

AZAM TEXTILE MILLS LIMITED

ANNUAL REPORT 2004

BOARD OF DIRECTORS

Mr. M. Naseem Saigol	
Mr. M. Azam Saigol	Chairman / Chief Executive
Mr. Shahid Sethi	
Mr. Muhammad Athar Rafiq	
Mr. Muhammad Asif Bajwa	
Mr. Saeed Mian Ansari	
Mr. Muhammad Imran Khalil	(NIT Nominee)

AUDIT COMMITTEE

Mr. M. Azam Saigol	Chairman/Member
Mr. Shahid Sethi	Member
Mr. MuhammadAsif Bajwa	Member

COMPANY SECRETARY

Mr. Sultan AH

CHIEF FINANCIAL OFFICER

Mr. Muhammad Shamil, ACA

AUDITORS

M/s Manzoor Hussain Mir & Co.
Chartered Accountants

BANKERS

Askari Commercial Bank Limited
Bank Alfalah Limited
Faysal Bank Limited
Habib Bank Limited
Muslim Commercial Bank
National Bank of Pakistan
Prime Commercial Bank Limited
Union Bank Limited
United Bank Limited

REGISTERED OFFICE

17-Aziz Avenue, Canal Bank
Gulberg-V, Lahore
Tel: 5717364-65&5718274-75
Fax: 5715105. E-mail: shares(S>,saigols.com)

MILLS

51-KM.MultanRoad,
Bhai Pheru, District Kasur

KEY OPERATING AND FINANCIAL DATA

Particulars	2004 (,000)	2003 (,000)	2002 (,000)	2001 (,000)	2000 (,000)	1999 (,000)
Sales - Net	283,644	570,656	540,799	586,711	561,915	636,579
Gross Profit	17,398	5,364	38,688	36,356	115,772	45,098
Profit/(Loss) Before Tax	-16,512	-51,816	-21,684	-38,806	35,991	-27,023
Profit/(Loss) After Tax	-18,239	-55,599	-22,706	-28,057	33,136	-30,157
Share Capital	132,750	132,750	132,750	132,750	132,750	132,750
Shareholders Equity	-93,241	-89,268	-92,275	-69,911	-41,854	-71,762
Fixed Assets - Net	460,086	426,680	449,670	466,758	486,814	519,067
Total Assets	544,057	756,492	757,195	750,788	746,046	752,865
Bank Borrowings	219,733	219,521	238,056	232,271	210,628	315,081
RATIOS						
Profitability:						
Gross Profit Margin	6.13	0.94	7.15	620	20.6	7.08
Profit/(Loss) After Tax	-6.43	-9.74	(4-14)	-4.78	5.9	-4.74
(Loss)/Earning Per Share - Rs.	-1.37	-4.19	-1.71	-2.11	2.5	-2.27
Activity:						
Sales to Fixed Assets - Times	0.62	134	120	126	1.15	123
Liquidity:						
Current Ratio - Times	1.16	0.62	0.89	1.03	0.84	0.76

Break Up Value Per Share - Rs.	-7.02	-6.72	-6.95	-5.27	-3.15	-5.41
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DIRECTORS' REPORT

Your Directors take pleasure of presenting before you the Annual Report along with the Audited accounts of the Company for the year ended September 30,2004.

OVERVIEW OF INDUSTRY

Visualizing the increased role in quota free global market, textile industry has witnessed substantial investment during the current and past few years but it will be hard to keep the momentum in the wake of global recession.

Lint Cotton Supply and rates remain volatile through out the year and cotton prices in local market touched unprecedented height of Rs. 3,7007- per maund level and New York future touch \$.84 level affecting the textile industry very badly.

OPERATING & FINANCIAL RESULTS

Inspite of abnormal prices of raw cotton in local and international market your company was able to achieve much better results as compared to last year.

The turn over of the company has gone down to 283.644 million as compared to 570.656 million last year mainly due to production of Super Fine Count Yarn ranging from 52/1 to 80/1 Yarn during the year as compared to production of course yarn during last year. Inspite of reduced turn over the Gross Profit Ratio has registered an increase of 5.2% as compared to last year. The over all financial results are not so encouraging only due to unfavourable cotton prices.

FUTURE OUT LOOK

For the revival of this unit we have devised an expansion plan for Rs.75.000 million consisting 18 Ring Frames to be imported from China, two Auto Cone Winders and major alteration/expansion in the existing building. By this expansion we will be able to utilize our idle back process resulting from conversion of our production line to Super Fine Count. After this proposed expansion we will be able to fully utilize our available resources and coupled with good cotton prices prevailing in local as well international market. We hope that the coming year will be Insha Allah very good for our company.

To finance proposed expansion plan and for improving liquidity position of the Company, Director of your Company have provided interest free loan of Rs. 60.000 million to the Company during the year and have applied to National Bank of Pakistan for new financing of Rs. 30.000 million.

We are giving note wise comments on the observation recorded by the Auditors in their report.

i) Loans amounting to Rs.15.766 million be classified as long term because the repayment period of these loans is not yet determined.

ii) Accounting Policy for valuation for gratuity has been changed to comply with the requirements of I AS 19 as applicable in Pakistan.

iii) The Collector Sales Tax Multan vide its letter C.No.213/99/Text.Rec/ST/8724 dated 11-06-2004 has allowed us repayment of this liabilities in equal installments of Rs. 1.000 million each starting from approximately Oct. 2005 onward on the basis of this repayment package we have shown this balances under the head deferred liability.

iv) L/C Margin be grouped with current assets and is shown accordingly.

STATEMENT IN COMPLIANCE TO THE CODE OF CORPORATE GOVERNANCE

The Directors state that:

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

Proper books of account of the Company have been maintained.

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

International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.

The system of internal control is sound in design and has been effectively implemented and monitored. There are no significant doubts upon the Company's ability to continue as a going concern.

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

There are no outstanding statutory payments on account of duties, levies and charges.

Significant deviation from last year in operating results of the Company and reasons thereof have been explained.

The Key operating and Financial Data of Last Six Years is attached to the Report.

There are no significant plans for corporate restructuring and discontinuation of operations except for improvement in the normal business activities to increase the business.

The company operates an un-funded gratuity scheme covering all its permanent employees who attained the minimum qualification period. Provision is being made to comply with the requirements of IAS-19 as applicable in Pakistan

Directors meeting of the Board of Directors of the Company during the year under review were Four (4), held on January 09,2004, January 29,2004, May 29,2004 and July 31,2004 Following was the attendance of the Directors:-

NAME OF DIRECTOR	NO. OF MEETING ATTENDED
Mr. M. Naseem Saigol	4
Mr. M. Azam Saigol	4
Mr. Shahid Sethi	4
Mr. Muhammad Ilyas Bajwa	2
Mr. MuhammadAsif Bajwa	3
Mr. Saeed Mian Ansari	2
Mr. Muhammad Athar Rafiq	1
Mr. Muhammad Imran Khalil	1

Since the last General Meeting Mr. Muhammad Ilyas Bajwa resigned and in his place Mr. Muhammad Athar Rafiq appointed as Director for the remaining of the term of office of outgoing director. We wish to place on record our appreciation for the valuable contribution made by Mr. Muhammad Ilyas Bajwa during the tenure of his directorship.

The Company has not declared any dividend due to heavy losses.

The Chief Executive Officer, Directors, Chief Financial Officer, Company Secretary and their spouse and minor children have made no sale/purchase of Company's shares during the year.

PATTERN OF SHARE HOLDING

A statement showing Pattern of Share Holding as on 30.09.2004 is Annexed.

CHANGE OF FINANCIAL YEAR

The Securities and Exchange Commission of Pakistan (SECP) has, vide its Circular No. 29 of 2004 dated November 05, 2004, referred to SRO No. 684(1)72004 dated August 10,2004 issued by the Central Board of Revenue (CBR) directing a change in the close of accounting year of cotton textile industry from September to June. A clarification in this regard has also been issued by CBR which states that the first annual accounts after the change shall be prepared by the cotton textile industry for nine months ending on June 30,2005.

The above-referred circular also states that no further approval of SECP shall be required by the companies for change in the accounting year. In order to comply with the requirements, your Company has also changed the close of its accounting year from September to June. Therefore, the next annual accounts shall be prepared for nine months ending on June 30,2005. The first and second interim accounts for the periods ending on December 31,2004 and March 31,2005, respectively, shall also be prepared and circulated in routine.

RECOGNITION

The directors take this opportunity to thank all the Share Holders and the Bankers of the company for their continued support during the year. Your directors also place on record their appreciation of the contribution made by the staff at all levels, for their commendable team work, dedicated and enthusiastic efforts made during the year for the smooth and satisfactory running of the company.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37,43 and 36 of listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Board of the Company comprises of five non-executive and two executive directors. At present there is no representation of independent non-executive director and director representing minority shareholders on the Board of the Company. We shall encourage their representation in the forthcoming elections.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DPI or an NBFIs or, being a member of a stock exchange, has been declared as

a defaulter by that stock exchange.

4. The casual vacancies occurred in the Board on July 31,2004 was filled up on the same day.

5. The Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the Company.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer and other executive directors, have been taken by the Board.

8. The meeting of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board arranged an orientation course for its directors during the year to apprise them of their duties and responsibilities.

10. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the Chief Executive Officer.

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 Chief Executive and Chief Financial Officer before approval of the Board.

13. The directors, Chief Executive Officer and executive do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

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

15. The Board has formed an audit committee. It comprises three members, of whom two are non-executive directors. An executive director is 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 an effective internal audit function, members of which are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.

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

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. We confirm that 11 other material principles contained in the Code have been complied with.

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 AZAM TEXTILE MILLS LIMITED to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited, Listing Regulation's Chapter No. XIII of the Lahore Stock Exchange (Guarantee) Limited and Listing Regulations No. 36 of the Islamabad Stock Exchange (Guarantee) Limited where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the

Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

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

Based on our review, except for observations expressed in our audit report if any affecting the compliance with Code of Corporate Governance, 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.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of AZAM TEXTILE MILLS LIMITED as at 30th September, 2004 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

(a) in our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;

(b) in our opinion;

(i) the balance sheet and profit and loss account-together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for change in accounting policy as stated in Note No. 7.1 with which we concur;

(ii) the expenditure incurred during the year was for the purpose of the company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, except for incorrect classification of short term loans Rs. 15.766 Million, as long term loans at Note No. 5.3 sales tax liability Rs. 60.476 Million as deferred liability at Note No. 7.2 and classification of L/C advance for import of machinery as current assets at Note 15.5 instead a part of capital asset and extent to which the notes referred to may affect, 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 30th September, 2004 and of the loss, its cash flows and changes in equity for the year then ended; and

Attention is also invited to Note No. 2.6(b), 7.1 (i) & (iv), 9.2 and 15.2.

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

BALANCE SHEET AS AT 30 SEPTEMBER, 2004

	Note	2004 Rupees	2003 Rupees
SHARE CAPITAL			
Authorised: 15,000,000 ordinary shares of Rs. 10/- each		150,000,000	150,000,000
Issued, subscribed and paid-up	3	132,750,000	132,750,000
Accumulated Loss		-225,990,845	-222,018,169
		-93,240,845	-89,268,169
SURPLUS ON REVALUATION OFFTXED ASSETS	4	277,863,651	255,132,835
LONG TERM FINANCES	5	101,489,000	94,985,000
LONG TERM LOANS	6	101,329,697	41,329,697
DEFERRED LIABILITY	7	65,794,434	5,089,322

CURRENT LIABILITIES Current portion of long

term finances	5	30,150,000	37,919,002
Short term finances	8	88,093,502	78,055,747
Creditors, accruals and other liabilities	9	49,865,886	135,091,532
Unclaimed dividend		102,700	102,700
		168,212,088	251,168,981
CONTINGENCIES AND COMMITMENTS	10	-	-
		621,448,025	558,437,666

	Note	2004 Rupees	2003 Rupees
OPERATING			
FIXED ASSETS	11	460,085,956	426,679,900
SECURITY DEPOSITS		537,210	317,060
CURRENT ASSETS Stores, spares and loose tools	12	4,963,376	5,421,791
Stock-in-trade	13	117,545,981	70,578,000
Trade debtors	14	399,530	10,300,341
Advances, deposits, prepayments and other receivables	15	37,356,264	44,106,627
Cash and bank balances	16	559,708	1,033,947
		160,824,859	131,440,706
		621,448,025	558,437,666

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER, 2004

	Note	2004 Rupees	2003 Rupees
SALES -Net	17	283,644,232	570,655,891
COST OF SALES	18	266,246,101	565,292,353
GROSS PROFIT		17,398,131	5,363,538
ADMINISTRATIVE AND SELLING EXPENSES	19	17,007,232	26,597,012
OPERATING(LOSS)/PROFIT		390,899	-21,233,474
OTHER INCOME	20	565,139	2,125,240
		956,038	-19,108,234
FINANCIAL CHARGES	21	17,455,633	32,705,108
MISCELLANEOUS CHARGES	22	11,921	2,300
		17,467,554	32,707,408
LOSS BEFORE TAXATION		-16,511,516	-51,815,642
PROVISION FOR TAXATION	15.7	-1,727,870	-3,783,040
LOSS FOR THE YEAR		-18,239,386	-55,598,682
INCREMENTAL DEPRECIATION REALISED	4	14,266,710	58,605,945
NET LOSS FOR THE YE AR		-3,972,676	3,007,263
ACCUMULATED LOSS - Brought Forward		-222,018,169	-225,025,432
ACCUMULATED LOSS - Carried to Balance Sheet		-225,990,845	-222,018,169
LOSS PER SHARE	24	-1.37	-4.19

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER, 2004

	2004 Rupees	2003 Rupees
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 'A')	-21,738,280	36,295,807
CASH FLOW FROM INVESTING ACTIVITIES		
Tangible fixed assets acquired	-20,742,893	-3,083,150
Sale proceeds of operating fixed assets	35,100	3,720,000
NET CASH IN FLOW/(OUTFLOW)		
FROM IN VESTING ACT1VITIES	-20,707,793	636,850
CASH FLOW FROM FINANCING ACTIVITIES		
Long term finances repaid	-1,265,002	-18,417,950
Long term loans	60,000,000	-
Short term finances - net	10,037,755	4,598,904
Financial charges paid	-26,800,919	-26,012,531
NET CASH INFLOW FROM FINANCING ACTIVITIES	41,971,834	-39,831,577
NET (DECREASE)/BVCREASEIN CASH AND CASH EQUIVALENTS	-474,239	-2,898,920
CASH AND CASH EQUIVALENTS - At the beginning of the year	1,033,947	3,932,867
CASH AND CASH EQUIVALENTS -At the end of the year	559,708	1,033,947

	2004 Rupees	2003 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		

NET (LOSS) /PROFIT BEFORE TAXATION	-16,511,516	-51,815,642
Adjustments for:		
Depreciation	24,287,342	22,670,738
Provision for gratuity - net	229,267	457,908
(Profit)/Loss on sale of fixed assets	11,921	-317,252
Financial charges	17,455,633	32,705,108
Unclaimed balances written back	-339,922	-
Income taxes	1,422,505	-
CASH IN FLOWFROM OPERATING ACTIVITIES		
- Before working capital changes	26,555,230	3,700,860
Decrease / (increase) in current assets and liabilities		
Stores, spares and loose tools	458,415	359,423
Stock-in-trade	-46,967,981	-4,205,000
Trade debtors	9,900,811	8,555,082
Advances, deposits, prepayments and other		
receivables excluding income taxes	5,951,396	261,318
Increase in creditors, accruals,		
other and deferred liabilities	-15,064,593	32,608,408
	-45,721,952	37,579,231
CASH INFLOW FROM OPERATING ACTIVITIES	-19,166,722	41,280,091
Taxes paid	-2,351,408	-4,834,284
CASH INFLOW FROM OPERATING ACTIVITIES	-21,518,130	36,445,807

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER, 2004

	Share Capital	Accumulated Loss Rupees	Total
Balance as at 30 September, 2002	132,750,000	-225,025,432	-92,275,432
Loss for the year ended 30 September, 2003	-	-55,598,682	-55,598,682
Transfer from surplus on revaluation of fixed assets on accounts of incremental depreciation for:			
-prior years	-	45,338,804	45,338,804
-current year	-	13,267,141	13,267,141
Balance as at 30 September, 2003	132,750,000	-222,018,169	-89,268,169
Loss for the year ended 30 September, 2004	-	-18,239,386	-18,239,386
Transfer from surplus on revaluation of fixed assets on accounts of incremental depreciation for:			
-prior years	-	-	-
-current year	-	14,266,710	14,266,710
Balance as at 30 September, 2004	132,750,000	-225,990,845	-93,240,845

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER, 2004

1. STATUS AND NATURE OF BUSINESS

The Company was incorporated on 10 March, 1987 as a Public Company and its shares are quoted on Stock Exchanges in Pakistan. The Company is principally engaged in manufacture and sale of yarn.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of accounting

These financial statements, have been drawn up assuming that "the company is a going concern and it will achieve satisfactory results in the foreseeable futures. In the preceeding year the auditors expressed some doubt the going concern ability of the company for the reasons that there were accumulated losses amounting to Rs. 222.018 Million and current liabilities exceeded current assets by Rs.81.809 Million. Perusal of balance sheet would show that due to change in production pattern that company has succeeded in reducing its losses substantially by Rs.37.360 Million which came down from Rs.55.599 in last years to Rs. 18.239 Million in the year under report. The difference in the ratio of current assets and current liabilities has narrowed down to large extent. In preceeding year the current liabilities exceeded by Rs.81.809 Million but this year current assets are lower than its current liabilities by Rs.7.387 Million.

The directors during the year under report have introduced Rs.60 Million to enable the company to run its business effectively. The company has already installed 2,880 spindles during the year while 7,200 spindles are in process of import from China. Adequate stocks are held by the company, if the payments of sales tax liabilities is not pressed by sales tax authority and the directors continued to make arrangements for the working capital and the company is in a position to achieve its rated capacity may not have to face any difficulties in achieving the status of going concern".

2.2 Statement of Compliance

These financial statements, except for IAS 12- Income Tax and IAS 39- Financial Instruments, Recognition and Measurement, have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.3 Accounting convention

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

- modification of foreign currency translation adjustments as stated in note 2.3;
- exchangejisk coverage fee adjustments capitalised as part of plant and machinery.
- land, building and plant & machinery which are stated at revalued amounts.

2.4 Foreign currency translations

Foreign liabilities and assets (except those for which foreign exchange rates have been booked and translated at the fixed rates) are converted into local currency at the rates prevailing at the balance sheet date.

2.5 Staff retirement benefits

The Company operates an approved and un-funded gratuity scheme for all eligible employees who have completed the minimum qualifying period of service. Actuarial valuation was carried during the year, using the Projected Unit Credit method assuming a discount rate of 8% per annum and expected rate of increase in salary @ 8% per annum. Provisions are made annually to cover the obligation under the scheme in accordance with actuarial recommendations and charged to income currently. The difference arising on application of IAS-19 first time during the year has been incorporated in the profit and loss account. The

Company's policy with regard to actuarial gains / losses is to follow minimum recommended approach under IAS-19 'Employee Benefits'.

2.6 Taxation

(a) Current:

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any, or minimum tax at the rate of 0.5% of turnover, whichever is higher.

(b) Deferred:

Net deferred tax liability as on 30 September, 2004 (for accelerated rates for depreciation admissible under income tax law and surplus on revaluation) is Rs. 123.918 Million (2003: Rs. 92.455 Million), which is not provided in these financial statements.

2.7 Tangible fixed assets and depreciation thereon

Operating assets are stated at cost, except land, building and plant & machinery which are stated at revalued amount. Depreciation is charged to income on reducing balance method using the rates specified in the fixed assets schedule at note 11. Depreciation for full year is provided on the assets purchased during the year. No depreciation is charged in the year of disposal. Profit or Loss on disposal of operating assets is charged to current income. Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised.

2.8 Impairment of assets

The management assesses at each balance sheet date whether there is any indication that an asset is impaired. If any such indication exists, the management estimates the recoverable amount of the asset. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount by charging the impairment loss against income for the year.

2.9 Stores, spares and loose tools

These are valued at moving average cost except items-in-transit, which are valued at cost accumulated to the balance sheet date.

2.10 Stock-in-trade

Basis of valuation are as follows:

Particulars	Mode of valuation
Raw materials	- At lower of annual average cost and market value.
Work-in-process	- At cost.
Finished goods	- At lower of cost and net realisable value.
Waste	-At realisable value.
Purchased yarn	-At cost (FIFO).

2.11 Trade debtors

Trade debtors are carried at original invoice amount less an estimate for doubtful debtors based on review of outstanding amounts at the year-end. Bad debts are written-off when identified.

2.12 Revenue recognition

- Local sales are recorded when goods are delivered to customers and invoices raised.
- Export sales are booked on shipment basis.

2.13 Provisions

Provisions are recognised when the Company has a present, legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

2.14 Financial assets and liabilities

Financial assets

The Company's principal financial assets are security deposits, trade debtors, deposits and other receivables and cash & bank balances.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include long term finances, long term loans, short term loans, creditors, accrued & other liabilities and dividend payable.

2.15 Off setting of financial instruments

Financial assets and liabilities are off-set and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and the company intends either to settle on a net basis or realise the assets and settle the liabilities simultaneously.

2.16 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise of cash-in-hand and balances at banks.

2.17 Related party transactions

Sales, purchases and other transactions with related parties are made at arm's length prices determined in accordance with the comparable uncontrolled price method .

	2004 Rupees	2003 Rupees
3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL		
8,850,937 ordinary shares of Rs.10 each issued for cash	88,509,370	88,509,370
4,424,063 ordinary shares of Rs. 10 each issued by conversion of sponsors' loans	44,240,630	44,240,630
13,275,000	132,750,000	132,750,000
4. SURPLUS ON REVALUATION OF FIXED ASSETS		
Balance as at 01 October,	255,132,835	313,738,780
Add surplus for the year	36,997,526	-
Less: Transferred to profit and loss on account of incremental depreciation charged in:		
- prior years'	-	45,338,804
- current year	14,266,710	13,267,141
	14,266,710	58,605,945
	277,863,651	255,132,835

	Note	2004 Rupees	2003 Rupees
LONG TERM FINANCES - Secured			
National Bank of Pakistan (NBP)			
Restructured / rescheduled finances:			
- Demand finance - I (DF - I) - mark-up bearing	5.1	97,290,000	110,790,000
- Demand finance - II (DF - II) - frozen mark-up	5.2	18,583,000	22,114,002
- Packing finance	5.3	10,000,000	-
- Faisal Bank Ltd.	5.3	5,766,000	-
		131,639,000	132,904,002
Less: Current portion grouped under current liabilities			
- Instalments overdue			
- DF-I		-	7,500,000
- DF-II		-	-
- Instalments due within following twelve months			
- DF-I		29,150,000	18,000,000
- DF-II		1,000,000	12,419,002

	30,150,000	37,919,002
	101,489,000	94,985,000

5.1 This loan was restructured and rescheduled in December, 2001, when demand finance I & II were clubbed and total amount of loan was fixed at Rs. 134.790 Million. In subsequent two years i.e., 30-09-2002 & 30-09-2003 payments of Rs. 25.000 Million were made and balance reduced to Rs. 110.790 Million as on 30th September 2003. In the current year the company paid Rs. 7.50 Million against the over due instalments and Rs. 6.000 Million against the current maturity, Thus unpaid current maturity for last year i.e., 30-09-2003 amounted to Rs. 12.000 Million that was not pressed for payment by the bank in view of the revised repayment schedule, made effective from 29th February 2004. As per revised repayment schedule the loan of Rs. 97.290 Million is payable in 36 monthly instalments, commencing from 30-11-2004 extending to 31st January 2008. of which 30 instalments are of equal amount of Rs. 2.650 Million, while the 37 installment is of Rs. 1.890 Million. It carries mark-up rate of 8% p.a. payable in monthly instalments along with the principle. 'NBP, during the current year, reduced mark up rate of DF-1 from 9% to 8% per annum.

5.2 This loan was restructured at Rs. 51.986 Million in December 2001, which represented the un-paid mark-up on DF-I. In the succeeding period up to September 2003 payments aggregating to Rs. 29.872 Million were made and loan balance reduced to Rs. 22.114 Million to said date. This loan is payable in 39 instalments which commenced from November 2004 extending upto 31 st day of January 2008. Thirty six (36) instalments upto 31 October, 2007 are of Rs. .0650 Million each, while other 3 instalments falling due in November, December 2007 & January 2008 are of Rs. 1.410 Million ,3.300 Million and Rs. 3.803 Million respectively. The instalments fixed comprises of following:

- (i) Mark-up payable in respect of DF-I
- (ii) Principle of DF-II

These finances at (Note 5.1 & 5.2) are secured against first charge (5% registered and 95% equitable mortgage) for aggregate long term debt on fixed assets of the Company duly registered with Registrar of the Securities and Exchange Commission of Pakistan (SECP), first charge on stock-in-trade, book debts and other assets of the Company duly registered with SECP, demand promissory note executed by the Company and personal guarantees of two directors and some of the sponsoring shareholders of the Company.

As per rescheduling/restructuring package of NBP:

- (a) The directors' loans to the Company shall be sub-ordinated to NBP's loan and shall not be withdrawn till adjustment of total liabilities.
- (b) The Company has undertaken not to change its corporate structure without the approval of NBP. Failure to comply with the terms of restructuring / rescheduling will entitle NBP to withdraw the financial relief provided and also to initiate the legal steps for recovery of total liabilities.

5.3 Packing Finance loan of Rs. 10.000 Million from National Bank of Pakistan, LPO morahaba of Rs.5.766 Million from Faysal Bank Limited according to management are classified as long term loans by mutual consent of the parties but no such agreement was available for examination by the auditors to confirm the classification of the loans. Even in last year these two loans were classified as short term loans, and in the opinion of auditors these should have classified as short term loans. These loans are secured by hypothecation of stores and spares, stock, raw material lien on export documents first charge on current assets of the company, and personal guarantees of the directors.

6. LONG TERM LOANS-Unsecured

6.1 These represent interest-free loans provided by the Company's Chief Executive and a Director. These loans, however, are being considered by the Company's management as long term.

	Note	2004 Rupees	2003 Rupees
DEFERRED LIABILITIES			
Provision for gratuity	7.1	5,318,589	5,089,322
Sales tax	7.2	60,475,845	-
		65,794,434	5,089,322
7.1 Balance sheet liability/(assets) as on September 30, 2003		5,089,322	4,631,414
Amount recognised during the year		1,239,160	1,727,022
Benefit payments made by the Company		-1,009,893	-12,114
		5,318,589	5,089,322
Present value of defined benefit obligation		5,092,610	
Add: Actuarial gain/less Actuarial losses to be recognized in later periods		37,836	
Add: Benefit payment Due but not paid		188,143	
Less: Past service cost to be recognized in later periods		0	
Total Balance Sheet Liability as on 30th September 2004		5,318,589	

The break up of provision of gratuity for the year is as follows.

Current Service Cost	1,205,037
Interest Cost	371,620
Liability/(Asset) Charged due to Application of IAS- 19	-337,497
Total Amount Chargeable to P&L Account	1,239,160

7.2 (i) It represents sales tax payable on cotton purchased and consists of Rs. 17.471 Million relating to

2002, Rs.32.025 Million to 2003, Rs. 9.487 Million to 2004 ,while Rs. 1.492 Million are of prior to 2002. The liability was not paid as provided under Sales Tax Act, 1990. This liability is as per Collectorate of customs vide its letter no/213/99/text/Rec/ST/8724 dated 11-.06-2004.

(ii) Azam Textile Mills Limited and its associated company (Saritow Spinning Mills Limited) due to financial crises moved to collectorate of customs, sales tax and central excise Multan to allow the companies to pay off their sales tax liability in instalments. The authority allowed the facility sought for vide this letter dated 11 -.06-2004 referred to above, however no installment was paid up till now. It is specifically stated in para (v) that initially all the payments will be utilized for the adjustment of liability of Saritow Spinning Mills Limited.

The liability of ATML was payable in 39 instalments commencing from 25th July, 2004 extending up to 25th September, 2007 as per details below:

	No. of instalments
(a) Instalments due from 25th July to 31 st December, 2005 of Rs. One Million each	18
(b) Instalments due from 1 st January 2006 to 25th August 2007 of Rs. Two Million each	20
(c) Instalments due from 25th August 2007 to 25th September 2007 of Rs. 2.476 Million	1
	39

	2004	2003
	Rupees	Rupees
SHORTTERM FINANCES		
Cash, running, morabaha finances and export refinances - secured	212.5	88,093,502
Temporary bank overdraft - unsecured	-	77,656,085
	88,093,502	399,662
		78,055,747

Securities:

These facilities are secured against first equitable mortgage charge on present and future fixed assets, first registered charge on stock-in-trade, book debts and other assets of the Company, collateral securities in the form of associated companies' shares owned by the directors and shareholders, pledge / hypothecation of stock-in-trade, personal guarantees of the sponsoring directors and some of the shareholders and trust receipts. These facilities are expiring on various dates by 30 September, 2004.

	Note	2004	2003
		Rupees	Rupees
CREDITORS, ACCRUALS AND OTHER LIABILITIES			
Due to an Associated Undertaking:	9.1		
- Saritow Spinning Mills Limited		-	10,173,850
- Kohinoor Industries Limited		493,709	-
- Kohinoor Power Company Limited		4,629,805	-
- Pel Elektron Limited		710,000	-
Creditors		12,475,686	17,582,499
Due to employees against car scheme		337,935	-
Accrued expenses		5,763,165	9,722,200
Advance payments		7,140,565	1,463,535
Security deposits		10,000	20,000
Mark-up on long / short term finances		10,625,445	19,970,731
Sales tax payable - net of refundable		-	63,127,763
Tax deducted at source	9.2	7,679,576	12,374,133
Others		-	656,821
		49,865,886	135,091,532

10. CONTINGENCIES AND COMMITMENTS

10.1 Counter guarantee issued by the Company to its banker outstanding as at 30 September, 2004 was for Rs. 10,000 (2003 :Rs. 10,000).

10.2 Local sales for the accounting year 1996-97 included goods sold to an Associated Undertaking for export. The Company treated these sales as zero rated and claimed the related input sales tax. The Customs, Excise and Sales Tax Appellate Tribunal, Lahore, (the Tribunal) vide its order dated 12 September, 2002 raised a

demand of Rs. 16,144,412 in respect of input tax claimed. The Company deposited sales tax amounting Rs. 10.0 million against the said demand.

The Company had filed a petition in the Lahore High Court under section 47 of the Sales Tax Act, 1990 against the said demand. The Court, vide its order dated 28 July, 2003 decided the case in favour of the Company and set aside the demand raised by the Tribunal. The amount deposited has been accounted for as 'sales tax refundable (note 15). As per letter dated 20th December 2004, of Imtiaz Siddiqui & Associates, the legal advisors, the department has filed an appeal against judgements of Honourable Lahore High Court before Honourable Supreme Court of Pakistan where this issue still pending and rights of company are subject to determination by the Honourable court. However, the operation of judgement of Honourable Lahore High Court was suspended till the decision of appeal by apex Court.

10.3 Commitments for irrevocable letters of credit outstanding as at 30 September, 2004 were for Rs. 30.645 Million (2003 :Rs. Nil).

10.4 Income taxes disputed in appeals are Rs. 60.896 Million. (Refer to Note No. 23).

11.4 Disposal of operating fixed assets:

Particulars	Cost	Accumulated dBook value	Sale proceeds	Gain/ (Loss)	Sold through negotiations
Office Equipment					
Computer	56,000	19,258	36,742	21,000	-15,742 Mr. Zargham Hameed (Ex Employee)
3 Computer Monitors	14,100	3,821	10,279	14,100	3,821 M/s. Arch & D&cor New Muslim Town, Lahore.
Rupees	70,100	23,079	47,021	35,100	-11,921

Note 2004
Rupees

2003
Rupees

STORES, SPARES AND LOOSE TOOLS

Stores		2,268,623	2,794,140		
Spares		2,693,128	2,625,811		
Loose tools		1,625	1,840		
		4,963,376	5,421,791		

Note 2004
Rupees

2003
Rupees

13. STOCK-IN-TRADE

Raw materials		98,926,733	52,586,000		
Work-in-process		5,836,491	4,177,000		
Finished goods		12,782,757	13,815,000		
		117,545,981	70,578,000		

14. TRADEDEBTORS

Secured - export bills		-	1,825,535		
Unsecured - considered good		399,530	8,474,806		
		399,530	10,300,341		

15. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Advances - considered good					
- Executives	15.1	350,006	74,365		
- Employees		828,040	1,135,465		
- Ex-employees and executives		212,166	1,901,405		
- Suppliers	15.2	12,151,977	19,808,435		
Due from Associated Undertakings on account of trading transactions:					
- Kohinoor Power Company Limited		-	3,027,079		
- Saritow Spinning Mills Limited	15.3	5,007,041	-		
- Kohinoor Industries Limited		-	5,859,523		
		5,007,041	8,886,602		
Margin deposits	15.5	5,209,892	589,226		
Prepayments		147,286	124,302		
Tax receivable less provision for income tax	15.6	181,677	980,644		
Export rebate receivable		29,301	566,183		
Sales tax refundable		3,198,878	-		
Sales tax deposited under protest		10,000,000	10,000,000		
Others		40,000	40,000		
		37,356,264	44,106,627		

Note 2004
Rupees

2003
Rupees

15.6 Tax receivable comprises the following:

Opening Balance at the beginning of the period		14,264,157	12,164,000
Add Deducted / paid during the year		2,351,408	4,834,284
Less Adjustments		-1,422,505	-2,734,127
		15,193,060	14,264,157
Provision for taxation	15.7	-15,011,383	-13,283,513
		181,677	980,644
15.7 Provision for taxation			
Opening Balance at the beginning of the period		13,283,513	12,234,600
Admitted tax liability for assessment year		-	-2,734,127
		13,283,513	9,500,473
Provision for:			
- Current year		1,727,870	3,716,000
- Prior year		-	67,040
		1,727,870	3,783,040
		15,011,383	13,283,513
16. CASH AND BANK BALANCES			
Cash-in-hand		1,812	80,720
Cash at banks on current accounts	16.2	557,896	953,227
		559,708	1,033,947
17. SALES -Net			
Local:			
Yarn		318,277,897	396,980,573
Waste		7,909,899	20,598,093
		326,187,796	417,578,666
Export:			
Yarn		-	212,717,863
Export rebate		-	274,316
		-	212,992,179
		326,187,796	630,570,845
Less:			
Sales tax		42,543,564	54,466,970
Commission		-	5,447,984
		42,543,564	59,914,954
		283,644,232	570,655,891
	Note	2004	2003
		Rupees	Rupees
18. COST OF SALES			
Raw materials consumed	18.1	160,498,365	356,949,467
Packing materials consumed		4,051,867	8,836,662
Salaries, wages and benefits	18.2	22,852,630	28,446,343
Power and fuel		46,783,061	55,397,985
Stores consumed		5,437,838	7,495,080
Yarn processing charges		148,599	6,866,677
Repair and maintenance		1,444,903	1,701,812
Vehicles' running and maintenance		558,174	362,811
Communication		145,027	72,462
Insurance		701,601	1,537,293
Depreciation		23,680,158	22,103,970
Other expenses		477,515	584,416
		266,779,738	490,354,978
Adjustment of work-in-process			
Opening		4,177,000	4,326,000
Closing		-5,836,491	-4,177,000
		-1,659,491	149,000
Cost of goods manufactured		265,120,247	490,503,978
Finished goods purchased		93,611	64,986,375
Adjustment of finished goods			
Opening stock		13,815,000	23,617,000
Closing stock		-12,782,757	-13,815,000
		1,032,243	9,802,000
		266,246,101	565,292,353
18.1 Raw materials consumed			
Opening stock		52,586,000	38,430,000
Purchases - for manufacturing		268,533,425	538,850,973
		268,533,425	538,850,973
		321,119,425	577,280,973
Less: - Closing stock		98,926,733	52,586,000
- Sale of raw materials	18.1.1	61,725,161	165,300,805
- Quality claim		-	2,809,350
		160,651,894	220,696,155

		160,467,531	356,584,818
Cotton cess		30,834	364,649
		160,498,365	356,949,467
	Note	2004	2003
		Rupees	Rupees
19. ADMINISTRATIVE AND SELLING EXPENSES			
Administrative:			
Salaries and benefits	19.1	9,944,207	8,612,628
Travelling and conveyance	19.2	919,560	404,532
Entertainment		186,778	255,913
Communication		830,608	1,220,136
Printing and stationery		406,287	465,073
Rent, rates and taxes		445,050	51,830
Repair and maintenance		187,957	138,749
Insurance		99,174	32,413
Advertisement		40,000	45,150
Vehicles' running and maintenance		494,716	813,452
Fees and subscription		245,430	234,881
Depreciation		607,184	566,768
Auditors' remuneration			
Audit fee		140,000	75,000
Consultancy services		135,000	35,000
		275,000	110,000
Legal and professional charges (other than Auditors')		467,000	167,500
Electricity		412,702	693,989
General		135,550	42,654
		15,697,203	13,855,668
Selling:			
Salaries and benefits	19.1	702,707	1,551,374
Export expenses (including export development surcharge)		-	9,600,999
Communication		230,402	243,062
Printing and stationery		29,407	82,123
Repair and maintenance		7,675	52,770
Travelling and conveyance		132,550	761,478
Vehicles' running and maintenance		134,492	203,919
Insurance		-	159,951
Others		72,797	85,668
		1,310,029	12,741,344
		17,007,232	26,597,012
	Note	2004	2003
		Rupees	Rupees
20. OTHER INCOME			
Sale of scrap		223,508	1,790,484
Gain on sale of fixed assets		-	317,252
Exchange fluctuation gain		1,709	17,504
Unclaimed balances written back		339,922	-
		565,139	2,125,240
21. FINANCIAL CHARGES			
Mark-up on:			
- long term finances		9,471,474	14,719,506
- short term finances		6,291,731	16,661,196
Bank charges		608,935	1,324,406
Additional charges for delayed payments on sales tax		1,083,493	-
		17,455,633	32,705,108
22. MISCELLANEOUS CHARGES			
Loss on sale of fixed assets		11,921	-
Donations (without directors' interest)		-	2300
		11,921	2300
24. EARNINGS PER SHARE			
Earnings for the year		-18,239,386	-55,598,682
		Number of Shares	
Number of ordinary shares issued and subscribed at the end of the year		13,275,000	13,275,000
		Rupees	
Loss per share		-1.37	-4.19
25. NUMBER OF EMPLOYEES			
Total number of employees at the year-end		471	540

27. REMUNERATION OF DIRECTORS AND EXECUTIVES

DIRECTORS EXECUTIVES

PARTICULARS

	2004	2003	2004	2003
Managerial remuneration	1,560,000	1,560,000	1,080,300	1,293,420
House rent	684,000	684,000	549,968	581,964
Provision for gratuity	200,000	200,000	155,600	142,650
Utilities	156,000	156,000	126,455	406,321
Rupees:	2,600,000	2,600,000	1,912,323	2,424,355
Number of persons	1	1	5	5

Note

2004

2003

Rupees

Rupees

Sales:				
-Yarn			0	200,284,175
- Cotton			70,985,028	191,534,805
- Stores			566,467	997,257
Purchases:				
-Yarn			107,652	74,734,333
- Cotton			43,568,289	8,888,805
- Stores			2,549,133	1,277,320
- Electricity			53,722,069	63,951,155
- Purchase of fixed assets			0	3,047,700

THE COMPANIES ORDINANCE, 1984

PATTERN OF SHAREHOLDING AS AT SEPTEMBER 30, 2004

NUMBER OF SHAREHOLDERS	SHAREHOLDING		TOTAL SHARES HELD
	FROM	TO	
128	1	100	8,138
211	101	500	72,975
149	501	1000	113,466
158	1001	5000	388,957
32	5001	10000	225,000
6	10001	15000	78,900
5	15001	20000	85,275
9	20001	25000	209,975
1	25001	30000	28,200
4	30001	35000	130,875
1	40001	45000	40,750
1	60001	65000	65,000
1	80001	85000	81,875
1	115001	120000	120,000
1	195001	200000	200,000
2	290001	295000	585,702
1	795001	800000	797,500
1	1070001	1075000	1,071,281
1	1165001	1170000	1,167,019
1	1430001	1435000	1,433,000
1	2040001	2045000	2,042,845
1	4325001	4330000	4,328,167
716			13,275,000