares as per Share Register Folio No. _____ and/or CRC participant I.D. No. _____ Account No _____ hereby appoint Mr. _____ who is also member of **Gulistan Spinning Mills Limited** vide Folio No. _____ or CDC participant I.D. No. _____ Account No. _____ or failing him/her of _____ of Mr. _____ who is also member of **Gulistan Spinning Mills Limited** vide Folio No. _____ or CDC participant I.D. No. _____ Account No. _____ as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 21 May 2013v at 12 :00 noon and at any adjournment thereof.

As witness my/our hand this _____ day of _____ 2013

Signed by the said _____

In the presence of _____

Appropriate Revenue Stamp

Notes:

1. The Proxy in order to be valid must be duly stamped, signed and witnessed and be deposited with the Company not later than 48 hours before the time of holding of Meeting
2. The proxy must be a member of the Company.
3. Signature should agree with the specimen signature, registered with the Company.
4. CDC Shareholders, entitled to attend and vote at this meeting, must bring with them their National Identity Card/Passport in original to prove his/her identity, and in case of Proxy must enclose an attested copy of his/her NIC or passport.
5. Representative of corporate members should bring the usual documents required for such purpose.