



## ***Mission Statement***

*The Mission of Sally Textile Mills Limited is to be the finest organization, and to conduct business responsibly and in a straight forward way.*

*Our basic aim is to benefit the customers, employees and shareholders and to fulfill our commitments to the society.*

*Our hallmark is honesty, innovation, teamwork of our people and our ability to respond effectively to change in all aspects of life including technology, culture and environment.*

*We will create a work environment, which motivates, recognizes and rewards achievements at all levels of the organization because*

## ***In Allah We Believe & In People We Trust***

*We will always conduct ourselves with integrity and strive to be the best*

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## Company Information

### Board Of Directors

Mian Iqbal Salah-ud-din	Chief Executive Officer
Mst. Munira Salah-ud-din	
Mian Yousaf Salah-ud-din	
Mian Asad Salah-ud-din	
Mian Sohail Salah-ud-din	
Sheikh Abdul Salam	
Mr. Muhammad Rafiq Khan	(Resigned w.e.f. July 13, 2012)
Syed Abid Raza Zaidi	(New appointment w.e.f. July 13, 2012)

### Audit Committee

Sheikh Abdul Salam	Chairman
Mst. Munira Salah-ud-din	Member
Mian Asad Salah-ud-din	Member
Syed Abid Raza Zaidi	Secretary

### Human Resources & Remuneration Committee

Sheikh Abdul Salam	Chairman
Mian Yousaf Salah-ud-din	Member
Mian Sohail Salah-ud-din	Member

### Chief Financial Officer

Mr. Mehboob Usman

### Company Secretary

Syed Abid Raza Zaidi

### Auditors

M/s Rahman Sarfaraz Rahim Iqbal Rafiq  
Chartered Accountants

### Bankers

National Bank Of Pakistan  
Muslim Commercial Bank Limited  
Askari Commercial Bank Limited  
Meezan Bank Limited

### Registered Office

4-F, Gulberg II, Lahore.  
Phones : (042) 35754371, 35754372, 35754373  
E-mail : sallytex@hotmail.com  
Fax : (042) 35754394

### Mills

Muzaffargarh Road, Jauharabad  
Phones: (0454) 720645, 720546, 720311

## Vision and Mission Statement

### Vision

To achieve consistent superior performance in all respects, provide quality products to our valued customer and run the company purely on professional grounds

### Mission

- Continuous improvement in total quality performance by achieving high standards in our products and providing these to our customers without error, on time and every time.
- We are dedicated to supply the product of highest quality and standards, yet at a reasonable cost for our national and international customer's satisfaction.
- All of our commitments, actions and products must be recognized as an expression of quality.
- We are committed to improve our skills and know-how, competency, practical experience and training of employees by implementing quality system.
- We continuously improve the performance of quality standards through practical participation of our employees at all levels.
- Our mission is to meet National and International Standards, Customers' Satisfaction and Continuous Improvements in our standards through use of latest methods and employees satisfaction.

## Statement of Ethics and Business Practices

We believe that a complete code of ethics is essential for the maintenance of integrity and professionalism in the day-to-day functioning of Sally Textile Mills Limited. We always place the Company's interest first through resource management namely human, financial and other infra structural facilities and to ensure reasonable return to all the shareholders. Conduct business as a responsible and law abiding corporate member of society to achieve its legitimate commercial objective and supports unconditionally the Compliance with best Practices of Corporate Governance for the betterment of corporate culture. We develop and observe cost effective practices in our activities and strive for excellence and quality. We encourage initiative and self-realization in employees through meaningful empowerment.

## Notice of Annual General Meeting

Notice is hereby given that the 44<sup>th</sup> Annual General Meeting of SALLY TEXTILE MILLS LIMITED (“the Company”) will be held on Tuesday October 30, 2012 at 10:00 a.m. at Four Seasons Hall, 34-Shahrah-e-Fatima Jinnah, Queens Road, Mozang, Lahore to transact the following business.

1. To confirm the minutes of 43<sup>rd</sup> Annual General Meeting held on October 31, 2011.
2. To receive and adopt the audited accounts of the Company along with the Directors and auditor's report for the year ended June 30, 2012.
3. To discuss and approve the contracts / agreements made during the year with suppliers and other parties.
4. To appoint the auditors and fix their remuneration for the next financial year 2012-2013.
5. Any other matter with the permission of the chair.

By the order of the Board

Date : October 08, 2012  
Place : LAHORE

(SYED ABID RAZA ZAIDI)  
Company Secretary

### NOTES:

- I. A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote on his/her behalf. Proxies in order to be executive must be received at the Registered Office of the Company not later than 48 hours before commencement of the meeting.
- II. The proxy form shall be witnessed by two persons whose names, addresses and NIC numbers shall be mentioned on the form.
- III. Attested copies of NIC / Passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- IV. The proxy shall produce his original NIC/Passport at the time of the meeting.
- V. The shares transfer books of the Company will remain closed for fifteen days from 29-10-2012 to 13-11-2012. (both days inclusive)
- VI. Share holders whose shares are deposited with Central Depository System (CDS) are requested to bring their National Identity Card (NIC) along with their Account Number in CDS for verification. In case of corporate entity, the Board of Directors Resolution / Power of Attorney with specimen signatures of the nominee shall be produced (unless provided earlier) at the time of meeting.

## Key Operating and Financial Data

	2012	2011	2010	2009	2008	2007	2006
Rupees in million							
<b>OPERATING PERFORMANCE</b>							
Sales	2887	2843	1746	1181	1076	882	797
Gross profit	241	304	257	70	111	57	76
Profit / (loss) before tax	98	248	146	4	23	(8)	13
Tax	62	29	11	-	5	4	3
Profit / (loss) after tax	36	219	135	4	18	(12)	10
<b>FINANCIAL POSITION</b>							
<b>Assets</b>							
Non-current assets	995	862	759	550	556	511	489
Current assets	670	606	447	367	476	217	239
<b>Total assets</b>	<b>1665</b>	<b>1468</b>	<b>1206</b>	<b>917</b>	<b>1032</b>	<b>728</b>	<b>728</b>
<b>Equity &amp; liabilities</b>							
Share capital & reserves	211	166	(52)	(190)	(198)	(218)	(185)
Surplus on revaluation	277	196	203	87	91	93	70
Total equity	488	362	151	(103)	(107)	(124)	(114)
Non-current liabilities	352	260	352	244	236	271	222
Current liabilities	825	846	703	776	903	582	620
<b>Total liabilities</b>	<b>1,177</b>	<b>1,106</b>	<b>1,055</b>	<b>1,020</b>	<b>1,139</b>	<b>853</b>	<b>842</b>
<b>Total</b>	<b>1665</b>	<b>1468</b>	<b>1206</b>	<b>917</b>	<b>1032</b>	<b>728</b>	<b>728</b>

## Directors' Report

The Directors of **Sally Textile Mills Limited** ("the Company") are pleased to present 44<sup>th</sup> annual report of the Company together with audited accounts and auditors' report thereon for the year ended June 30, 2012.

### Overview

The Industry as whole had faced more challenges due to acute shortage of power and gas supplies coupled with persistent inflationary pressures resulted substantially increase the production cost. These circumstances have also affected the profitability of your company.

### Performance review

Despite of toughest business and economic conditions we are pleased to mention that your company is maintaining the pace of regular improvement in all areas of operation. By the grace of Almighty Allah we are one of those companies who have successfully managed their profitability consistently in the prevailing circumstances.

During the period under review the demand of yarn and fabric was suppressed due to international economic recession and substantial decrease in price of cotton all over the year. The price of yarn and fabric are also decreased substantially and affected the sales and profitability of the company. The massive gas load shedding along with electricity load shedding from SNGPL & WAPDA has also affected the production activities of textile sector. Furthermore higher inflation in the country is another major cause of concern. Due to higher inflation, cost of production is increasing day by day and affecting the competitiveness in the international market.

Keeping in view the adverse conditions your directors still express their satisfaction over the progress and show determination for further improvements.

The financial results in a summarized form are give hereunder:

Description	June 30, 2012 Rs. in million	June 30, 2011 Rs. in million
Turnover - net	2,887.50	2,842.73
Gross Profit	241.08	304.08
Profit before tax	98.21	248.80
Profit after tax	35.93	219.53

The gross profit of the company reduced due to the increase in the cost of electricity, wages, and store as well as decrease in the sales prices of yarn as compared to decrease in the cotton prices.

### Earnings per Share

The earning per share of your company for the year ended June 30, 2012 is PKR.4.09(June 30, 2011 PKR.25.02)

### Balance Sheet

Balance sheet footing has increased to PKR. 1665.37 million this year. Long term borrowing at the end of year have also been reduced to PKR. 12.62 million. The liquidity position of the company is sound and also

improved as compared to last year. The total shareholder's fund stood at PKR. 210.75 million (2011: PKR. 166.13 million).

### **Cash Flow Management**

Board of directors places great importance at an effective cash flow management as to ensure smooth running of the business and for this purpose cash inflows and outflows are projected on regular basis. Working capital requirements have been planned to be finance through internal cash generation and short term financing from external sources.

### **Business, Risk, Challenges and Future Outlook**

In the view of current economic scenario where the cost of production is rapidly increasing, law and order situation is also very discouraging. The current cotton market is also not predictable. The heavy rains followed by the flood in the Sindh has changed the trend of cotton market. The prices of cotton have been fallen drastically. Consequently, yarn and fabric prices have also been fallen and demand of yarn and fabric in the local and international market has shrunk.

Although the State Bank of Pakistan has reduced the discount rate but it is still at higher side which is not enough to satisfy the business community. The State Bank of Pakistan should further curtail the discount rate. Pakistan needs to build strong reforms to face various challenges including energy, investment and security.

Your directors are pleased to inform that in the available sources your company has taken over another spinning unit on operating lease for 10 years starting from April, 2012. Although in the last quarter of the year under review there is no major contribution in the profits however after balancing the machinery, quality production has been started and unit has contributed in better profitability of 1st quarter in the current year. Your management is confident that it will give more better results in the coming period which would help in the improvement of profitability of the company.

### **Corporate Social Responsibility (CSR)**

Your company gives high priority to its social responsibilities and is committed to the highest standards of corporate behavior. The company's CSR responsibilities are fulfilled through monetary contributions in the areas of health care, education, environment protection, water and sanitation, child welfare, infrastructure development and other social welfare activities. Our CSR includes the contributions to hospitals and education programs engaged in assisting the under privileged patients students and children's of various walks of life.

### **Health Safety and Environment**

Your company is well aware of the importance of skilled workers and staff therefore the company is strongly committed towards all aspects of safety, health and environment connected with our business.

### **Financial Statements**

The Financial statements for the year ended June 30, 2012 were approved by the Board of Directors on October 04, 2012 and authorized for their issuance. Operating and financial data of last seven years is annexed.

### **Code of corporate governance**

The requirements of the Code of Corporate Governance set out by the Karachi and Lahore Stocks Exchanges in their listing regulations, relevant for the year ended June 30, 2012 have been adopted by the company and have been duly complied with a statement to this effect is annexed to the report.



### Pattern of Shareholding

The pattern of shareholding and additional information regarding pattern of shareholding is attached separately.

No trade in the shares of company was carried out by CEO, CFO and Company Secretary and their spouses and minor children except those that have been duly reported as per law.

### Board Meeting and Attendance

During the year four meetings of the Board of Directors of the company were held attendance by each director is narrated below:-

Sr.	Name	Attendance
1.	Mian Iqbal Salahuddin	4
2.	Mian Yousaf Salahuddin	4
3.	Mian Asad Salahuddin	4
4.	Mst. Munira Salahuddin	4
5.	Mian Sohail Salahuddin	4
6.	Sh. Abdul Salam	4
7.	Muhammad Rafique Khan	4

### Auditors

The present auditors M/S. Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants retire and being eligible offer themselves for re-appointment as auditors of the company for the year 2012-13. The audit committee has recommended the appointment of aforesaid auditors M/S. Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, as external auditors for the year ended June 30, 2013. The External auditors, Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants have been given satisfactory rating under the quality review program of the Institute of Chartered Accountants of Pakistan and the firm and its entire partner are in compliance with the International Federation of Accountants' guidelines on the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.

### Acknowledgement

Your directors record with appreciation, the efforts of the company's managers, technicians, staff and workers who have vigorously to meet the target. Your directors also extend their appreciation to the company's banker, buyers and suppliers for extending their cooperation.

**For and on behalf of the Board**

Lahore : October 04, 2012

**MIAN IQBAL SALAH-UD-DIN**  
Chief Executive Officer

## Statement of Compliance with the Best Practices of Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of Karachi and Lahore Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the practices of corporate governance.

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

1. The Company encourages the representation of independent non-executive directors. At present there are three non-executive directors on the Board.
2. The directors have confirmed that none of them is serving as a director in more than ten listed Companies, including the Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or a NBFIs.
4. No casual vacancy occurred in the Board during the year.
5. The business of the Company is conducted in accordance with the "Statement of Ethics and Business Practices" signed by all the directors and employees.
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. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
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. No specific orientation course was held during the year. However, the management continue to apprise and familiarize with changes in law to discharge their duties and responsibilities.
10. The CFO, Company Secretary and Head of Internal Audit have executed their responsibilities pursuant to the approved appointment by the Board including their remuneration and terms and conditions of employment, as determined by CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The audit committee as formed by the Board is fully functional. The committee comprises three members, all of whom 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 Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set up effective internal audit function.
18. The Board has formed a Human Resource and Remuneration Committee comprising three members, of whom two are non-executive including the chairman
19. There were no related party transactions falling within the ambit of the Sub- Regulation (x) of the Listing Regulations 35 of the Karachi Stock Exchange (Guarantee) Limited and the Lahore Stock Exchange (Guarantee) Limited, where the Company is listed, other than loan obtained from and rent paid to sponsors/directors.
20. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
21. 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 the regard.
22. We confirm that all other material principles contained in the Code have been complied with.

**For and on behalf of the Board**

**MIAN IQBAL SALAH-UD-DIN**  
Chief Executive Officer

**Lahore : October 04, 2012**

## **Review Report to the Members on Statement of Compliance with Best practices of Code of Corporate Governance**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **SALLY TEXTILE MILLS LIMITED** ("the Company") to comply with the listing regulation No. 35 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

There were no related party transactions falling within the ambit of the Sub- Regulation (x) of the Listing Regulations 35 of the Karachi Stock Exchange (Guarantee) Limited and the Lahore Stock Exchange (Guarantee) Limited, where the Company is listed, other than loan obtained from and rent paid to sponsors/directors.

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 for the year ended June 30, 2012.

**RAHMAN SARFARAZ RAHIM IQBAL RAFIQ**

*Chartered Accountants*

Engagement Partner: **ZUBAIR IRFAN MALIK**

Date: October 04, 2012

Place: Lahore

## Auditor's Report to the Members

We have audited the annexed balance sheet of **SALLY TEXTILE MILLS LIMITED** ("the Company") 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 management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that-

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion--
  - i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - ii. the expenditure incurred during the year was for the purpose of the Company's business; and
  - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 profit, other comprehensive income, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980.), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that ordinance.

**RAHMAN SARFARAZ RAHIM IQBAL RAFIQ**

*Chartered Accountants*

Engagement Partner: **ZUBAIR IRFAN MALIK**

Date: October 04, 2012

Place: Lahore

## Balance Sheet

as at June 30, 2012

	<i>Note</i>	<b>2012</b> <i>Rupees</i>	2011 <i>Rupees</i> (Restated)
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
<i>Authorized share capital</i>			
20,000,000 ordinary shares of Rs. 10 each		<u>200,000,000</u>	<u>200,000,000</u>
Issued, subscribed and paid-up capital	5	<u>87,750,000</u>	87,750,000
Accumulated profit		<u>123,006,663</u>	78,384,940
		<b>210,756,663</b>	166,134,940
<b>Surplus on revaluation of property, plant and equipment</b>	6	<b>277,219,445</b>	196,092,587
<b>Loan from sponsors - Unsecured</b>	7	<b>128,183,615</b>	113,436,827
<b>Non-current liabilities</b>			
Long term finances - Secured	8	<u>12,625,469</u>	26,212,966
Employees retirement benefits	9	<u>51,647,765</u>	44,964,262
Deferred taxation	10	<u>159,746,835</u>	75,422,176
		<b>224,020,069</b>	146,599,404
<b>Current liabilities</b>			
Current portion of non-current liabilities	11	<u>24,055,273</u>	35,492,259
Short term borrowings - Secured	12	<u>491,758,784</u>	553,778,872
Accrued interest/mark-up		<u>16,902,435</u>	37,029,828
Current tax liability	13	<u>3,234,183</u>	-
Trade and other payables	14	<u>289,243,622</u>	219,458,420
		<b>825,194,297</b>	845,759,379
<b>Contingencies and commitments</b>	15	-	-
		<u><b>1,665,374,089</b></u>	<u><b>1,468,023,137</b></u>

	<i>Note</i>	<b>2012</b> <i>Rupees</i>	2011 <i>Rupees</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	985,081,909	851,165,749
Long term deposits - <i>Unsecured, Considered good</i>	17	10,597,914	10,597,914
		<b>995,679,823</b>	861,763,663
<b>Current assets</b>			
Stores, spares and loose tools	18	30,652,888	23,840,543
Stock in trade	19	455,881,888	396,735,079
Trade receivables	20	97,451,611	117,622,692
Advances, prepayments and other receivables	21	69,697,587	57,545,451
Current tax asset	13	-	5,069,277
Cash and bank balances	22	16,010,292	5,446,432
		<b>669,694,266</b>	606,259,474
		<b>1,665,374,089</b>	<b>1,468,023,137</b>

*The annexed notes 1 to 43 form an integral part of these financial statements.*

## Profit and loss account

for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees (Restated)
Turnover - net	23	2,887,502,879	2,842,733,350
Cost of sales	24	(2,646,420,617)	(2,538,647,370)
<b>Gross profit</b>		<b>241,082,262</b>	<b>304,085,980</b>
Selling and distribution expenses	25	(15,771,267)	(16,532,946)
Administrative and general expenses	26	(38,739,380)	(30,943,658)
		(54,510,647)	(47,476,604)
Other operating income	27	2,706,436	7,614,492
<b>Operating profit</b>		<b>189,278,051</b>	<b>264,223,868</b>
Finance cost	28	(61,854,355)	(54,755,125)
Notional interest (expense)/income	29	(18,950,953)	59,611,187
Other charges	30	(10,253,205)	(20,278,980)
<b>Profit before taxation</b>		<b>98,219,538</b>	<b>248,800,950</b>
Taxation	31	(62,286,401)	(29,263,498)
<b>Profit after taxation</b>		<b>35,933,137</b>	<b>219,537,452</b>
Earnings per share - basic and diluted	32	4.09	25.02

The annexed notes 1 to 43 form an integral part of these financial statements.

MIAN IQBAL SALAH-UD-DIN  
Chief Executive

MIAN YOUSAF SALAH-UD-DIN  
Director

Lahore  
Date : October 04, 2012



## Statement of comprehensive Income

*for the year ended June 30, 2012*

	<i>Note</i>	<b>2012</b> <i>Rupees</i>	2011 <i>Rupees</i> (Restated)
Incremental depreciation	6	<b>20,117,055</b>	10,981,712
<b>Other comprehensive income before taxation</b>		<b>20,117,055</b>	10,981,712
Taxation	6	<b>7,040,969</b>	3,843,599
<b>Other comprehensive income after taxation</b>		<b>13,076,086</b>	7,138,113
<b>Profit after taxation</b>		<b>35,933,137</b>	219,537,452
<b>Total comprehensive income</b>		<b>49,009,223</b>	226,675,565

*The annexed notes 1 to 43 form an integral part of these financial statements.*

**MIAN IQBAL SALAH-UD-DIN**  
Chief Executive

**MIAN YOUSAF SALAH-UD-DIN**  
Director

Lahore  
Date : October 04, 2012

## Cash flow statement

for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees (Restated)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	33	241,982,256	208,620,033
Payments for:			
Employees retirement benefits		(3,757,132)	(6,867,060)
Interest/markup on borrowings		(79,964,132)	(78,883,638)
Income tax		(20,382,944)	(26,749,901)
Dividend on ordinary shares		(800,000)	(7,500,000)
<b>Net cash generated from operating activities</b>		<b>137,078,048</b>	<b>88,619,434</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Capital expenditure		(34,413,857)	(141,937,474)
Proceeds from disposal of property, plant and equipment		-	2,408,134
<b>Net cash used in investing activities</b>		<b>(34,413,857)</b>	<b>(139,529,340)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Repayment of long term finances		(20,976,138)	(21,725,503)
Net decrease/(increase) in short term borrowings		(62,871,683)	79,282,617
Loan from sponsors repaid		(8,252,510)	(3,800,000)
<b>Net cash (used in)/generated from financing activities</b>		<b>(92,100,331)</b>	<b>53,757,114</b>
<b>Net increase in cash and cash equivalents</b>		<b>10,563,860</b>	<b>2,847,208</b>
<b>Cash and cash equivalents as at beginning of the year</b>		<b>5,446,432</b>	<b>2,599,224</b>
<b>Cash and cash equivalents as at end of the year</b>	34	<b>16,010,292</b>	<b>5,446,432</b>

The annexed notes 1 to 43 form an integral part of these financial statements.

MIAN IQBAL SALAH-UD-DIN  
Chief Executive

MIAN YOUSAF SALAH-UD-DIN  
Director

Lahore  
Date : October 04, 2012

## Statement of changes in equity for the year ended June 30, 2012

	Issued subscribed and paid-up capital <i>Rupees</i>	Accumulated profit/(losses) <i>Rupees</i>	Total equity <i>Rupees</i>
<b>Balance as at July 01, 2010</b>	87,750,000	(139,515,625)	(51,765,625)
<b>Comprehensive income</b>			
Profit after taxation ( <i>Restated</i> )	-	219,537,452	219,537,452
Other comprehensive income	-	7,138,113	7,138,113
<b>Total comprehensive income</b>	-	226,675,565	226,675,565
<b>Transaction with owners</b>			
Final dividend @ 10% i.e. Rs. 1 per ordinary share	-	(8,775,000)	(8,775,000)
<b>Balance as at June 30, 2011 - (<i>Restated</i>)</b>	<u>87,750,000</u>	<u>78,384,940</u>	<u>166,134,940</u>
<b>Comprehensive income</b>			
Profit after taxation	-	35,933,137	35,933,137
Other comprehensive income	-	13,076,086	13,076,086
<b>Total comprehensive income</b>	-	49,009,223	49,009,223
<b>Transaction with owners</b>			
Final dividend @ 5% i.e. Rs. 0.5 per ordinary share	-	(4,387,500)	(4,387,500)
<b>Balance as at June 30, 2012</b>	<u><u>87,750,000</u></u>	<u><u>123,006,663</u></u>	<u><u>210,756,663</u></u>

*The annexed notes 1 to 43 form an integral part of these financial statements.*

**MIAN IQBAL SALAH-UD-DIN**  
Chief Executive

**MIAN YOUSAF SALAH-UD-DIN**  
Director

Lahore  
Date : October 04, 2012

## Notes to and forming part of financial statements for the year ended June 30, 2012

### 1 REPORTING ENTITY

Sally Textile Mills Limited ('the Company') is incorporated in Pakistan as a Public Limited Company under the Companies Ordinance, 1984 and is listed on Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited. The Company is a spinning unit engaged in the manufacture and sale of yarn. The registered office of the Company is situated at 4 F, Gulberg II, Lahore. The manufacturing facility, including the power generation unit, is located at Joharabad District Khushab in the Province of Punjab.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

#### 2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for employee retirement benefits liabilities measured at present value and certain financial instruments measured at fair value/amortized cost. In these financial statements, except for the amounts reflected in the cash flow statement, all transactions have been accounted for on accrual basis.

#### 2.3 Judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions and judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which forms the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Subsequently, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Judgements made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a risk of material adjustment in subsequent years are as follows:

##### 2.3.1 Depreciation method, rates and useful lives of property, plant and equipment

The Company reassesses useful lives, depreciation method and rates for each item of property and equipment annually by considering expected pattern of economic benefits that the Company expects to derive from that item.

##### 2.3.2 Recoverable amount of assets/cash generating units and impairment

The management of the Company reviews carrying amounts of its assets for possible impairment and makes formal estimates of recoverable amount if there is any such indication.

##### 2.3.3 Taxation

The Company takes into account the current income tax law and decisions taken by appellate and other relevant legal forums while estimating its provision for current tax. Provision for deferred tax is estimated after taking into account historical and expected future turnover and profit trends and their taxability under the current tax law.

##### 2.3.4 Provisions

Provisions are based on best estimate of the expenditure required to settle the present obligation at the reporting date, that is, the amount that the Company would rationally pay to settle the obligation at the reporting date or to transfer it to a third party.

## Notes to and forming part of financial statements for the year ended June 30, 2012

### 2.3.5 Obligation under defined benefit plan

The Company's obligation under the defined benefit plan is based on assumptions of future outcomes, the principal ones being in respect of increases in remuneration, remaining working lives of employees and discount rates to be used to determine present value of defined benefit obligation. These assumptions are determined periodically by independent actuaries.

### 2.3.6 Revaluation of property, plant and equipment

Revaluation of property, plant and equipment is carried out by independent professional valuers. Revalued amounts of non-depreciable items are determined by reference to local market values and that of depreciable items are determined by reference to present depreciated replacement values.

### 2.4 Functional currency

These financial statements have been prepared in Pak Rupees which is the Company's functional currency.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### 3.1 Property, plant and equipment

#### 3.1.1 Operating fixed assets

Operating fixed assets are measured at cost less accumulated depreciation and accumulated impairment losses with the exception of freehold land, which is stated at cost less accumulated impairment losses, and buildings on freehold land, plant and machinery, electric installation, laboratory equipment and fire fighting equipment which are carried at revalued amounts less accumulated depreciation. Cost 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 operating fixed assets 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 the day-to-day servicing of operating fixed assets are recognized in profit or loss as incurred.

The Company recognizes depreciation in profit or loss by applying reducing balance method over the useful life of each operating fixed asset using rates specified in note 17 to the financial statements. Depreciation on additions to operating fixed assets is charged from the month in which the item becomes available for use. Depreciation is discontinued from the month in which it is disposed or classified as held for disposal.

An operating fixed asset is de-recognized when permanently retired from use. Any gain or loss on disposal of operating fixed assets is recognized in profit or loss.

#### 3.1.2 Capital work in progress

Capital work in progress is stated at cost less identified impairment loss, if any, and includes the cost of material, labour and appropriate overheads directly relating to the construction, erection or installation of an item of operating fixed assets. These costs are transferred to operating fixed assets as and when related items become available for intended use.

### 3.2 Surplus / deficit arising on revaluation of property, plant and equipment

Surplus arising on revaluation of items of property, plant and equipment is carried on balance sheet after reversing deficit relating to the same item previously recognized in profit or loss, if any. Deficit arising on revaluation is recognized in profit or loss after reversing the surplus relating to the same item previously carried on balance sheet, if any. An amount equal to incremental depreciation, being the difference between the depreciation based on revalued amounts and that based on the original cost, net of deferred tax, if any, is transferred from surplus on revaluation of property, plant and equipment to accumulated profit every year, through statement of other comprehensive income.

## Notes to and forming part of financial statements for the year ended June 30, 2012

### 3.3 Stores, spares and loose tools

These are generally held for internal use and are valued at cost. Cost is determined on the basis of moving average except for items in transit, which are valued at invoice price plus related cost incurred up to the reporting date. For items which are considered obsolete, the carrying amount is written down to nil.

### 3.4 Stock in trade

These are valued at lower of cost and net realizable value, with the exception of stock of waste which is valued at net realizable value. Cost is determined using the following basis:

Raw materials	Average cost
Work in process	Average manufacturing cost
Finished goods	Average manufacturing cost
Stock in transit	Invoice price plus related cost incurred up to the reporting date

Average manufacturing cost in relation to work in process and finished goods consists of direct material, labour and an appropriate proportion of manufacturing overheads.

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

### 3.5 Employee benefits

#### *Short-term employee benefits*

The Company recognizes the undiscounted amount of short term employee benefits to be paid in exchange for services rendered by employees as a liability after deducting amount already paid and as an expense in profit or loss unless it is included in the cost of inventories or property, plant and equipment as permitted or required by the approved accounting standards. If the amount paid exceeds the undiscounted amount of benefits, the excess is recognized as an asset to the extent that the prepayment would lead to a reduction in future payments or cash refund.

#### *Post-employment benefits*

The Company operates an unfunded gratuity scheme (defined benefit plan) for all its employees who have completed the minimum qualifying service period. Liability is adjusted on each reporting date to cover the obligation and the adjustment is charged to profit or loss. The amount recognized on balance sheet represents the present value of defined benefit obligation as adjusted for unrecognized actuarial gains or losses. Actuarial gains or loss are recognized when these arise. The details of the scheme are referred to in note 9 to the financial statements.

### 3.6 Financial instruments

#### 3.6.1 Recognition

A financial instrument is recognized when the Company becomes a party to the contractual provisions of the instrument.

#### 3.6.2 Classification

The Company classifies its financial instruments into following classes depending on the purpose for which the financial assets and liabilities are acquired or incurred. The Company determines the classification of its financial assets and liabilities at initial recognition.

##### *3.6.2(a) Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Assets in this category are presented as current assets except for maturities greater than twelve months from the reporting date, where these are presented as non-current assets.

## Notes to and forming part of financial statements for the year ended June 30, 2012

### 3.6.2(b) *Financial liabilities at amortized cost*

Non-derivative financial liabilities that are not financial liabilities at fair value through profit or loss are classified as financial liabilities at amortized cost. Financial liabilities in this category are presented as current liabilities except for maturities greater than twelve months from the reporting date where these are presented as non-current liabilities.

### 3.6.3 Measurement

The particular measurement methods adopted are disclosed in the individual policy statements associated with each instrument.

### 3.6.4 De-recognition

Financial assets are de-recognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are de-recognized if the Company's obligations specified in the contract expire or are discharged or cancelled. Any gain or loss on de-recognition of financial assets and financial liabilities is recognized in profit or loss.

### 3.6.5 Off-setting

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

## 3.7 Ordinary share capital

Ordinary share capital is recognized as equity. Transaction costs directly attributable to the issue of ordinary shares are recognized as deduction from equity.

## 3.8 Loans and borrowings

Loans and borrowings are classified as 'financial liabilities at amortized cost'. On initial recognition, these are measured at cost, being fair value at the date the liability is incurred, less attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost with any difference between cost and value at maturity recognized in the profit or loss over the period of the borrowings on an effective interest basis.

## 3.9 Trade and other payables

### 3.9.1 Financial liabilities

These are classified as 'financial liabilities at amortized cost'. On initial recognition, these are measured at cost, being their fair value at the date the liability is incurred, less attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method, with interest recognized in profit or loss.

### 3.9.2 Non-financial liabilities

These, on initial recognition and subsequently, are measured at cost.

## 3.10 Provisions and contingencies

Provisions are recognized when the Company has a legal and constructive obligation as a result of past events and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provision is recognized at an amount that is the best estimate of the expenditure required to settle the present obligation at the reporting date. Where outflow of resources embodying economic benefits is not probable, or where a reliable estimate of the amount of obligation cannot be made, a contingent liability is disclosed, unless the possibility of outflow is remote.

## Notes to and forming part of financial statements for the year ended June 30, 2012

### 3.11 Trade and other receivables

#### 3.11.1 Financial assets

These are classified as 'loans and receivables'. On initial recognition, these are measured at cost, being their fair value at the date of transaction, plus attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method, with interest recognized in profit or loss.

#### 3.11.2 Non-financial assets

These, on initial recognition and subsequently, are measured at cost.

### 3.12 Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of returns allowances, trade discounts and rebates, and represents amounts received or receivable for goods and services provided and other income earned in the normal course of business. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company, and the amount of revenue and the associated costs incurred or to be incurred can be measured reliably.

Revenue from different sources is recognized as follows:

Revenue from sale of goods is recognized when risks and rewards incidental to the ownership of goods are transferred to the buyer. Transfer of risks and rewards vary depending on the individual terms of the contract of sale. For local sales transfer usually occurs on dispatch of goods to customers. For export sales transfer occurs upon loading the goods onto the relevant carrier.

Interest income is recognized using effective interest method.

### 3.13 Comprehensive income

Comprehensive income is the change in equity resulting from transactions and other events, other than changes resulting from transactions with shareholders in their capacity as shareholders. Total comprehensive income comprises all components of profit or loss and other comprehensive income. Other comprehensive income comprises items of income and expense, including reclassification adjustments, that are not recognized in profit or loss as required or permitted by approved accounting standards, and is presented in 'statement of comprehensive income'.

### 3.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying asset is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss as incurred.

### 3.15 Income tax

Income tax expense comprises current tax and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income.

#### 3.15.1 Current taxation

Current tax is the amount of tax payable on taxable income for the year and any adjustment to the tax payable in respect of previous years. Provision for current tax is based on current rates of taxation in Pakistan after taking into account tax credits, rebates and exemptions available, if any. The amount of unpaid income tax in respect of the current or prior periods is recognized as a liability. Any excess paid over what is due in respect of the current or prior periods is recognized as an asset.



## Notes to and forming part of financial statements for the year ended June 30, 2012

### 3.15.2 Deferred taxation

Deferred tax is accounted for using the balance sheet approach providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. In this regard, the effects on deferred taxation of the portion of income that is subject to final tax regime is also considered in accordance with the treatment prescribed by the Institute of Chartered Accountants of Pakistan. Deferred tax is measured at rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for deductible temporary differences to the extent that future taxable profits will be available against which temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### 3.16 Earnings per share ('EPS')

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by adjusting basic EPS by the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares and post-tax effect of changes in profit or loss attributable to ordinary shareholders of the Company that would result from conversion of all dilutive potential ordinary shares into ordinary shares.

### 3.17 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand and cash at banks. These are classified as 'loans and receivables' and are carried at cost.

### 3.18 Foreign currency transactions and balances

Transactions in foreign currency are translated to the functional currency of the Company using exchange rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currency are translated to the functional currency at exchange rate prevailing at the reporting date. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated to the functional currency at exchange rate prevailing at the date the fair value is determined. Non-monetary assets and liabilities denominated in foreign currency that are measured at historical cost are translated to functional currency at exchange rate prevailing at the date of initial recognition. Any gain or loss arising on translation of foreign currency transactions and balances is recognized in profit or loss.

### 3.19 Impairment

#### 3.19.1 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment loss in respect of a financial asset measured at fair value is determined by reference to that fair value. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss is reversed only to the extent that the financial asset's carrying amount after the reversal does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

#### 3.19.2 Non-financial assets

The carrying amount of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

## Notes to and forming part of financial statements for the year ended June 30, 2012

An impairment loss is recognized if the carrying amount of the asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash generating units are allocated to reduce the carrying amounts of the assets in a unit on a pro rata basis. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to that extent that the asset's carrying amount after the reversal does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

### 3.20 Dividend distribution to ordinary shareholders

Dividend to ordinary shareholders is recognized as a deduction from accumulated profit in statement of changes in equity and as a liability, to the extent it is unclaimed/unpaid, in the Company's financial statements in the year in which the dividends are approved by the Company's shareholders.

## 4 NEW AND REVISED APPROVED ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS THERETO

### 4.1 Approved accounting standards, interpretations and amendments thereto issued but not effective as at the reporting date

The following standards, interpretations and amendments are in issue which are not effective as at the reporting date. Their impact on the Company's financial statements cannot be ascertained as at the reporting date.

#### ***IFRS 9 - Financial Instruments: Classification and Measurement***

The standard introduces new requirements for the classification and measurement of financial instruments and replaces relevant requirements in IAS 39 - Financial Instruments: Recognition and Measurement. The standard is effective for annual periods beginning on or after January 01, 2013.

#### ***IFRS 10 - Consolidated Financial Statements***

The standard replaces those parts of IAS 27 - Consolidated and Separate Financial Statements, that address when and how an investor should prepare consolidated financial statements and supersedes SIC 12 - Consolidation: Special Purpose Entities. The standard is effective for annual periods beginning on or after January 01, 2013.

#### ***IFRS 11 - Joint Arrangements***

The standard supersedes IAS 31 - Interest in Joint Ventures and SIC 13 - Jointly Controlled Entities: Non-monetary Contributions by Venturers. The standard is effective for annual periods beginning on or after January 01, 2013.

#### ***IFRS 12 - Disclosure of Interests in Other Entities***

The standard introduces disclosure requirements relating to interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is effective for annual periods beginning on or after January 01, 2013.

#### ***IFRS 13 - Fair Value Measurement***

The standard establishes a single framework for measuring fair value where that is required by other standards. The standard is effective for annual periods beginning on or after January 01, 2013.

#### ***IAS 12 - Income Taxes (amendments)***

The amendments provide exception to the general principal of IAS 12 for investment property measured using the fair value model and introduces a rebuttable presumption that the carrying amount of such an asset will be recovered entirely through sale. The amendments are effective for annual periods beginning on or after January 01, 2012.

#### ***IAS 19 - Employee Benefits (amendments)***

The amendments require actuarial gains and losses to be recognized immediately in other comprehensive income and remove the corridor method as well as the option to recognize all changes in defined benefit obligation and plan assets in profit or loss. The amendments are effective for annual periods beginning on or after January 01, 2013.

## Notes to and forming part of financial statements for the year ended June 30, 2012

### **IAS 1 - Presentation of Financial Statements (amendments)**

The amendments require presentation of items of other comprehensive income that would be reclassified to profit or loss in future if certain conditions are met separately from those items which will never be so reclassified. The amendments are effective for annual periods beginning on or after July 01, 2012.

### **IAS 27 - Separate Financial Statements (revised 2011)**

The revised standard supercedes IAS 27 - Consolidated and Separate Financial Statements (revised 2008). The revised standard carries forward existing accounting and disclosure requirements for separate financial statements with some minor clarifications. The revised standard is effective for annual periods beginning on or after January 01, 2013.

### **IAS 28 - Investments in Associates and Joint Ventures (revised 2011)**

The revised standard supercedes IAS 28 - Investments in Associates (revised 2008). The revised standard makes amendments to apply IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations to investment, or a portion thereof, in an associate or joint venture, that meets the criteria to be classified as held for sale. The revised standard is effective for annual periods beginning on or after January 01, 2013.

### **IAS 32 - Financial Instruments: Presentation (amendments)**

The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 01, 2014.

### **IFRS 7 - Financial Instruments: Disclosure (amendments)**

The amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. The amendments are effective for annual periods beginning on or after January 01, 2013.

### **IFRIC 20 - Stripping Cost in the Production Phase of a Surface Mining**

The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met.

## **4.2 Annual Improvements 2009-2011 (effective for annual periods beginning on or after January 01, 2013)**

The new cycle of improvements contains amendments to the following standards, with consequential amendments to other standards and interpretations.

### **IAS 1 - Presentation of Financial Statements (amendments)**

The amendment clarifies that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the 'third statement of financial position', when required, is only required if the effect of restatement is material to statement of financial position.

### **IAS 16 - Property, Plant and Equipment (amendments)**

The amendment clarifies the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories.

### **IAS 32 - Financial Instruments: Presentation (amendments)**

The amendment clarifies that IAS 12 - Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.

## Notes to and forming part of financial statements for the year ended June 30, 2012

### IAS 34 - Interim Financial Reporting (amendments)

The amendment aligns the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 - Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

	<i>Note</i>	<b>2012</b> <i>Rupees</i>	<b>2011</b> <i>Rupees</i>
<b>5 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL</b>			
8,775,000 (2011: 8,775,000) ordinary shares of Rs. 10 each		<u><b>87,750,000</b></u>	<u>87,750,000</u>
<b>6 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>			
As at beginning of the year		<b>196,092,587</b>	203,230,700
Surplus recognized during the year			
Surplus on revaluation		<b>144,927,606</b>	-
Deferred taxation		<b>(50,724,662)</b>	-
		<b>94,202,944</b>	-
Incremental depreciation recognized in other comprehensive income			
Incremental depreciation for the year		<b>(20,117,055)</b>	(10,981,712)
Deferred taxation		<b>7,040,969</b>	3,843,599
		<b>(13,076,086)</b>	(7,138,113)
As at end of the year		<u><b>277,219,445</b></u>	<u>196,092,587</u>
<b>7 LOAN FROM SPONSORS - UNSECURED</b>			
Loan from sponsors		<b>212,471,950</b>	220,724,460
Current maturity presented under current liabilities	11	<b>(3,471,950)</b>	(11,724,460)
		<b>209,000,000</b>	209,000,000
Less: unamortized notional interest	7.2	<b>(80,816,385)</b>	(95,563,173)
		<u><b>128,183,615</b></u>	<u>113,436,827</u>

**7.1** This loan has been obtained from sponsors of the Company, and is interest free. As per the loan agreement, the loan is payable by June 30, 2016. However, the Company has the option to make early repayments. The loan has been carried at amortized cost which has been determined using a discount rate of 13% (2011: 13%) over the remaining tenor of loan.

	<i>Note</i>	<b>2012</b> <i>Rupees</i>	<b>2011</b> <i>Rupees</i>
<b>7.2 Unamortized notional interest</b>			
As at beginning of the year		<b>95,563,173</b>	45,322,343
Arising during the year	29	-	71,518,925
Amortization for the year	29	<b>(14,746,788)</b>	(21,278,095)
As at end of the year		<u><b>80,816,385</b></u>	<u>95,563,173</u>

## Notes to and forming part of financial statements for the year ended June 30, 2012

	<i>Note</i>	<b>2012</b> <i>Rupees</i>	2011 <i>Rupees</i> (Restated)
<b>8 LONG TERM FINANCES - SECURED</b>			
These represent long term finances utilized under interest/markup arrangements from banking companies			
Demand Finance - I			
Face value	8.1	<b>38,374,984</b>	53,374,984
Less: unamortized notional interest	8.1.1 & 8.1.2	<b>(5,166,192)</b>	(9,370,357)
		<b>33,208,792</b>	44,004,627
Demand Finance - II	8.2	-	5,976,138
		<b>33,208,792</b>	49,980,765
Current maturity presented under current liabilities	11	<b>(20,583,323)</b>	(23,767,799)
		<b>12,625,469</b>	26,212,966

**8.1** The finance represents frozen mark-up of another finance facility obtained from National Bank of Pakistan which has been fully repaid during the previous year. The finance does not carry any interest/mark-up and is secured by charge over operating fixed assets and current assets of the Company, and personal guarantee of the Company's Directors. The finance is repayable in twelve quarterly installments with the first installment due in September 2011. The finance has been carried at amortized cost which has been determined using a discount rate of 13% (2011: 13%) over the remaining tenor.

### 8.1.1 Adjustment of notional interest for prior year

As at June 30, 2012, Demand Finance -I was recognized at cost instead of amortised cost as required under International Accounting Standard 39 - Financial Instruments: *Recognition and Measurement*. The same has been corrected by adjustment to accumulated profits and by restating the comparative amounts for the year ended June 30, 2011.

Due to the above adjustment, the carrying amount of demand finance and accumulated profit as at June 30, 2011, and profit after tax for the year then ended has increased by Rs. 9,370,357 and the earnings per share for the year ended June 30, 2011 increased by Rs. 1.07 per share.

	<i>Note</i>	<b>2012</b> <i>Rupees</i>	2011 <i>Rupees</i> (Restated)
<b>8.1.2 Unamortized notional interest</b>			
As at beginning of the year		<b>9,370,357</b>	-
Arising during the year	29	<b>671,171</b>	9,370,357
Amortization for the year	29	<b>(4,875,336)</b>	-
As at end of the year		<b>5,166,192</b>	9,370,357

**8.2** The finance was obtained from National Bank of Pakistan for import of machinery and balancing, modernization and replacement of the Company's plant and was secured by charge over operating fixed assets and current assets of the Company, and personal guarantees of the Company's Directors. The finance carried mark-up at three months KIBOR plus 2% per annum subject to floor of 6% per annum. The finance has been fully repaid during the year.

**8.3** For restrictions on title, and assets pledged as security, refer to note 39 to the financial statements.

## Notes to and forming part of financial statements for the year ended June 30, 2012

### 9 EMPLOYEES RETIREMENT BENEFITS

The amount recognized on balance sheet represents present value of defined benefit obligation.

	<i>Note</i>	<b>2012</b>	2011
		<i>Rupees</i>	<i>Rupees</i>
<b>9.1 Movement in present value of defined benefit obligation</b>			
As at beginning of the year		<b>44,964,262</b>	43,407,322
Charged to profit or loss for the year	9.2	<b>10,440,635</b>	12,347,307
Benefits paid during the year		<b>(3,757,132)</b>	(6,867,060)
Actuarial gain arising during the year	9.2	-	(3,923,307)
As at end of the year		<b><u>51,647,765</u></b>	<u>44,964,262</u>
<b>9.2 Charge to profit or loss</b>			
Current service cost		<b>5,044,924</b>	7,138,428
Interest cost		<b>5,395,711</b>	5,208,879
	9.1	<b>10,440,635</b>	12,347,307
Actuarial gain recognized during the year	9.1	-	(3,923,307)
		<b><u>10,440,635</u></b>	<u>8,424,000</u>
<b>9.3 The charge to profit or loss has been allocated as follows</b>			
Cost of sales	24	<b>9,661,366</b>	7,795,723
Selling and distribution expenses	25	<b>93,353</b>	74,814
Administrative and general expenses	26	<b>685,916</b>	553,463
		<b><u>10,440,635</u></b>	<u>8,424,000</u>

### 9.4 Principal actuarial assumptions

Present value of defined benefit obligation has been determined using projected unit credit method. The liability as at the reporting date is based on internal estimates by the management of the Company. Last independent actuarial valuation was carried out as at June 30, 2010. The principal assumptions used in determining present value of defined benefit obligation are:

	<b>2012</b>	2011
Discount rate	<b>12%</b>	12%
Expected rates of increase in salary	<b>11%</b>	11%
Expected average remaining working lives of employees	<b>5 years</b>	6 years

### 9.5 Historical information

		<b>2012</b>	2011	2010	2009	2008
Present value of defined benefit obligation	<i>Rupees</i>	<b>51,647,765</b>	44,964,262	43,407,322	41,415,162	36,586,612
Actuarial adjustment arising during the year	%	-	8.73	5.82	-	5.21

The experience adjustment component of actuarial adjustment is impracticable to determine and thus has not been disclosed.

## Notes to and forming part of financial statements

### for the year ended June 30, 2012

	Note	2012 Rupees	2011 Rupees
<b>10 DEFERRED TAXATION</b>			
Deferred tax liability on taxable temporary differences	10.1	228,537,144	180,324,673
Deferred tax asset on deductible temporary differences	10.1	(68,790,309)	(104,902,497)
		<u>159,746,835</u>	<u>75,422,176</u>

#### 10.1 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2012			
	As at July 01 Rupees	Recognized in profit or loss Rupees	Recognized in equity Rupees	As at June 30 Rupees
<b>Deferred tax liabilities</b>				
Operating fixed assets	76,780,219	5,495,253	-	82,275,472
Surplus on revaluation of operating fixed assets	103,544,454	(8,007,444)	50,724,662	146,261,672
	180,324,673	(2,512,191)	50,724,662	228,537,144
<b>Deferred tax assets</b>				
Employees retirement benefits	(15,152,384)	(2,854,689)	-	(18,007,073)
Unused tax losses and credits	(89,750,113)	38,966,877	-	(50,783,236)
	(104,902,497)	36,112,188	-	(68,790,309)
	<u>75,422,176</u>	<u>33,599,997</u>	<u>50,724,662</u>	<u>159,746,835</u>
	2011			
	As at July 01 Rupees	Recognized in profit or loss Rupees	Recognized in equity Rupees	As at June 30 Rupees
<b>Deferred tax liabilities</b>				
Operating fixed assets - owned	94,309,299	(17,529,080)	-	76,780,219
Surplus on revaluation of operating fixed assets	70,504,738	33,039,716	-	103,544,454
	164,814,037	15,510,636	-	180,324,673
<b>Deferred tax assets</b>				
Employees retirement benefits	(14,527,128)	(625,256)	-	(15,152,384)
Unused tax losses and credits	(77,050,592)	(12,699,521)	-	(89,750,113)
	(91,577,720)	(13,324,777)	-	(104,902,497)
	<u>73,236,317</u>	<u>2,185,859</u>	<u>-</u>	<u>75,422,176</u>

- 10.2** Revenue from export sales of the Company is subject to taxation under the final tax regime, while the remaining portion of revenue attracts assessment under normal provisions of the Ordinance. Deferred tax is provided for only that portion of timing differences that represent income taxable under normal provisions of the Ordinance. These differences are calculated as that proportion of total timing differences that the local sale bear to the total sales revenue based on historical and future trends. Deferred tax has been calculated at 35% (2011: 35%) of the timing differences so determined.

## Notes to and forming part of financial statements for the year ended June 30, 2012

	<i>Note</i>	<b>2012</b> <i>Rupees</i>	2011 <i>Rupees</i>
<b>11 CURRENT MATURITY OF NON-CURRENT LIABILITIES</b>			
Loan from sponsors	7	3,471,950	11,724,460
Long term finances	8	20,583,323	23,767,799
		<u>24,055,273</u>	<u>35,492,259</u>
<b>12 SHORT TERM BORROWINGS - SECURED</b>			
These represent short term finances utilized under interest/mark-up arrangements from banking companies			
Cash finance	12.1	464,828,847	314,953,573
Import loans	12.1	-	123,231,118
Documentary credit	12.2	26,929,937	115,594,181
		<u>491,758,784</u>	<u>553,778,872</u>
<b>12.1</b> These facilities have been obtained from National Bank of Pakistan for working capital requirements and are secured by charge over current assets and operating fixed assets of the Company, pledge of stock, lien over documents of title of imported goods, trust receipts, demand promissory notes, counter guarantees, and personal guarantees of the Company's Directors.			
Mark-up on these finances is payable along with principal on maturity, with the exception of cash finance where mark-up is payable quarterly. Local currency finances carry markup at three months KIBOR plus 2% per annum (2011: three months KIBOR plus 1.5% per annum). Foreign currency finances carry mark up at LIBOR of matching tenor plus spread of upto 2% per annum (2011: LIBOR of matching tenor plus spread of upto 2% per annum).			
The aggregate available short term funded facilities amounts to Rs. 768 million (2011: Rs. 768 million) out of which Rs. 303 million (2010: Rs. 206 million) remained unavailed as at the reporting date.			
<b>12.2</b> For restrictions on title, and assets pledged as security, refer to note 39 to the financial statements.			
<b>13 CURRENT TAX ASSET/(LIABILITY)</b>			
Provision for taxation	31	(28,686,404)	(35,423,444)
Advance income tax		25,452,221	40,492,721
		<u>(3,234,183)</u>	<u>5,069,277</u>
<b>14 TRADE AND OTHER PAYABLES</b>			
Trade creditors - <i>Unsecured</i>		129,609,873	42,323,615
Accrued liabilities		48,673,172	51,208,201
Advances from customers - <i>Unsecured</i>	14.1	91,319,374	100,241,756
Workers' Profit Participation Fund	14.2	5,420,518	13,185,694
Workers' Welfare Fund	14.3	6,614,650	5,092,345
Unclaimed dividend		4,986,930	1,399,430
Other payables - <i>Unsecured</i>		2,619,105	6,007,379
		<u>289,243,622</u>	<u>219,458,420</u>



## Notes to and forming part of financial statements for the year ended June 30, 2012

14.1 These represent advances received from customer adjustable against future sales.

	<i>Note</i>	<b>2012</b>	2011
		<i>Rupees</i>	<i>Rupees</i>
<b>14.2 Workers' Profit Participation Fund</b>			
As at beginning of the year		<b>13,185,694</b>	8,016,702
Interest on funds utilized by the Company	14.2.1	<b>473,556</b>	200,215
Charged to profit or loss for the year	30	<b>5,423,637</b>	12,985,479
Paid during the year		<b>(13,662,369)</b>	(8,016,702)
As at end of the year		<u><b>5,420,518</b></u>	<u>13,185,694</u>

14.2.1 Interest is charged at 15% (2011: 15%) per annum.

	<i>Note</i>	<b>2012</b>	2011
		<i>Rupees</i>	<i>Rupees</i>
<b>14.3 Workers' Welfare Fund</b>			
As at beginning of the year		<b>5,092,345</b>	3,076,233
Charged to profit or loss for the year	30	<b>1,522,305</b>	5,092,345
Paid / adjusted during the year		-	(3,076,233)
As at end of the year		<u><b>6,614,650</b></u>	<u>5,092,345</u>

## 15 CONTINGENCIES AND COMMITMENTS

### 15.1 Contingencies

15.1.1 The Company may have to indemnify its Directors for any losses that may arise due to personal guarantees given by them for securing the debts of the Company, in case the Company defaults.

15.1.2 Contingencies related to tax matters are referred to note 31 to the financial statements.

	<b>2012</b>	2011
	<i>Rupees</i>	<i>Rupees</i>
<b>15.2 Commitments</b>		
<b>15.2.1</b> Commitments under irrevocable letters of credit for:		
- purchase of raw material	<b>7,214,599</b>	1,188,500
	<u><b>7,214,599</b></u>	<u>1,188,500</u>

15.2.2 The Company is also committed to pay Rs. 220,000 for every month it occupies the office premises owned by the sponsors/directors of the Company.

15.2.3 The Company has acquired a production facility subject to operating lease. Lease agreement covers a period of ten years and is renewable/extendable on mutual consent. Lease rentals are payable monthly in arrears. Commitments for payments in future periods under the lease agreement are as follows:

## Notes to and forming part of financial statements

for the year ended June 30, 2012

	<i>Note</i>	<b>2012</b> <i>Rupees</i>	2011 <i>Rupees</i>
- payments not later than one year		<b>4,800,000</b>	-
- payments later than one year but not later than five years		<b>19,200,000</b>	-
- payments later than five years		<b>23,200,000</b>	-
		<u><b>47,200,000</b></u>	<u>-</u>
<b>16 PROPERTY, PLANT AND EQUIPMENT</b>			
Operating fixed assets	<i>16.1</i>	<b>939,203,117</b>	812,890,703
Capital work in progress	<i>16.2</i>	<b>45,878,792</b>	38,275,046
		<u><b>985,081,909</b></u>	<u>851,165,749</u>

## Notes to and forming part of financial statements for the year ended June 30, 2012

### 16.1 Operating fixed assets

	2012										2011															
	COST					DEPRECIATION					COST					DEPRECIATION										
	As at July 01 Rupees	Additions Rupees	Revaluation Rupees	Disposals Rupees	Transfers Rupees	As at June 30 Rupees	Rate %	For the year Rupees	Impairment Rupees	Adjustment Rupees	Revaluation Rupees	As at June 30 Rupees	Net book value as at June 30 Rupees	As at July 01 Rupees	Additions Rupees	Revaluation Rupees	Disposals Rupees	Transfers Rupees	As at June 30 Rupees	Rate %	For the year Rupees	Impairment Rupees	Adjustment Rupees	Revaluation Rupees	As at June 30 Rupees	Net book value as at June 30 Rupees
Freehold land	64,925,000	-	6,492,500	-	-	71,417,500	-	-	-	-	-	-	71,417,500	64,925,000	-	-	-	-	-	-	-	-	-	-	-	64,925,000
Buildings on freehold land	241,105,143	41,000	63,581,257	-	-	304,727,400	5	7,502,131	532,642	-	27,902,698	138,115,079	166,612,321	241,105,143	-	-	-	-	-	-	5	7,311,976	-	-	102,177,608	138,927,535
Plant and machinery	933,224,154	2,160,000	127,853,887	-	20,164,000	1,083,382,041	5	30,470,950	-	-	53,424,017	462,787,618	620,594,423	825,646,698	-	107,577,456	-	-	-	-	5	23,985,201	-	-	378,892,651	554,331,503
Electric installations	48,362,279	553,902	29,896,067	-	-	78,812,248	5	2,632,209	-	-	7,777,133	26,706,079	52,106,169	46,815,981	1,546,298	-	-	-	-	-	5	1,668,649	-	-	16,296,737	32,065,542
Tools and equipment	1,570,147	-	-	-	-	1,570,147	10	55,606	-	-	-	1,069,690	500,457	1,570,147	-	-	-	-	-	-	10	61,785	-	-	1,014,084	556,063
Laboratory equipment	3,848,276	-	17,379,904	-	-	21,228,180	10	116,538	-	-	12,467,593	15,267,026	5,961,154	3,848,276	-	-	-	-	-	-	10	129,487	-	-	2,682,895	1,165,381
Fire fighting equipment	343,461	-	2,447,868	-	-	2,791,329	10	19,775	-	-	1,132,436	1,297,920	1,493,409	343,461	-	-	-	-	-	-	10	156,436	-	-	1,986,007	1,537,598
Office equipment	3,304,855	218,750	-	-	-	3,523,605	10	156,436	-	-	-	1,297,920	1,493,409	2,780,855	-	-	-	-	-	-	10	362,992	-	-	4,523,947	3,356,075
Furniture and fixtures	7,652,263	227,759	-	-	7,880,022	10	362,992	-	-	-	-	1,297,920	1,493,409	7,652,263	-	-	-	-	-	-	10	18,058	-	-	311,766	162,523
Arms and ammunitions	474,289	-	-	-	474,289	10	18,058	-	-	-	-	1,297,920	1,493,409	474,289	-	-	-	-	-	-	10	3,557,966	-	-	16,523,649	15,461,488
Vehicles	28,540,437	3,444,700	-	-	31,985,137	20	3,557,966	-	-	-	-	16,523,649	15,461,488	28,540,437	3,444,700	-	-	-	-	-	20	44,892,661	532,642	-	102,703,877	939,203,117
	<u>1,333,350,304</u>	<u>6,646,111</u>	<u>247,631,483</u>	<u>-</u>	<u>20,164,000</u>	<u>1,607,791,898</u>		<u>44,892,661</u>	<u>532,642</u>	<u>-</u>	<u>102,703,877</u>	<u>668,588,781</u>	<u>939,203,117</u>	<u>1,218,984,462</u>	<u>9,591,907</u>	<u>-</u>	<u>(2,803,521)</u>	<u>107,577,456</u>	<u>(2,803,521)</u>	<u>-</u>	<u>36,972,653</u>	<u>(724,684)</u>	<u>-</u>	<u>520,459,601</u>	<u>812,890,703</u>	

## Notes to and forming part of financial statements for the year ended June 30, 2012

### 16.1.1 Disposal of property, plant and equipment

There were no disposals during the year ended June 30, 2012. The details of disposal of operating fixed assets disposed during the year ended June 30, 2011 is as follows:

	2011						
	Cost Rupees	Accumulated depreciation Rupees	Net book value Rupees	Disposal proceeds Rupees	Gain/(loss) on disposal Rupees	Mode of disposal	Particulars of buyer
<b>Vehicles</b>							
Toyota Corola LEF 6339	1,714,000	171,400	1,542,600	1,620,000	77,400	Negotiation	Mr. Raheel, Lahore
Motor Cycle (Honda CD 70 LXZ 3679)	57,648	37,970	19,678	20,189	511	Company policy	Company Employee
Motor Cycle (Honda CD 70 LZO 7724)	65,500	44,037	21,463	21,500	37	Negotiation	Mr. Muhammad Amir, Lahore
Toyota Corola LEG 8141	852,201	402,542	449,659	700,000	250,341	Negotiation	Mr. Abdul Qadeer, Lahore
Motor Cycle (Honda CD 70 LEM 5832)	56,525	30,437	26,088	26,630	542	Company policy	Company Employee
Motor Cycle (Honda CD 70 LZX 3677)	57,647	38,298	19,349	19,815	466	Company policy	Company Employee
	<u>2,803,521</u>	<u>724,684</u>	<u>2,078,837</u>	<u>2,408,134</u>	<u>329,297</u>		

### 16.1.2 Transfers represent transfers from capital work in progress on related assets becoming available for use.

	Note	2012 Rupees	2011 Rupees
<b>16.1.3</b>	The depreciation charge for the year has been allocated as follows:		
Cost of sales	24	<b>40,797,209</b>	33,179,071
Administrative and selling expenses	26	<b>4,095,452</b>	3,793,582
		<u><b>44,892,661</b></u>	<u>36,972,653</u>

### 16.1.4 Last revaluation of property, plant and equipment was carried out by independent valuers, Empire Enterprises (Private) Limited, as at March 12, 2012. Had there been no revaluation, the cost, accumulated depreciation and net book value of revalued items would have been as follows:

	2012		
	Cost Rupees	Accumulated depreciation Rupees	Net book value Rupees
Freehold land	144,868	-	144,868
Buildings on freehold land	93,454,879	36,115,700	57,339,179
Plant and machinery	581,927,447	271,006,097	310,921,350
Electric installation	48,916,181	18,928,946	29,987,235
Laboratory equipment	3,848,276	2,799,433	1,048,843
Fire fighting equipment	343,461	165,484	177,977
	2011		
	Cost Rupees	Accumulated depreciation Rupees	Net book value Rupees
Freehold land	144,868	-	144,868
Buildings on freehold land	93,413,879	33,099,646	60,314,233
Plant and machinery	579,213,545	253,533,916	325,679,629
Electric installation	48,362,279	16,296,737	32,065,542
Laboratory equipment	3,848,276	2,682,895	1,165,381
Fire fighting equipment	343,461	145,709	197,752

## Notes to and forming part of financial statements for the year ended June 30, 2012

The basis of revaluation used by the valuer are as follows:

### Land

Revalued amount of land has been determined by reference to local market values of land taking into account prevailing fair market prices under the position and circumstances present on the date of revaluation and current market scenario for properties of similar nature in the immediate neighbourhood and adjoining areas.

### Building

Revalued amount of building has been determined by reference to present depreciated replacement values after taking into consideration covered area and type of construction, age of civil and ancillary structures, physical condition and level of preventive maintenance carried out by the Company.

### Plant and machinery

Revalued amount of plant and machinery has been determined by reference to present depreciated replacement values after taking into consideration present physical condition, remaining useful economic lives, technological obsolescence and level of preventive maintenance carried out by the Company.

## 16.2 Capital work in progress

	2012			
	As at July 01 Rupees	Additions Rupees	Transfers Rupees	As at June 30 Rupees
Building	7,726,542	2,894,949	-	10,621,491
Plant and machinery	30,548,504	24,872,797	(20,164,000)	35,257,301
	<u>38,275,046</u>	<u>27,767,746</u>	<u>(20,164,000)</u>	<u>45,878,792</u>
	2011			
	As at July 01 Rupees	Additions Rupees	Transfers Rupees	As at June 30 Rupees
Building	-	7,726,542	-	7,726,542
Plant and machinery	13,506,935	124,619,025	(107,577,456)	30,548,504
	<u>13,506,935</u>	<u>132,345,567</u>	<u>(107,577,456)</u>	<u>38,275,046</u>

## 17 LONG TERM DEPOSITS

These have been deposited with various utility companies and regulatory authorities. These are classified as 'loans and receivables' under IAS 39 'Financial Instruments - Recognition and Measurement' which are required to be carried at amortized cost. However, these, being held for an indefinite period with no fixed maturity date, are carried at cost as their amortized cost is impracticable to determine.

	2012 Rupees	2011 Rupees
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## 18 STORES, SPARES AND LOOSE TOOLS

Stores	2,907,155	3,238,178
Spares and loose tools	27,745,733	20,602,365
	<u>30,652,888</u>	<u>23,840,543</u>

## Notes to and forming part of financial statements for the year ended June 30, 2012

	<i>Note</i>	<b>2012</b>	2011
		<i>Rupees</i>	<i>Rupees</i>
<b>18.1</b>	It is impracticable to distinguish spares and loose tools each from the other.		
<b>19 STOCK IN TRADE</b>			
Raw material		<b>354,465,990</b>	260,192,413
Work in process		<b>32,680,780</b>	33,571,861
Finished goods	19.1	<b>68,735,118</b>	102,970,805
		<b><u>455,881,888</u></b>	<b><u>396,735,079</u></b>

**19.1** Stock of finished goods include stock of waste valued at net realizable value of Rs. 1,568,992 (2011: Rs. 2,362,512).

**19.2** As at June 30, 2011, the net realizable value of finished goods was lower than the cost which resulted in right-down of Rs. 6.16 million which was charged to cost of sales. There were no right-downs as at June 30, 2012.

**19.3** Details of stock pledged as security are referred to in note 39 to the financial statements.

	<i>Note</i>	<b>2012</b>	2011
		<i>Rupees</i>	<i>Rupees</i>
<b>20 TRADE RECEIVABLES</b>			
Local			
Secured	20.1	-	4,712,400
Unsecured		<b>87,237,241</b>	100,144,182
Foreign - secured	20.1	<b>87,237,241</b>	104,856,582
		<b>10,214,370</b>	12,766,110
		<b><u>97,451,611</u></b>	<b><u>117,622,692</u></b>

**20.1** These are secured against letters of credit

### **21 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

Advances to suppliers - <i>unsecured, considered good</i>		<b>5,464,479</b>	26,880,654
Advances to employees - <i>unsecured, considered good</i>	21.1	<b>7,633,631</b>	4,895,219
Prepayments		<b>2,629,513</b>	2,135,356
Letters of credit		<b>5,769,146</b>	6,107,161
Sales tax refundable		<b>18,190,967</b>	6,916,813
Insurance claims receivable		<b>25,158,148</b>	118,848
Other receivables - <i>unsecured, considered good</i>		<b>4,851,703</b>	10,491,400
		<b><u>69,697,587</u></b>	<b><u>57,545,451</u></b>

**21.1** These represent advances to employees for purchases and expenses on behalf of the Company and those against future salaries and post employment benefits in accordance with the Company policy. No advances have been given to any of the directors or executives of the Company.

## Notes to and forming part of financial statements

### for the year ended June 30, 2012

	<i>Note</i>	2012 <i>Rupees</i>	2011 <i>Rupees</i>
<b>22 CASH AND BANK BALANCES</b>			
Cash in hand		442,337	365,484
Cash at banks			
current accounts		15,480,657	5,014,369
deposit/saving accounts	22.1	87,298	66,579
		15,567,955	5,080,948
		<u>16,010,292</u>	<u>5,446,432</u>

22.1 Effective mark-up rate in respect of deposit/saving accounts, for the year, ranges from 6% to 7% (2011: 6% to 7%).

### 23 TURNOVER - NET

	2012		
	Local <i>Rupees</i>	Export <i>Rupees</i>	Total <i>Rupees</i>
Yarn	2,786,042,140	11,124,812	2,797,166,952
Waste	90,335,927	-	90,335,927
	<u>2,876,378,067</u>	<u>11,124,812</u>	<u>2,887,502,879</u>
Trade discount	-	-	-
Sales tax	-	-	-
	<u>2,876,378,067</u>	<u>11,124,812</u>	<u>2,887,502,879</u>
	2011		
	Local <i>Rupees</i>	Export <i>Rupees</i>	Total <i>Rupees</i>
Yarn	2,602,073,336	105,690,593	2,707,763,929
Waste	134,969,421	-	134,969,421
	2,737,042,757	105,690,593	2,842,733,350
Trade discount	-	-	-
Sales tax	-	-	-
	<u>2,737,042,757</u>	<u>105,690,593</u>	<u>2,842,733,350</u>

## Notes to and forming part of financial statements

### for the year ended June 30, 2012

	<i>Note</i>	<b>2012</b>	2011
		<i>Rupees</i>	<i>Rupees</i>
<b>24 COST OF SALES</b>			
Raw material consumed	24.1	<b>1,930,337,562</b>	2,029,612,346
Stores, spares and loose tools consumed		<b>95,995,858</b>	70,189,365
Salaries, wages and benefits	24.2	<b>169,465,736</b>	146,893,368
Power and fuel		<b>361,359,278</b>	302,040,663
Insurance		<b>2,506,753</b>	2,685,327
Vehicle running and maintenance		<b>1,916,520</b>	1,603,111
Depreciation	16.1.3	<b>40,797,209</b>	33,179,071
Impairment loss on operating fixed assets	16.1	<b>532,642</b>	
Others		<b>8,382,291</b>	6,306,261
Manufacturing cost		<b>2,611,293,849</b>	2,592,509,512
Work in process			
As at beginning of the year		<b>33,571,861</b>	23,426,336
As at end of the year		<b>(32,680,780)</b>	(33,571,861)
		<b>891,081</b>	(10,145,525)
Cost of goods manufactured		<b>2,612,184,930</b>	2,582,363,987
Finished goods			
As at beginning of the year		<b>102,970,805</b>	59,254,188
As at end of the year		<b>(68,735,118)</b>	(102,970,805)
		<b>34,235,687</b>	(43,716,617)
		<b>2,646,420,617</b>	2,538,647,370
<b>24.1 Raw material consumed</b>			
As at beginning of the year		<b>260,192,413</b>	223,673,547
Purchased during the year		<b>2,025,704,645</b>	2,114,807,316
Sold during the year		<b>(1,093,506)</b>	(48,676,104)
As at end of the year		<b>(354,465,990)</b>	(260,192,413)
		<b>1,930,337,562</b>	2,029,612,346

**24.2** These include charge in respect of employees retirement benefits amounting to Rs. 9,661,366 ( 2011: Rs. 7,795,723).



## Notes to and forming part of financial statements for the year ended June 30, 2012

	<i>Note</i>	<b>2012</b>	2011
		<i>Rupees</i>	<i>Rupees</i>
<b>25 SELLING AND DISTRIBUTION EXPENSES</b>			
Salaries wages and benefits	25.1	1,622,460	1,264,497
Inland transportation		5,335,879	5,619,621
Ocean freight and forwarding		304,746	3,157,428
Traveling		468,856	152,570
Communication		234,954	64,684
Insurance		96,395	67,732
Commission		7,393,582	5,795,906
Vehicle running and maintenance		195,915	308,248
Advertisement and sales promotion		64,000	43,000
Others		54,480	59,260
		<u>15,771,267</u>	<u>16,532,946</u>

**25.1** These include charge in respect of employees retirement benefits amounting to Rs. 93,353 (2011: Rs. 74,814).

	<i>Note</i>	<b>2012</b>	2011
		<i>Rupees</i>	<i>Rupees</i>
<b>26 ADMINISTRATIVE AND GENERAL EXPENSES</b>			
Directors' remuneration		9,226,080	7,188,368
Salaries and benefits	26.1	10,457,155	7,508,773
Traveling, conveyance and entertainment		1,119,889	294,101
Printing and stationery		618,560	525,904
Electricity and gas		1,315,821	1,087,528
Communication		1,116,636	991,631
Vehicles running and maintenance		2,956,492	2,488,030
Legal and professional charges		534,900	1,063,250
Auditors' remuneration	26.2	660,000	635,000
Fee and subscription		1,400,011	762,877
Rent rates and taxes		2,600,000	2,400,000
Insurance		754,925	984,020
Repair and maintenance		381,821	471,818
Depreciation	16.1.3	4,095,452	3,793,582
Others		1,501,638	748,776
		<u>38,739,380</u>	<u>30,943,658</u>

**26.1** These include charge in respect of employees retirement benefits amounting to Rs. 685,916 (2011: Rs. 553,463).

	<b>2012</b>	2011
	<i>Rupees</i>	<i>Rupees</i>
<b>26.2 Auditor's remuneration</b>		
Annual statutory audit	500,000	500,000
Half yearly review	100,000	75,000
Review report under Code of Corporate Governance	50,000	50,000
Out of pocket expenses	10,000	10,000
	<u>660,000</u>	<u>635,000</u>

## Notes to and forming part of financial statements

### for the year ended June 30, 2012

	<i>Note</i>	<b>2012</b>	2011
		<i>Rupees</i>	<i>Rupees</i>
<b>27 OTHER OPERATING INCOME</b>			
<b>Gain on financial instruments</b>			
Return on bank deposits		9,844	32,282
<b>Other income</b>			
Gain on disposal of operating fixed assets	16.1.1	-	329,299
Scrap sales		2,696,592	7,252,911
		<u>2,696,592</u>	<u>7,582,210</u>
		<u>2,706,436</u>	<u>7,614,492</u>

	<i>Note</i>	<b>2012</b>	2011
		<i>Rupees</i>	<i>Rupees</i> (Restated)
<b>28 FINANCE COST</b>			
Interest / mark-up on borrowings:			
long term finances		356,009	2,042,301
short term borrowings		59,480,730	51,001,920
		<u>59,836,739</u>	<u>53,044,221</u>
Interest on workers' profit participation fund		473,556	200,215
Foreign exchange loss		851,595	644,439
Bank charges and commission		692,465	866,250
		<u>61,854,355</u>	<u>54,755,125</u>
<b>29 NOTIONAL INTEREST INCOME/(EXPENSE)</b>			
Loan from sponsors	7.2	(14,746,788)	50,240,830
Demand finance	8.1.2	(4,204,165)	9,370,357
		<u>(18,950,953)</u>	<u>59,611,187</u>

**29.1** Upto June 30, 2011, notional interest income/expense was presented as part of finance cost. However, as at June 30, 2012, it has been reclassified and presented separately on the face of profit and loss account for better presentation.

	<i>Note</i>	<b>2012</b>	2011
		<i>Rupees</i>	<i>Rupees</i>
<b>30 OTHER CHARGES</b>			
Workers' Profit Participation Fund	14.2	5,423,637	12,985,479
Workers' Welfare Fund	14.3	1,522,305	5,092,345
Donations	30.1	3,307,263	2,201,156
		<u>10,253,205</u>	<u>20,278,980</u>

**30.1** None of the directors or their spouses had any interest in donations made by the Company.

## Notes to and forming part of financial statements for the year ended June 30, 2012

	<i>Note</i>	<b>2012</b>	<b>2011</b>
		<i>Rupees</i>	<i>Rupees</i>
<b>31 TAXATION EXPENSE/(INCOME)</b>			
Current taxation			
current year	31.1	<b>28,875,029</b>	27,077,639
prior year		<b>(188,625)</b>	-
Deferred taxation	10	<b>28,686,404</b>	27,077,639
		<b>33,599,997</b>	2,185,859
		<b>62,286,401</b>	29,263,498

**31.1** Provision for taxation has been made in accordance with section 113 of the Income Tax Ordinance, 2001 ("the Ordinance"). There is no relationship between aggregate tax expense and accounting profit. Accordingly no numerical reconciliation has been presented.

**31.2** Assessments for the tax years up to 2010 are deemed assessments in terms of Section 120 (1) of the Ordinance, as per returns filled by the Company.

**31.3** An appeal relating to tax year 2011 is pending before the Commissioner Inland Revenue (Appeals-II) Laho668,30re. The amount of revenue involved is Rs.9,668,301.

	<i>Unit</i>	<b>2012</b>	<b>2011</b>
<b>32 EARNINGS PER SHARE</b>			
Profit attributable to ordinary shareholders	<i>Rupees</i>	<b>35,933,137</b>	219,537,452
Weighted average number of ordinary shares outstanding during the year	<i>No. of shares</i>	<b>8,775,000</b>	8,775,000
Earnings per share	<i>Rupees</i>	<b>4.09</b>	25.02

There is no diluting effect on the basic earnings per share of the Company.

## Notes to and forming part of financial statements

### for the year ended June 30, 2012

	2012	2011
	<i>Rupees</i>	<i>Rupees</i> (Restated)
<b>33 CASH GENERATED FROM OPERATIONS</b>		
<b>Profit before taxation</b>	<b>98,219,538</b>	248,800,950
<b>Adjustments for non-cash and other items</b>		
Interest / markup on borrowings	<b>59,836,739</b>	53,044,221
Notional interest expense/(income)	<b>18,950,953</b>	(59,611,187)
Impairment loss on operating fixed assets	<b>532,642</b>	-
Gain on disposal of operating fixed assets	-	(329,297)
Foreign exchange loss	<b>851,595</b>	644,439
Provision for employees retirement benefits	<b>10,440,635</b>	8,424,000
Depreciation	<b>44,892,661</b>	36,972,653
	<b>135,505,225</b>	39,144,829
<b>Operating profit before changes in working capital</b>	<b>233,724,763</b>	287,945,779
<b>Changes in working capital</b>		
Stores, spares and loose tools	<b>(6,812,345)</b>	(3,885,954)
Stock in trade	<b>(59,146,809)</b>	(90,381,008)
Trade receivables	<b>20,171,081</b>	(65,853,894)
Advances, prepayments and other receivables	<b>(12,152,136)</b>	3,591,562
Long term deposits	-	(55,000)
Trade and other payables	<b>66,197,702</b>	77,258,548
	<b>8,257,493</b>	(79,325,746)
<b>Cash generated from operations</b>	<b>241,982,256</b>	208,620,033
<b>34 CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>16,010,292</b>	5,446,432
	<b>16,010,292</b>	5,446,432

### 35 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties from the Company's perspective comprise key management personnel (including chief executive and directors) and sponsors of the Company. Transactions with sponsors are limited to interest free loan obtained and rental payments for office premises used by the Company.

	2012	2011
	<i>Rupees</i>	<i>Rupees</i>

Details of transactions and balances with related parties is as follows:

#### 35.1 Transactions with related parties

##### 35.1.1 Key management personnel

Short term employee benefits	9,226,080	7,188,368
Post employee benefits	-	-

##### 35.1.2 Sponsors

Borrowings repaid	8,252,510	3,800,000
Rent paid	2,600,000	2,400,000

## Notes to and forming part of financial statements for the year ended June 30, 2012

	2012	2011
	<i>Rupees</i>	<i>Rupees</i>
<b>35.2 Balances with related parties</b>		
<b>35.2.1 Key management personnel</b>		
Short term employee benefits payable	394,880	373,000
<b>35.2.2 Sponsors</b>		
Borrowings	212,471,950	220,724,460

### 36 FINANCIAL INSTRUMENTS

#### 36.1 Financial instruments by class and category

	Note	2012		2011	
		Loans and receivables <i>Rupees</i>	Financial liabilities at amortized cost <i>Rupees</i>	Loans and receivables <i>Rupees</i>	Financial liabilities at amortized cost <i>Rupees</i>
<b>Financial assets</b>					
Long term deposits	17	10,597,914	-	10,597,914	-
Trade receivables	20	97,451,611	-	117,622,692	-
Advances to employees	21	7,633,631	-	4,895,219	-
Insurance claims receivable	21	25,158,148	-	118,848	-
Cash and bank balances	22	16,010,292	-	5,446,432	-
		<b>156,851,596</b>	<b>-</b>	<b>138,681,105</b>	<b>-</b>
<b>Financial liabilities</b>					
Loan from sponsors		-	128,183,615	-	113,436,827
Long term finances	8	-	33,208,792	-	49,980,765
Short term borrowings	12	-	491,758,784	-	553,778,872
Accrued interest/mark-up		-	16,902,435	-	37,029,828
Trade creditors	14	-	129,609,873	-	42,323,615
Accrued liabilities	14	-	48,673,172	-	51,208,201
		<b>-</b>	<b>848,336,671</b>	<b>-</b>	<b>847,758,108</b>
		<b>156,851,596</b>	<b>848,336,671</b>	<b>138,681,105</b>	<b>847,758,108</b>

#### 36.2 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.

##### 36.2.1 Methods of determining fair values

Fair values of financial instruments 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 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 and forming part of financial statements for the year ended June 30, 2012

### 36.2.2 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 an adequate credit spread.

### 37 FINANCIAL RISK EXPOSURE AND MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. These risks affect revenues, expenses and assets and liabilities of the Company.

The Board of Directors has the overall responsibility for establishment and oversight of risk management framework. The Board of Directors has developed a risk policy that sets out fundamentals of risk management framework. The risk policy focuses on unpredictability of financial markets, the Company's exposure to risk of adverse effects thereof and objectives, policies and processes for measuring and managing such risks. The management team of the Company is responsible for administering and monitoring the financial and operational financial risk management throughout the Company in accordance with the risk management framework.

The Company's exposure to financial risks, the way these risks affect the financial position and performance, and forecast transactions of the Company and the manner in which such risks are managed is as follows:

#### 37.1 Credit risk

Credit risk is the risk of financial loss to the Company, if the counterparty to a financial instrument fails to meet its obligations.

	<i>Note</i>	<b>2012</b> <i>Rupees</i>	<b>2011</b> <i>Rupees</i>
<b>37.1.1 Maximum exposure to credit risk</b>			
The maximum exposure to credit risk as at the reporting date is as follows:			
<i>Loans and receivables</i>			
Trade receivables	20	97,451,611	117,622,692
Insurance claims receivable	21	25,158,148	118,848
Cash at banks	22	15,567,955	5,080,948
		<u>138,177,714</u>	<u>122,822,488</u>

#### 37.1.2 Concentration of credit risk

The Company identifies concentrations of credit risk by reference to type of counter party. Maximum exposure to credit risk by type of counter party is as follows:

	<b>2012</b> <i>Rupees</i>	<b>2011</b> <i>Rupees</i>
Customers	97,451,611	117,622,692
Banking companies and financial institutions	40,726,103	5,199,796
	<u>138,177,714</u>	<u>122,822,488</u>

## Notes to and forming part of financial statements for the year ended June 30, 2012

### 37.1.3 Credit quality and impairment

Credit quality of financial assets is assessed by reference to external credit ratings, where available, or to historical information about counterparty default rates. All counterparties, with the exception of customers, have external credit ratings determined by various credit rating agencies. Credit quality of customers is assessed by reference to historical defaults rates and present ages.

#### 37.1.3(a) Counterparties with external credit ratings

These include banking companies and financial institutions, which are counterparties to cash deposits. These counterparties have reasonably high credit ratings as determined by various credit rating agencies. Due to long standing business relationships with these counterparties and considering their strong financial standing, management does not expect non-performance by these counterparties on their obligations to the Company.

#### 37.1.3(b) Counterparties without external credit ratings

These include customers which are counter parties to trade receivables. The Company is exposed to credit risk in respect of trade receivables. The analysis of ages of trade receivables as at the reporting date is as follows:

	2012		2011	
	Gross carrying amount Rupees	Accumulated Impairment Rupees	Gross carrying amount Rupees	Accumulated Impairment Rupees
Neither past due nor impaired	80,424,018	-	86,516,713	-
Past due by 0 to 6 months	5,917,158	-	31,105,979	-
Past due by 6 to 12 months	-	-	-	-
Past due by over one year	11,174,435	-	-	-
	<b>97,515,611</b>	<b>-</b>	<b>117,622,692</b>	<b>-</b>

The Company's eleven (2011: nine) significant customers account for Rs. 46.22 million (2011: Rs. 64.11 million) of trade receivables as at June 30, 2012, apart from which, exposure to any single customer does not exceed 5% of trade receivables as at June 30, 2012. These significant customers have long standing business relationships with the Company and have a good payment record and accordingly non-performance by these customers is not expected. Further, trade receivables amounting to Rs. 10.21 million (2011: Rs. 17.48 million) secured through confirmed letters of credit and thus do not carry any significant credit risk. The Company believes that no impairment allowance is necessary for receivables past due by upto 12 months based on historical default rates. No impairment allowance has been made for amounts past due by over one year as the same has been recovered during the subsequent to the reporting period.

### 37.1.4 Collateral held

The Company does not hold any collateral to secure its financial assets with the exception of trade receivables, which are partially secured through confirmed letters of credit.

### 37.1.5 Credit risk management

As mentioned in note 37.1.3(b) to the financial statements, the Company's financial assets do not carry significant credit risk, with the exception of trade receivables, which are exposed to losses arising from any non-performance by customers. In respect of trade receivables, the Company manages credit risk by limiting significant exposure to any single customer. Formal policies and procedures of credit management and administration of receivables are established and executed. In monitoring customer credit risk, the ageing profile of total receivables and individually significant balances, along with collection activities are reviewed on a regular basis. High risk customers are identified and restrictions are placed on future trading, including suspending future shipments and administering dispatches on a prepayment basis or confirmed letters of credit.

## Notes to and forming part of financial statements for the year ended June 30, 2012

### 37.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

#### 37.2.1 Exposure to liquidity risk

The followings is the analysis of contractual maturities of financial liabilities, including estimated interest payments.

	2012				
	Carrying amount Rupees	Contractual cash flows Rupees	One year or less Rupees	One to five years Rupees	More than five years Rupees
Loan from sponsors	131,655,565	212,471,950	-	212,471,950	-
Long term finances	33,208,792	38,374,984	20,583,323	17,791,661	-
Short term borrowings	491,758,784	491,758,784	491,758,784	-	-
Accrued interest/mark-up	16,902,435	16,902,435	16,902,435	-	-
Trade creditors	129,609,873	129,609,873	129,609,873	-	-
Accrued liabilities	48,673,172	48,673,172	48,673,172	-	-
	<u>851,808,621</u>	<u>937,791,198</u>	<u>707,527,587</u>	<u>230,263,611</u>	<u>-</u>
	2011				
	Carrying amount Rupees	Contractual cash flows Rupees	One year or less Rupees	One to five years Rupees	More than five years Rupees
Loan from sponsors	125,161,287	220,724,460	-	220,724,460	-
Long term finances	49,980,765	59,818,682	6,443,698	53,374,984	-
Short term borrowings	553,778,872	553,778,872	553,778,872	-	-
Accrued interest/mark-up	37,029,828	37,029,828	37,029,828	-	-
Trade creditors	42,323,615	42,323,615	42,323,615	-	-
Accrued liabilities	51,208,201	51,208,201	51,208,201	-	-
	<u>859,482,568</u>	<u>964,883,658</u>	<u>690,784,214</u>	<u>274,099,444</u>	<u>-</u>

#### 37.2.2 Liquidity risk management

The Company's approach to managing liquidity risk 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 damage to the Company's reputation. The Company monitors cash flow requirements and produces cash flow projections for the short and long term. Typically, the Company ensures that it has sufficient cash on demand to meet expected operational cash flows, including servicing of financial obligations. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of overall funding mix and avoidance of undue reliance on large individual customer. The Company also maintains various lines of credit with banking companies. The Company also has continued financial support from its sponsors in the form of interest free loans for any short term or long term liquidity requirements.

### 37.3 Market risk

#### 37.3.1 Currency risk

Currency risk is the risk that fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises from sales, purchases and resulting balances that are denominated in a currency other than functional currency.



## Notes to and forming part of financial statements for the year ended June 30, 2012

### 37.3.1(a) Exposure to currency risk

The Company's exposure to currency risk as at the reporting date is as follows:

	2012 Rupees	2011 Rupees
<b>Financial liabilities</b>		
Short term borrowings	-	123,231,118
<b>Financial assets</b>		
Trade receivables	10,214,370	12,766,110

### 37.3.1(b) Exchange rates applied during the year

All foreign currency balances are denominated in United States Dollars (US \$). Exchange rates applied during the year are as follows:

	2012		2011	
	Average rate for the year Rupees	Spot as at the reporting date Rupees	Average rate for the year Rupees	Spot as at the reporting date Rupees
Financial assets	89.90	94.00	85.55	85.80
Financial liabilities	90.30	94.20	86.11	86.40

### 37.3.1(c) Sensitivity analysis

A ten percent appreciation in Pak Rupee against the US \$ would have increased profit for the year by Rs. 1 million (2011: Rs. 11 Million). A ten percent depreciation in Pak Rupee would have had an equal but opposite effect on profit for the year. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores the impact, if any, on provision for taxation for the year.

### 37.3.1(d) Currency risk management

The Company manages its exposure to currency risk through continuous monitoring of expected/forecast committed and non-committed foreign currency payments and receipts. Reports on forecast foreign currency transactions, receipts and payments are prepared on monthly basis, exposure to currency risk is measured and appropriate steps are taken to ensure that such exposure is minimized while optimizing return. This includes matching of foreign currency liabilities/payments to assets/receipts and using source inputs in foreign currency.

## 37.3.2 Interest rate risk

Interest rate risk is the risk that fair values or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

### 37.3.2(a) Interest/mark-up bearing financial instruments

The effective interest/mark-up rates for interest/mark-up bearing financial instruments are mentioned in relevant notes to the financial statements. The Company's interest/mark-up bearing financial instruments as at the reporting date are as follows:

## Notes to and forming part of financial statements for the year ended June 30, 2012

	2012	2011
	<i>Rupees</i>	<i>Rupees</i>
<b>Fixed rate instruments</b>		
Financial assets	87,298	66,579
Financial liabilities	128,183,615	113,436,827
<b>Variable rate instruments</b>		
Financial assets	-	-
Financial liabilities	498,037,639	488,165,456

### 37.3.2(b) Fair value sensitivity analysis for fixed rate instruments

The Company does not account for fixed rate financial assets and liabilities at fair value through profit or loss.

### 37.3.2(c) Cash flow sensitivity analysis for variable rate instruments and cash flow hedges

An increase of 100 basis points in interest rates as at the reporting date would have decreased profit for the year by Rs. 5.03 million (2011: Rs. 4.97 million). A decrease of 100 basis points would have had an equal but opposite effect on profit for the year. The analysis assumes that all other variables, in particular foreign exchange rates, remain constant and ignores the impact, if any, on provision for taxation for the year.

### 37.3.2(d) Interest rate risk management

The Company manages interest rate risk by analyzing its interest rate exposure on a dynamic basis. Cash flow interest rate risk is managed by simulating various scenarios taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Company calculates impact on profit after taxation and equity of defined interest rate shift, mostly 100 basis points.

### 37.3.3 Price risk

Price risk represents the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments. The Company is not exposed to price risk since the fair values of the Company's financial instruments are not based on market prices.

## 38 CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Any temporary shortfall is met through interest free loans from sponsors. The Board of Directors monitors the return on capital and level of dividends to ordinary shareholders and seeks to keep a balance between the higher return that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position. The Company monitors capital using the gearing ratio which is debt divided by total capital employed. Debt comprises long term finances and loan from sponsors, including current maturity. Total capital employed includes total equity (as shown in the balance sheet plus surplus on revaluation of property, plant and equipment) plus debt. The Company's strategy is to maintain an optimal capital structure in order to minimize cost of capital. Gearing ratio of the Company as at the reporting date is as follows:

## Notes to and forming part of financial statements for the year ended June 30, 2012

	<i>Unit</i>	<b>2012</b>	2011
		<i>Rupees</i>	<i>Rupees</i>
Total debt	<i>Rupees</i>	<b>245,680,742</b>	270,705,225
Total equity	<i>Rupees</i>	<b>487,976,108</b>	362,227,527
		<b>733,656,850</b>	<b>632,932,752</b>
Gearing	<i>% age</i>	<b>33.49%</b>	42.77%

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements, except those, related to maintenance of debt covenants, commonly imposed by the providers of debt finance.

	<b>2012</b>	2011
	<i>Rupees</i>	<i>Rupees</i>
<b>39 RESTRICTION ON TITLE, AND ASSETS PLEDGED AS SECURITY</b>		
<b>Mortgages and charges</b>		
Hypothecation of current assets	<b>1,194,782,000</b>	1,086,480,000
Hypothecation of operating fixed assets	<b>1,179,782,000</b>	760,070,526
Mortgage over operating fixed assets	<b>1,179,782,000</b>	715,570,526
<b>Pledge</b>		
Raw material	<b>354,098,917</b>	260,192,413
Finished goods	<b>30,852,244</b>	52,850,843

#### 40 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged to profit or loss in respect of chief executive, directors and executives on account of managerial remuneration, allowances and perquisites, post employment benefits and the number of such directors and executives is as follows:

	<b>2012</b>		
	<b>Chief Executive</b>	<b>Directors</b>	<b>Executives</b>
	<i>Rupees</i>	<i>Rupees</i>	<i>Rupees</i>
Managerial remuneration	<b>2,400,000</b>	<b>2,460,000</b>	<b>2,055,000</b>
Allowances and perquisites	<b>4,366,080</b>	-	<b>30,000</b>
Post employment benefits	-	-	<b>121,667</b>
	<b>6,766,080</b>	<b>2,460,000</b>	<b>2,206,667</b>
Number of persons	<b>1</b>	<b>3</b>	<b>2</b>
	<b>2011</b>		
	<b>Chief Executive</b>	<b>Directors</b>	<b>Executives</b>
	<i>Rupees</i>	<i>Rupees</i>	<i>Rupees</i>
Managerial remuneration	2,400,000	2,280,000	1,860,000
Allowances and perquisites	2,508,368	-	30,000
Post employment benefits	-	-	160,000
	<b>4,908,368</b>	<b>2,280,000</b>	<b>2,050,000</b>
Number of persons	<b>1</b>	<b>3</b>	<b>2</b>

## Notes to and forming part of financial statements for the year ended June 30, 2012

Additionally the chief executive, directors and executives are also provided company maintained vehicles.

### 41 PLANT CAPACITY AND ACTUAL PRODUCTION

	<i>Unit</i>	<b>2012</b>	2011
Number of spindles installed	<i>No.</i>	<b>59,576</b>	56,076
Plant capacity on the basis of utilization converted into 40s count	<i>Kgs</i>	<b>9,089,000</b>	8,555,000
Actual production converted into 40s count	<i>Kgs</i>	<b>8,262,723</b>	8,176,471

It is difficult to precisely compare production capacity and the resultant production converted into base count in the textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw materials used, spindle speed and twist etc. It would also vary according to the pattern of production adopted in a particular year.

### 42 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 04, 2012 by the Board of Directors of the Company.

### 43 GENERAL

Figures have been rounded off to the nearest rupee.

Comparative figures have been rearranged and reclassified, where necessary, for the purpose of comparison. Significant reclassifications have been referred to in the relevant notes to the financial statements.

**MIAN IQBAL SALAH-UD-DIN**  
Chief Executive

**MIAN YOUSAF SALAH-UD-DIN**  
Director

Lahore  
Date : October 04, 2012

## PATTERN OF SHAREHOLDING OF ORDINARY SHARES AS AT ON JUNE 30, 2012

Sr.	Shareholding		No. of shareholders	Total shares held
	From	To		
1	1	100	1,008	70,150
2	101	500	336	86,841
3	501	1000	98	80,978
4	1001	5000	146	401,431
5	5001	10000	25	194,483
6	10001	15000	7	95,878
7	15001	20000	3	53,754
8	20001	25000	8	179,891
9	25001	30000	1	26,000
10	30001	35000	2	65,361
12	45001	50000	2	97,795
13	50001	55000	2	105,351
14	55001	85000	3	197,242
15	85001	90000	1	88,850
16	90001	165000	2	220,798
18	170001	345000	1	217,500
19	345001	350000	1	348,279
20	350001	1550000	3	4,631,468
21	1550001	1650000	1	1,612,950
			<b>1,650</b>	<b>8,775,000</b>

## CLASSIFICATION OF SHARES BY CATEGORIES

Categories of shareholders	No. of shareholders	Total shares held	Percentage
FINANCIAL INSTITUTIONS	3	52,009	0.60
JOINT STOCK COMPANIES	11	42,840	0.49
INVESTMENT COMPANIES	3	366,772	4.18
INDIVIDUALS	1,632	8,310,584	94.70
OTHERS	1	2,795	0.03
<b>1,650</b>		<b>8,775,000</b>	<b>100.00</b>

## Information as Required Under Code of Corporate Governance at June 30, 2012

Categories of shareholders	No. of Shareholders	No. of shares held
Directors, Chief Executive and their spouses and minor children		
Mian Iqbal Salahuddin                      Chief Executive	1	1543820
Mst. Munira Salahuddin                      Director	1	1612950
Mian Asad Salahuddin                      Director	1	1543828
Mian Yousaf Salahuddin                      Director	1	1543820
Mian Sohail Salahuddin                      Director	1	7500
Sh. Abdul Salam                      Director	1	2500
Mr. Muhammad Rafique Khan              Director	1	2500
		<u>6,256,918</u>
<hr/>		
Individual	1632	8,310,584
Financial Institutions	3	52,009
Joint Stock Companies	1	42,840
Others	1	2,795
Investment Companies	3	366,772
	<u>1650</u>	<u>8,775,000</u>

**FORM OF PROXY**  
**Sally Textile Mills Limited**  
**4 - F, Gulberg II, Lahore.**

I/We \_\_\_\_\_  
of \_\_\_\_\_  
being a member of SALLY TEXTILE MILLS LIMITED, hereby appoint

(NAME)

of \_\_\_\_\_  
or failing him \_\_\_\_\_

(NAME)

of \_\_\_\_\_  
(being a member of the Company) as my/our proxy to attend, act and vote for me/us and on my/our behalf, at the 44<sup>th</sup> Annual General Meeting of the Company to be held at the FOUR SEASONS HALL, Queens Road, Lahore on Tuesday, October 30, 2012 at 10:00 a.m. and at every adjournment thereof.

As witness my hand this \_\_\_\_\_ day of \_\_\_\_\_ 2012

Signed by the said in the presence of \_\_\_\_\_

\_\_\_\_\_  
Signature

Witness

\_\_\_\_\_  
Signature

<b>Affix Revenue Stamp</b>
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**Note: Proxies on order to be effective, must be received at the Company's Registered Office not less than forty-eight hours before the time for holding the meeting and must be duly stamped, signed and witnessed.**



The Company Secretary  
**SALLY TEXTILE MILLS LIMITED**  
4-F, Gulberg II, Lahore.

**AFFIX  
CORRECT  
POSTAGE**