ZEPHYR

TEXTILES LIMITED

# ANNUAL REPORT 2013

# Contents

# Company Information

| | | |
|---|---|---|
| BOARD OF DIRECTORS: | Mr. Mussaid Hanif | CEO |
| | Mr. Burhan Muhammad Khan | |
| | Mr. Arbab Muhammad Khan | |
| | Mr. Gauhar Abdul Hai | |
| | Mr. Manzar Us Salam | |
| | Ms. Tehniyat Mussaid | |
| | Ms. Sabah Burhan | |
| AUDIT COMMITTEE: | Ms. Tehniyat Mussaid | Chairperson/Member |
| | Mr. Arbab Muhammad Khan | Member |
| | Ms. Sabah Burhan | Member |
| CHIEF FINANCIAL OFFICER: | Mr. Gauhar Abdul Hai | |
| COMPANY SECRETARY: | Mr. Naveed Aleem | |
| AUDITORS: | Azhar Zafar & Company | Chartered Accountants |
| LEGAL ADVISOR: | Cornelius Lane & Mufti<br>Advocate and Solicitors<br>Nawa-e-Waqt House, 4 Shahrah-e-Fatima Jinnah,<br>Lahore - 54000, Pakistan | |
| BANKERS TO THE COMPANY: | Habib Bank Limited | National Bank of Pakistan |
| | Allied Bank Limited | NIB Bank Limited |
| | Askari Bank Limited | The Bank Of Punjab |
| | United Bank Limited | Faysal Bank Limited |
| | Habib Metropolitan Bank Limited | Meezan Bank Limited |
| | Bank Al Habib Limited | Silk Bank Limited |

| | | |
|---|---|---|
| MILLS: | 1 km, Balloki Bhai Pheru Road<br>Bhai Pheru.<br><br>Phone : 0494 - 512007-9, 513103-5<br>Fax : 0494 - 512011 | (Weaving unit & Power plant) |
| | 63 km, Gulshan Adda,<br>Jumber Khurd, District Kasur, | (Towel Unit) |

| | |
|---|---|
| REGISTERED & HEAD OFFICE: | 3rd Floor, IEP Building,<br>97 B/D-I, Gulberg III,<br>Lahore<br>E-mail: info@zephyr.com.pk<br>Website: www.zephyr.com.pk<br><br>Phone : 042 35782905 - 15<br>Fax : 042 35753202 |

# Notice of Annual General Meeting

Notice is hereby given that the 15th Annual General Meeting of the shareholders of Zephyr Textiles Limited will be held at the Registered Office of the Company, 3rd Floor IEP Building, 97 B/D-I, Gulberg III, Lahore on October 31, 2013, Thursday at 11:30 AM to transact the following business:

1. To confirm the minutes of the last Annual General Meeting dated October 31, 2012.

2. To receive, consider and adopt the audited accounts of the company for the year ended June 30, 2013 together with the Directors' and Auditor's report thereon.

3. To appoint auditors for the year ending June 30, 2014 and to fix their remuneration. The present Auditors M/S Azhar Zafar & Company, Chartered Accountants, retire and being eligible offer themselves for reappointment.

4. To transact any other business with the permission of the Chair.

By order of the Board

Lahore:
October 09, 2013

Naveed Aleem
Company Secretary

NOTES:

1. Share transfer books of the company will remain closed from October 24, 2013 to October 31, 2013 (both days inclusive) and no transfer will be accepted during this period.

2. A Shareholder entitled to attend and vote at this meeting may appoint another shareholder as his/her proxy to attend and vote as his/her proxy to attend and vote on his/her behalf. The instrument appointing a proxy and the power of attorney or other authority under which it is signed or a notarially certified copy of the power of attorney must be received at the registered office of the company, duly stamped, signed and witnessed not later than 48 hours before the meeting.

3. Shareholders whose shares are deposited with Central Depository Company (CDC) are requested to bring their Computerized National Identity Card (CNIC) along with their Account Number in CDC 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 it has been provided earlier) at the time of meeting.

4. In case of proxy for and individual beneficial owner of CDC attested copies of beneficial owner's NIC or passport, account and participants ID numbers must be deposited along with the form of proxy. Representatives of corporate members should bring the usual documents required for such purpose.

5. Shareholders are requested to notify any change in their addresses immediately.

# Directors' Report

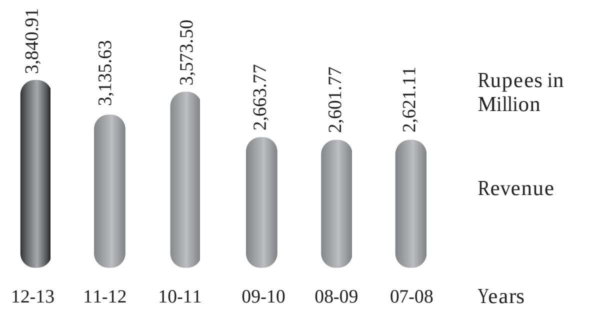
Directors of Zephyr Textiles Limited ("the Company") are pleased to present the annual report of the Company for the year ended 30 June 2013 along with the financial statements and auditors' report thereon.

## Operating financial results

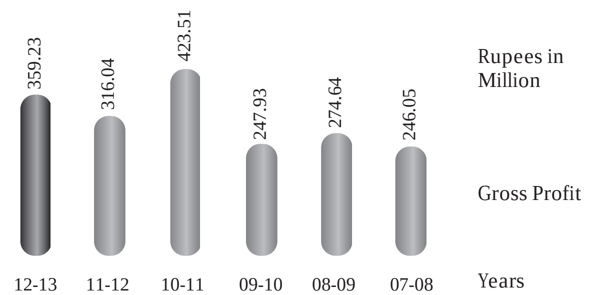
During the year, the Company has achieved healthy growth in its revenues and profits. After tax profit of your Company for the year ended 30 June 2013 has increased to Rs. 114,260,897 as compared to Rs. 14,928,943 for the corresponding year, showing an increase of 665.36 %. Similarly, the gross profit for the current year has increased to Rs. 359,233,736 as compared to Rs. 316,040,587, showing an increase of 13.67%, for the corresponding year.

| Financial highlights | 2013 | 2012 | Increase % |
|---|---|---|---|
| Net sales | 3,840,907,094 | 3,135,629,471 | 22.49 |
| Gross profit | 359,233,736 | 316,040,587 | 13.67 |
| Pre-tax profit | 122,784,446 | 35,381,370 | 247.03 |
| After tax profit | 114,260,897 | 14,928,943 | 665.36 |
| Gross profit ratio to sales (%) | 9.35 | 10.08 | |
| After tax profit ratio to sales (%) | 2.97 | 0.47 | |
| Earnings per share (Rs.) | 1.92 | 0.25 | |

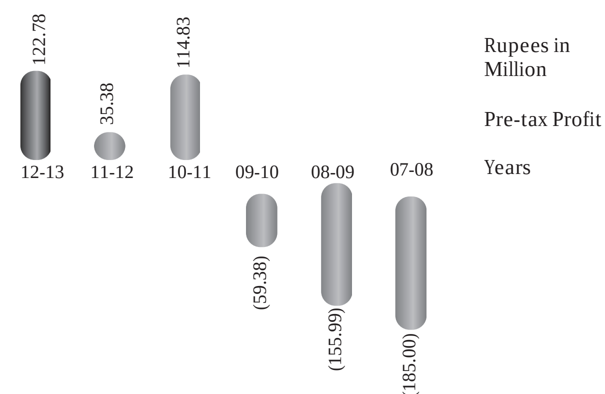
The significant increase in sales revenue and net profit is mainly attributable to good sales mix of products, increase in sale prices of the products manufactured and sold by the Company and devaluation. All business segments of the Company have been able to realize benefit during the current year and have contributed towards the better results.




However, the gross profit margin of the Company has decreased to 9.35 % in the current year from 10.08 % in the previous year. The decrease in gross profit margin is mainly due to increase in electricity generation cost due to excessive use of diesel and switching over to WAPDA, during the frequent shutdown of gas supply. This additional cost could not be fully passed on to our business customers.

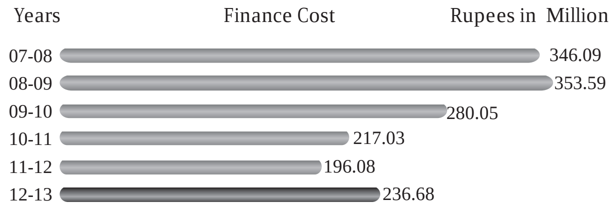



The pre-tax profit of the Company has increased by 247.03% (June 2012: Rs. 35.381 million, June 2013: Rs. 122.784 million) in the current year compared to the corresponding year. Other operating income in the current year has increased substantially by 243.08% (June 2012: Rs. 42.964 million, June 2013: Rs. 236.684 million) mainly on account of notional gain arising due to interest free loan from the BOP amounting to Rs. 136.429 million.



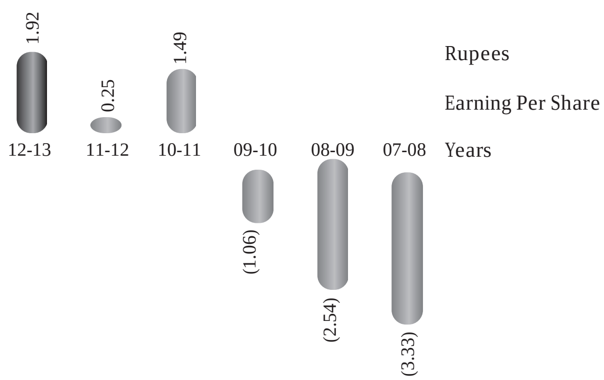
The finance cost of the Company has increased by 20.71% (June 2012: Rs. 196.080 million, June 2013: Rs. 236.684 million) in the current year compared to the corresponding year. This increase is due to charging Rs.117.178 million

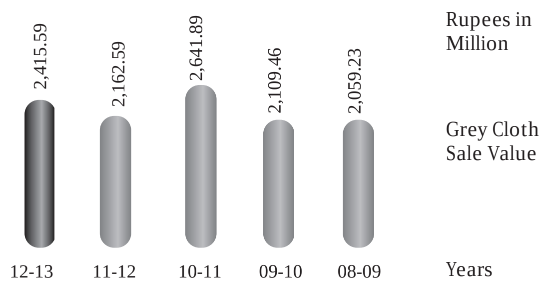
mark up on loans availed from The Bank Of Punjab (BOP) for the last three years which was not recorded earlier in lieu of recovery suit filed by the BOP. The company incorporated the mark up cost on finance availed from BOP after an amicable out of court settlement with the BOP.




The company managed to pay heavy financial charges amounting to Rs.92.611 million. Apart from this the company has also reduced its long term debt by Rs.182.341 million from internal cash generated through operations and better working capital management.

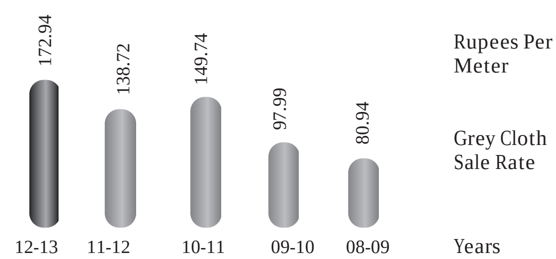
The earnings per share of the company have increased to Rs. 1.92 in 2013 as compared to Rs. 0.25 in 2012.




The fabric manufacturing facilities were running at about 93% efficiency and are capable of producing wide range of apparal and home furnishing fabrics. The sales quantity has dropped to 23.41 million meters in 2013 as compared to 24.98 million meters in 2012 mainly due to low capacity utilization in Dec 2012, April and June 2013 due to gas and electricity load shedding. The management is making efforts to capture new export as well as local market for its products. In spite of decreasing sales quantity, the company managed to attain maximum revenue and good margin due to rising trend in sales prices.

Towel sales and profitability achieved a significant improvement during the year under review. European Union allowed duty free imports of towel and a range of other articles for one year. This facility helped us developing a stronger customer base in Europe. There is possibility that EU will extend this concession for Pakistan from year 2014 onward on permanent basis.




## General market review and future prospects

Globally 2012 - 2013 was a year of recovery from the worst economic recession seen in decades. Road to recovery is slow but steady. Domestically, the situation is not good for the textile industry as compared to previous year. Industry had been compelled to put up with high cost of production resulting from higher energy costs, increased prices of imported inputs due to immense depreciation of Pakistani rupee, double digit inflation and prolonged power and natural gas cuts. We have witnessed extinction of small and cottage industry fighting these demons and if the situation prolongs another year or two, medium sized entities will be disappeared at all.

Your company did well during the current financial year and achieved 22.49 % growth in total net revenues from the corresponding year. As we have stated on directors' reports previously, Zephyr's modern production capability, effective marketing policies and campaigns, strong customer base allows us to grow.

We are keeping a close eye on the unfolding of events and will continue to address the energy issue within the given resources. Your Company is planning to setup purchased / rental diesel gensets to secure continues availability of electricity.

We have formulated a multi-dimensional strategy to tackle all these issues. We are focusing on diversification of our product range with more emphasis on growth in value added finished products.

Our strength lies in our strategic planning and marketing capabilities along with our vertically integrated production facilities that can turn yarn to a grey and final finished consumer product which has always attracted customers' attention nationally and internationally. Our strategy is to expand and diversify our product range by adding value added products and systems.

## Compliance of Corporate and Financial Reporting Framework

The Company complies with the requirements of best practices of Corporate and Financial Reporting Framework. In order to protect and enhance the long term value of shareholders, the Board is responsible for overall Corporate Governance of the company including approving strategic policies and decision, capital expenditures, appointing, removing and creating succession policies. In compliance with Code of Corporate Governance following statements are given for corporate and financial reporting framework:

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

Proper books of accounts 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 and there has been no departure there from.

The system of internal control is sound in design and has been effectively implemented and monitored. Ongoing review will continue in future for further improvement in controls.

The Auditors' report to members is unqualified but they have drawn attention to note 1.2 to the accounts which indicates that during the year the Company has earned profit of Rs. 114.261 million (2012: Rs. 14.929 million), however there are accumulated losses of Rs. 31.341 million (2012: Rs. 165.554 million) as at the year end, and, as of that date, the Company's current liabilities exceeded its current assets by Rs. 514.195 million (2012: Rs. 882.131 million). The Company has also not repaid certain over dues claimed by the banks due to ongoing negotiations/settlement with banks. Continuation of the Company as a going concern is dependent on its ability to attain satisfactory levels of profitability in the future and support of financial institutions by restructuring of liabilities and availability of adequate working capital from the principal lenders and sponsors of the Company.

To substantiate its going concern assumption, during last year the management has been successful in reducing accumulated losses and getting its loans restructured/settled with its lenders; a restructuring arrangement has also been implemented with The Bank Of Punjab (BOP) and the Company is implementing the same (refer note 8.2 & 8.3) which is the result of an out of court amicable settlement of the case with The Bank of Punjab. Further the restructuring/rescheduling with the National Bank of Pakistan (NBP) has also been finalized and at advance stage pending for approval from NBP authorities. The company has paid partial amount towards agreed restructuring terms. These financial statements have been prepared on a going concern basis on the grounds that the Company will be able to achieve satisfactory levels of profitability in the future based on the plans drawn up by the management for this purpose, bringing its liabilities to serviceable levels upon restructuring/settlements of loans and availability of adequate working capital from its lenders and sponsors.

The financial statements consequently do not include any adjustment relating to the realization of the assets and liquidation of its liabilities that might be necessary would the Company be unable to continue as a going concern.

There has been no material departure from the best practices of corporate governance.

There has been no trading of shares by CEO, Directors, CFO, Company Secretary, their spouses and minor children, during the year other than that disclosed in pattern of share holding.

The company operates an unfunded gratuity scheme (defined benefit plan) covering all eligible employees, payable at the cessation of employment.

Key operating and financial data of last six years is annexed herewith.

## Board Meetings

During the year under review, in aggregate 4 meetings of the Board of Directors were held and the attendance of the directors was as under:-

| Name of Directors | Meetings attended |
|---|---|
| Mr. Mussaid Hanif | 4 |
| Mr. Burhan Muhammad Khan | 4 |
| Mr. Arbab Muhammad Khan | 4 |
| Mr. Gauhar Abdul Hai | 4 |
| Mr. Manzar Ul Islam | 4 |
| Ms. Tehniyat Mussaid | 4 |
| Ms. Sabah Burhan | 4 |

## Audit Committee Meetings

During the year under review, in aggregate 4 meetings of the Audit Committee were held and the attendance of the directors was as under:-

| Name of Directors | Meetings attended |
|---|---|
| Ms. Tehniyat Mussaid - Chairperson | 4 |
| Mr. Arbab Muhammad Khan - Member | 4 |
| Ms. Sabah Burhan - Member | 4 |

## Pattern of Shareholding

The statement of shareholding of the company as on June 30, 2013 is annexed with this report. This statement is in compliance with the requirement of the Code of Corporate Governance and the Companies Ordinance, 1984.

## Dividend

The Board of Directors has not recommended any dividend for the period under review. (2012: Nill per share) for the year ended June 30, 2013.

The Board of Directors had recommended to pay 10% cash dividend to the shareholders of the Company for the year ended June 30, 2011, wherein the Directors of the Company have waived their right to receive this dividend. This was duly approved by the shareholders of the Company in 13th annual general meeting held on October 31, 2011. The Bank of Punjab obtained a stay order for non payment of such dividend from the Honorable Lahore High Court till repayment of its loans and the matter was pending adjudication. After an amicable out of court settlement, dividend for the year ended June 2011 will be dispatched shortly after withdrawal of suit by BOP from the Honorable Lahore High Court.

Pending the decision of the Honorable Lahore High Court, the Company is maintaining this amount as the liability for dividend payable and the funds are being maintained in escrow account (refer to notes 14.7 and 24.1).

## Audit Committee

The committee comprises of 3 members of whom 2 are non-executive directors. The names of its members are given in Company Information. The committee meets at least every quarter for review of audit report, interim and annual financial results prior to the approval of the Board.

## Human Resource and Remuneration Committee

The board of Directors has formed Human Resource and Remuneration Committee. The committee consists of three members. Majority of members including chairman is non executive directors. The committee is responsible for making recommendation to the board of directors for:

A sound plan of organization for the company.
An effective employees' development programme.
Sound compensation and benefit plans, etc.

## Auditors

The present Auditors M/s Azhar Zafar & Company, Chartered Accountants, retire and being eligible offer themselves for reappointment as Auditors of the company for the year ending June 30, 2014.

## Acknowledgement

Finally the directors would like to extend there gratitude to the employees of the company for their team work, commitments, integrity and professionalism in trying to achieve the targets of the company.

For and on behalf of the Board of Directors

Lahore
September 28, 2013

MUSSAID HANIF
Chief Executive

# Key Operating and Financial Data of Last Six Years

| | June 30, 2013 | June 30, 2012 | June 30, 2011 | June 30, 2010 | June 30, 2009 | June 30, 2008 |
|---|---|---|---|---|---|---|
| PROFIT AND LOSS | | | | | | |
| Sales | 3,840,907 | 3,135,629 | 3,573,505 | 2,663,771 | 2,601,772 | 2,621,107 |
| Cost of Sales | 3,481,673 | 2,819,589 | 3,149,998 | 2,415,837 | 2,327,132 | 2,375,056 |
| Gross Profit | 359,234 | 316,041 | 423,507 | 247,934 | 274,640 | 246,051 |
| Operating Profit plus other income | 359,468 | 231,462 | 331,858 | 220,676 | 197,598 | 161,095 |
| Financial & Other charges | 236,684 | 196,080 | 217,027 | 280,054 | 353,589 | 346,093 |
| Taxation | 8,524 | 20,452 | 26,183 | 3,775 | (4,994) | 13,161 |
| Net Profit after tax | 114,261 | 14,929 | 88,648 | (63,154) | (150,997) | (198,159) |
| BALANCE SHEET | | | | | | |
| Capital | 594,287 | 594,287 | 594,287 | 594,287 | 594,287 | 594,287 |
| Share subscription money | - | - | - | - | - | - |
| Reserves | (31,341) | (165,554) | (192,134) | (302,633) | (263,638) | (139,168) |
| Surplus on revaluation of fixed assets | 451,216 | 239,867 | 260,174 | 292,733 | 316,891 | 343,419 |
| Net worth | 1,014,163 | 668,600 | 662,328 | 584,387 | 647,540 | 798,537 |
| Long Term Liabilities | 322,644 | 74,156 | 262,255 | 459,893 | 694,155 | 683,069 |
| Deferred liabilities | 246,895 | 125,860 | 131,124 | 139,156 | 149,118 | 159,646 |
| Current Liabilities | 1,836,416 | 2,137,103 | 2,139,020 | 2,136,492 | 1,837,373 | 1,905,319 |
| Total Liabilities | 2,405,955 | 2,337,119 | 2,532,399 | 2,735,541 | 2,680,646 | 2,748,033 |
| Total Equity & Liabilities | 3,420,118 | 3,005,720 | 3,194,728 | 3,319,928 | 3,328,186 | 3,546,570 |
| Fixed Assets | 2,013,546 | 1,747,742 | 1,897,172 | 1,972,805 | 2,129,639 | 2,275,204 |
| Capital Work in Progress | 58,840 | - | - | - | - | - |
| Long Term Deposits | 3,299 | 3,004 | 3,004 | 3,066 | 2,712 | 5,009 |
| Current Assets | 1,344,433 | 1,254,973 | 1,294,551 | 1,344,057 | 1,195,835 | 1,266,356 |
| Total Assets | 3,420,118 | 3,005,720 | 3,194,728 | 3,319,928 | 3,328,186 | 3,546,570 |
| INVESTOR INFORMATION | | | | | | |
| Break up value per share (Rs.) | 17.07 | 11.25 | 11.14 | 9.83 | 10.90 | 13.44 |
| Bonus/Cash dividend (Rs. In '000) | - | - | 1 | - | - | - |
| Earning Per Share (Rs.) | 1.92 | 0.25 | 1.49 | (1.06) | (2.54) | (3.33) |
| Return on Equity (%) | 11.27 | 2.23 | 13.38 | (10.81) | (23.32) | (24.82) |
| Return on Assets (%) | 3.34 | 0.50 | 2.77 | (1.90) | (4.54) | (5.59) |
| FINANCIAL RATIOS | | | | | | |
| Gross Margin (%) | 9.35 | 10.08 | 11.85 | 9.31 | 10.56 | 9.39 |
| Net Margin (%) | 2.97 | 0.48 | 2.48 | (2.37) | (5.80) | (7.56) |
| Current Ratio | 0.72 | 0.59 | 0.61 | 0.63 | 0.65 | 0.66 |
| Leverage | 1.85 | 2.98 | 3.25 | 3.80 | 3.53 | 2.93 |
| Long Term Debt : Equity | 52:48 | 53:47 | 54:46 | 58:42 | 54:46 | 51:49 |

# Horizontal Analysis

(Rupees in Millions)

| | 2013 | Variance vs Last Year Increase/ (Decrease)% | 2012 | Variance vs Last Year Increase/ (Decrease)% | 2011 | Variance vs Last Year Increase/ (Decrease)% | 2010 | Variance vs Last Year Increase/ (Decrease)% | 2009 |
|---|---|---|---|---|---|---|---|---|---|
| Operating Results | | | | | | | | | |
| Sales - net | 3,840.91 | 22.49 | 3,135.63 | (12.25) | 3,573.50 | 34.15 | 2,663.77 | 2.38 | 2,601.77 |
| Cost of sales | 3,481.67 | 23.48 | 2,819.59 | (10.49) | 3,150.00 | 30.39 | 2,415.84 | 3.81 | 2,327.13 |
| Gross Profit | 359.23 | 13.67 | 316.04 | (25.38) | 423.51 | 70.81 | 247.93 | (9.72) | 274.64 |
| Distribution cost | 79.08 | 10.51 | 71.56 | 13.11 | 63.27 | 13.14 | 55.92 | (25.03) | 74.59 |
| Administrative expenses | 62.52 | 19.17 | 52.47 | 56.73 | 33.48 | 5.92 | 31.60 | (0.31) | 31.70 |
| Other operating expenses | 5.56 | 58.15 | 3.52 | (59.02) | 8.58 | 190.19 | 2.96 | (63.50) | 8.10 |
| Financial cost | 236.68 | 20.71 | 196.08 | (9.65) | 217.03 | (22.51) | 280.05 | (20.80) | 353.59 |
| Other operating income | 147.40 | 243.08 | 42.96 | 214.19 | 13.67 | (78.37) | 63.22 | 69.26 | 37.35 |
| Profit/(Loss) before taxation | 122.78 | 247.03 | 35.38 | (69.19) | 114.83 | (293.39) | (59.38) | (61.93) | (155.99) |
| Provision for taxation | 8.52 | (58.32) | 20.45 | (21.89) | 26.18 | 593.61 | 3.77 | (175.58) | (4.99) |
| Profit/(Loss) for the year | 114.26 | 665.36 | 14.93 | (83.16) | 88.65 | (240.37) | (63.15) | (58.18) | (151.00) |
| Balance Sheet | | | | | | | | | |
| NON-CURRENT ASSETS | | | | | | | | | |
| Property, plant and equipment | 2,013.55 | 15.21 | 1,747.74 | (3.86) | 1,817.84 | (7.80) | 1,971.66 | (7.32) | 2,127.46 |
| Capital work in progress | 58.84 | - | - | (100.00) | 79.33 | 6,798.18 | 1.15 | (47.17) | 2.18 |
| Long term deposits | 3.30 | 9.81 | 3.00 | - | 3.00 | (2.02) | 3.07 | (51.72) | 6.35 |
| TOTAL NON-CURRENT ASSETS | 2,075.68 | 18.56 | 1,750.75 | (7.86) | 1,900.18 | (3.83) | 1,975.87 | (7.50) | 2,135.99 |
| CURRENT ASSETS | | | | | | | | | |
| Stores, spare parts and loose tools | 105.10 | 10.54 | 95.08 | 33.29 | 71.33 | (0.83) | 71.93 | 41.97 | 50.67 |
| Stock in trade | 670.16 | (7.10) | 721.38 | 7.51 | 670.97 | 6.96 | 627.30 | 3.11 | 608.40 |
| Trade debts | 329.32 | 32.89 | 247.81 | (17.35) | 299.84 | (5.50) | 317.27 | 11.88 | 283.58 |
| Loans and advances | 43.62 | 22.62 | 35.58 | (41.07) | 60.37 | (64.68) | 170.91 | 60.72 | 106.34 |
| Trade deposits and short term prepayments | 100.18 | 44.19 | 69.47 | (19.82) | 86.64 | 17.07 | 74.01 | 5.97 | 69.84 |
| Other receivables | 12.77 | (22.71) | 16.52 | (32.09) | 24.33 | (66.07) | 71.72 | 83.65 | 39.05 |
| Investments | 40.31 | (29.63) | 57.28 | (3.43) | 59.32 | 1,911.49 | 2.95 | (45.27) | 5.39 |
| Cash and bank balances | 42.97 | 262.81 | 11.84 | (45.53) | 21.74 | 172.85 | 7.97 | (72.45) | 28.92 |
| TOTAL CURRENT ASSETS | 1,344.43 | 7.13 | 1,254.97 | (3.06) | 1,294.55 | (3.68) | 1,344.06 | 12.74 | 1,192.20 |
| TOTAL ASSETS | 3,420.12 | 13.79 | 3,005.72 | (5.92) | 3,194.73 | (3.77) | 3,319.93 | (0.25) | 3,328.19 |
| CURRENT LIABILITIES | | | | | | | | | |
| Trade and other payables | 279.34 | 28.55 | 217.29 | (12.83) | 249.27 | (33.50) | 374.84 | 52.54 | 245.73 |
| Accrued mark-up | 199.70 | (4.57) | 209.27 | (4.84) | 219.92 | 56.57 | 140.46 | (18.27) | 171.85 |
| Short term borrowings | 963.81 | (7.01) | 1,036.48 | (8.95) | 1,138.42 | (11.32) | 1,283.69 | (2.82) | 1,320.88 |
| Current portion of long term financing | 393.57 | (41.61) | 674.06 | 26.84 | 531.41 | 57.45 | 337.50 | 241.20 | 98.92 |
| TOTAL CURRENT LIABILITIES | 1,836.41 | (14.07) | 2,137.10 | (0.09) | 2,139.02 | 0.12 | 2,136.49 | 16.28 | 1,837.37 |
| WORKING CAPITAL | (491.98) | (44.23) | (882.13) | 4.46 | (844.47) | 6.57 | (792.44) | 22.82 | (645.18) |
| TOTAL CAPITAL EMPLOYED | 1,583.70 | 82.32 | 868.62 | (17.72) | 1,055.71 | (10.79) | 1,183.44 | (20.62) | 1,490.81 |
| NON-CURRENT LIABILITIES | | | | | | | | | |
| Long term financing | 322.64 | 335.08 | 74.16 | (71.72) | 262.26 | (42.97) | 459.89 | (33.75) | 694.15 |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - |
| Deferred liabilities | 246.90 | 96.17 | 125.86 | (4.01) | 131.12 | (5.77) | 139.16 | (6.68) | 149.12 |
| TOTAL NON-CURRENT LIABILITIES | 569.54 | 184.75 | 200.02 | (49.15) | 393.38 | (34.33) | 599.05 | (28.96) | 843.27 |
| NET WORTH | 1,014.16 | 51.68 | 668.60 | 0.95 | 662.33 | 13.34 | 584.39 | (9.75) | 647.54 |
| NET WORTH REPRESENTED BY | | | | | | | | | |
| Issued, subscribed and paid-up capital | 594.29 | - | 594.29 | - | 594.29 | - | 594.29 | - | 594.29 |
| Accumulated loss | (31.34) | (81.07) | (165.55) | (13.83) | (192.13) | (36.51) | (302.63) | 14.79 | (263.64) |
| Surplus on revaluation of property, plant and equipment | 451.22 | 88.11 | 239.87 | (7.81) | 260.17 | (11.12) | 292.73 | (7.62) | 316.89 |
| | 1,014.16 | 51.68 | 668.60 | 0.95 | 662.33 | 13.34 | 584.39 | (9.75) | 647.54 |
| TOTAL LIABILITIES | 3,420.12 | 13.79 | 3,005.72 | (5.92) | 3,194.73 | (3.77) | 3,319.93 | (0.25) | 3,328.19 |

# Vertical Analysis

(Rupees in Millions)

| | 2013 | % | 2012 | % | 2011 | % | 2010 | % | 2009 | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating Results | | | | | | | | | | |
| Sales - net | 3,840.91 | 100.00 | 3,135.63 | 100.00 | 3,573.50 | 100.00 | 2,663.77 | 100.00 | 2,601.77 | 100.00 |
| Cost of sales | 3,481.67 | 90.65 | 2,819.59 | 89.92 | 3,150.00 | 88.15 | 2,415.84 | 90.69 | 2,327.13 | 89.44 |
| Gross Profit | 359.23 | 9.35 | 316.04 | 10.08 | 423.51 | 11.85 | 247.93 | 9.31 | 274.64 | 10.56 |
| Distribution cost | 79.08 | 2.06 | 71.56 | 2.28 | 63.27 | 1.77 | 55.92 | 2.10 | 74.59 | 2.87 |
| Administrative expenses | 62.52 | 1.63 | 52.47 | 1.67 | 33.48 | 0.94 | 31.60 | 1.19 | 31.70 | 1.22 |
| Other operating expenses | 5.56 | 0.14 | 3.52 | 0.11 | 8.58 | 0.24 | 2.96 | 0.11 | 8.10 | 0.31 |
| Financial cost | 236.68 | 6.16 | 196.08 | 6.25 | 217.03 | 6.07 | 280.05 | 10.51 | 353.59 | 13.59 |
| Other operating income | 147.40 | 3.84 | 42.96 | 1.37 | 13.67 | 0.38 | 63.22 | 2.37 | 37.35 | 1.44 |
| Profit/(Loss) before taxation | 122.78 | 3.20 | 35.38 | 1.13 | 114.83 | 3.21 | (59.38) | (2.23) | (155.99) | (6.00) |
| Provision for taxation | 8.52 | 0.22 | 20.45 | 0.65 | 26.18 | 0.73 | 3.77 | 0.14 | (4.99) | (0.19) |
| Profit/(Loss) for the year | 114.26 | 2.97 | 14.93 | 0.48 | 88.65 | 2.48 | (63.15) | (2.37) | (151.00) | (5.80) |
| Balance Sheet | | | | | | | | | | |
| NON-CURRENT ASSETS | | | | | | | | | | |
| Property, plant and equipment | 2,013.55 | 58.87 | 1,747.74 | 58.15 | 1,817.84 | 56.90 | 1,971.66 | 59.39 | 2,127.46 | 63.92 |
| Capital work in progress | 58.84 | 1.72 | - | - | 79.33 | 2.48 | 1.15 | 0.03 | 2.18 | 0.07 |
| Long term deposits | 3.30 | 0.10 | 3.00 | 0.10 | 3.00 | 0.09 | 3.07 | 0.09 | 6.35 | 0.19 |
| TOTAL NON-CURRENT ASSETS | 2,075.68 | 60.69 | 1,750.75 | 58.25 | 1,900.18 | 59.48 | 1,975.87 | 59.52 | 2,135.99 | 64.18 |
| CURRENT ASSETS | | | | | | | | | | |
| Stores, spare parts and loose tools | 105.10 | 3.07 | 95.08 | 3.16 | 71.33 | 2.23 | 71.93 | 2.17 | 50.67 | 1.52 |
| Stock in trade | 670.16 | 19.59 | 721.38 | 24.00 | 670.97 | 21.00 | 627.30 | 18.89 | 608.40 | 18.28 |
| Trade debts | 329.32 | 9.63 | 247.81 | 8.24 | 299.84 | 9.39 | 317.27 | 9.56 | 283.58 | 8.52 |
| Loans and advances | 43.62 | 1.28 | 35.58 | 1.18 | 60.37 | 1.89 | 170.91 | 5.15 | 106.34 | 3.20 |
| Trade deposits and short term prepayments | 100.18 | 2.93 | 69.47 | 2.31 | 86.64 | 2.71 | 74.01 | 2.23 | 69.84 | 2.10 |
| Other receivables | 12.77 | 0.37 | 16.52 | 0.55 | 24.33 | 0.76 | 71.72 | 2.16 | 39.05 | 1.17 |
| Investments | 40.31 | 1.18 | 57.28 | 1.91 | 59.32 | 1.86 | 2.95 | 0.09 | 5.39 | 0.16 |
| Cash and bank balances | 42.97 | 1.26 | 11.84 | 0.39 | 21.74 | 0.68 | 7.97 | 0.24 | 28.92 | 0.87 |
| TOTAL CURRENT ASSETS | 1,344.43 | 39.31 | 1,254.97 | 41.75 | 1,294.55 | 40.52 | 1,344.06 | 40.48 | 1,192.20 | 35.82 |
| TOTAL ASSETS | 3,420.12 | 100.00 | 3,005.72 | 100.00 | 3,194.73 | 100.00 | 3,319.93 | 100.00 | 3,328.19 | 100.00 |
| CURRENT LIABILITIES | | | | | | | | | | |
| Trade and other payables | 279.34 | 8.17 | 217.29 | 7.23 | 249.27 | 7.80 | 374.84 | 11.29 | 245.73 | 7.38 |
| Accrued mark-up | 199.70 | 5.84 | 209.27 | 6.96 | 219.92 | 6.88 | 140.46 | 4.23 | 171.85 | 5.16 |
| Short term borrowings | 963.81 | 28.18 | 1,036.48 | 34.48 | 1,138.42 | 35.63 | 1,283.69 | 38.67 | 1,320.88 | 39.69 |
| Current portion of long term financing | 393.57 | 11.51 | 674.06 | 22.43 | 531.41 | 16.63 | 337.50 | 10.17 | 98.92 | 2.97 |
| TOTAL CURRENT LIABILITIES | 1,836.41 | 53.69 | 2,137.10 | 71.10 | 2,139.02 | 66.95 | 2,136.49 | 64.35 | 1,837.37 | 55.21 |
| WORKING CAPITAL | (491.98) | (14.38) | (882.13) | (29.35) | (844.47) | (26.43) | (792.44) | (23.87) | (645.18) | (19.39) |
| TOTAL CAPITAL EMPLOYED | 1,583.70 | 46.31 | 868.62 | 28.90 | 1,055.71 | 33.05 | 1,183.44 | 35.65 | 1,490.81 | 44.79 |
| NON-CURRENT LIABILITIES | | | | | | | | | | |
| Long term financing | 322.64 | 9.43 | 74.16 | 2.47 | 262.26 | 8.21 | 459.89 | 13.85 | 694.15 | 20.86 |
| Liabilities against assets subject to finance lease | - | | - | - | - | - | - | - | - | - |
| Deferred liabilities | 246.90 | 7.22 | 125.86 | 4.19 | 131.12 | 4.10 | 139.16 | 4.19 | 149.12 | 4.48 |
| TOTAL NON-CURRENT LIABILITIES | 569.54 | 16.65 | 200.02 | 6.65 | 393.38 | 12.31 | 599.05 | 18.04 | 843.27 | 25.34 |
| NET WORTH | 1,014.16 | 29.65 | 668.60 | 22.24 | 662.33 | 20.73 | 584.39 | 17.60 | 647.54 | 19.46 |
| NET WORTH REPRESENTED BY | | | | | | | | | | |
| Issued, subscribed and paid-up capital | 594.29 | 17.38 | 594.29 | 19.77 | 594.29 | 18.60 | 594.29 | 17.90 | 594.29 | 17.86 |
| Accumulated loss | (31.34) | (0.92) | (165.55) | (5.51) | (192.13) | (6.01) | (302.63) | (9.12) | (263.64) | (7.92) |
| Surplus on revaluation of property, plant and equipment | 451.22 | 13.19 | 239.87 | 7.98 | 260.17 | 8.14 | 292.73 | 8.82 | 316.89 | 9.52 |
| | 1,014.16 | 29.65 | 668.60 | 22.24 | 662.33 | 20.73 | 584.39 | 17.60 | 647.54 | 19.46 |
| TOTAL LIABILITIES | 3,420.12 | 100.00 | 3,005.72 | 100.00 | 3,194.73 | 100.00 | 3,319.93 | 100.00 | 3,328.19 | 100.00 |

# Form 34
# Pattern of Share Holding
AS ON JUNE 30, 2013

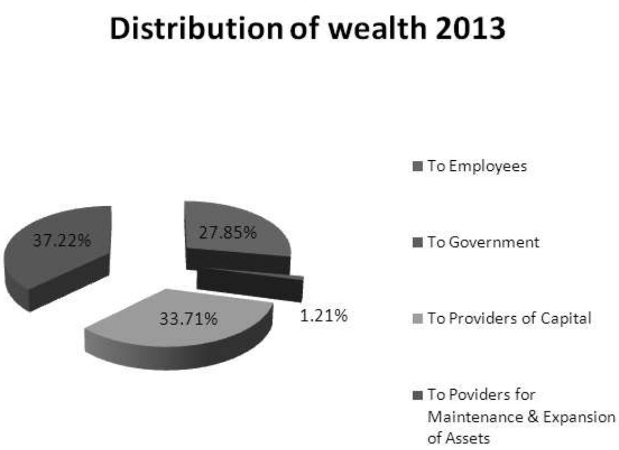
| Number of Shareholders | Shareholding From | Shareholding To | Total Shares held |
|---|---|---|---|
| 51 | 1 | 100 | 1142 |
| 154 | 101 | 500 | 75083 |
| 71 | 501 | 1000 | 70499 |
| 107 | 1001 | 5000 | 296747 |
| 35 | 5001 | 10000 | 291985 |
| 21 | 10001 | 15000 | 265145 |
| 19 | 15001 | 20000 | 352141 |
| 10 | 20001 | 25000 | 233000 |
| 6 | 25001 | 30000 | 172500 |
| 1 | 30001 | 35000 | 33500 |
| 1 | 35001 | 40000 | 39000 |
| 1 | 45001 | 50000 | 50000 |
| 2 | 50001 | 55000 | 105500 |
| 1 | 55001 | 60000 | 60000 |
| 1 | 60001 | 65000 | 64500 |
| 3 | 65001 | 70000 | 207000 |
| 1 | 75001 | 80000 | 76000 |
| 1 | 85001 | 90000 | 90000 |
| 4 | 95001 | 100000 | 399000 |
| 1 | 100001 | 105000 | 102000 |
| 2 | 135001 | 140000 | 277000 |
| 1 | 155001 | 160000 | 156500 |
| 1 | 165001 | 170000 | 170000 |
| 2 | 195001 | 200000 | 400000 |
| 1 | 210001 | 215000 | 212500 |
| 1 | 245001 | 250000 | 250000 |
| 1 | 295001 | 300000 | 300000 |
| 1 | 530001 | 535000 | 532000 |
| 1 | 1560001 | 1565000 | 1561000 |
| 1 | 2165001 | 2170000 | 2166800 |
| 1 | 2465001 | 2470000 | 2465300 |
| 1 | 2855001 | 2860000 | 2857300 |
| 1 | 4295001 | 4300000 | 4296556 |
| 2 | 4430001 | 4435000 | 8866302 |
| 1 | 15105001 | 15110000 | 15109364 |
| 1 | 16820001 | 16825000 | 16823365 |
| 510 | | | 59428729 |

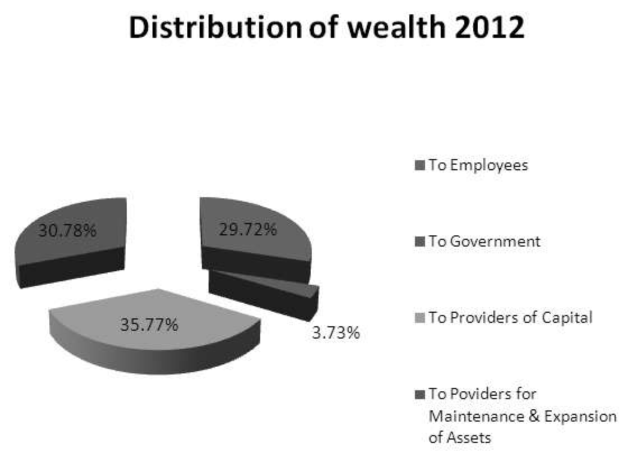
# Categories of Shareholders
AS ON JUNE 30, 2013

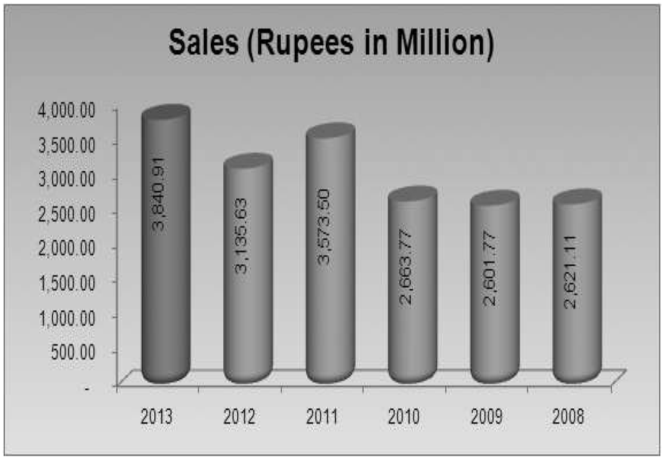
| | Shareholder's Category | No. of Shareholders | Shares held | Percentage |
|---|---|---|---|---|
| 1 | Directors, Chief Executive Officer and their spouses and minor children | | | |
| | Mr. Mussaid Hanif | 1 | 21,256,516 | 35.7681 |
| | Mr. Burhan Muhammad Khan | 1 | 19,542,515 | 32.8840 |
| | Mr. Arbab Muhammad Khan | 1 | 2,857,300 | 4.8079 |
| | Mr. Gauhar Abdul Hai | 1 | 20,000 | 0.0337 |
| | Mr. Syed Manzar Ul Islam | 1 | 303,000 | 0.5099 |
| | Ms. Tehniyat Mussaid | 1 | 4,026,300 | 6.7750 |
| | Ms. Sabah Burhan | 1 | 2,766,800 | 4.6557 |
| | | | | - |
| | Total | 7 | 50,772,431 | 85.43 |
| 2 | Banks, Development Financial Institutions, Non-Banking Financial Institutions | 1 | 4,296,556 | 7.23 |
| 3 | General public - Local | 494 | 3,997,242 | 6.73 |
| 4 | General public - Foreign | 2 | 23,000 | 0.04 |
| 5 | Others | 6 | 339,500 | 0.57 |
| | Total | 503 | 8,656,298 | 14.57 |
| | GRAND TOTAL | 510 | 59,428,729 | 100 |

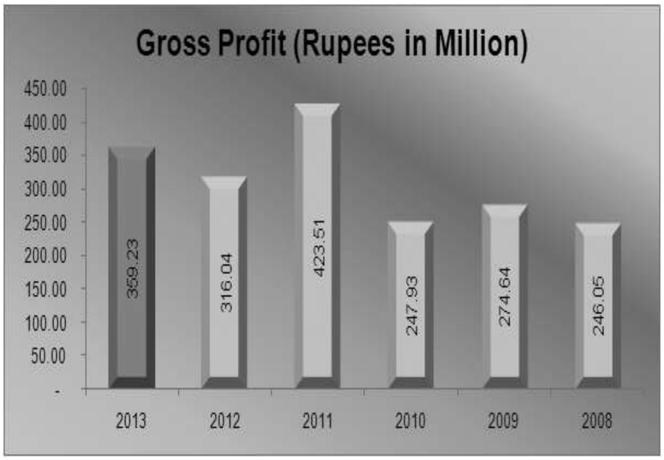
# Statement of Value Addition

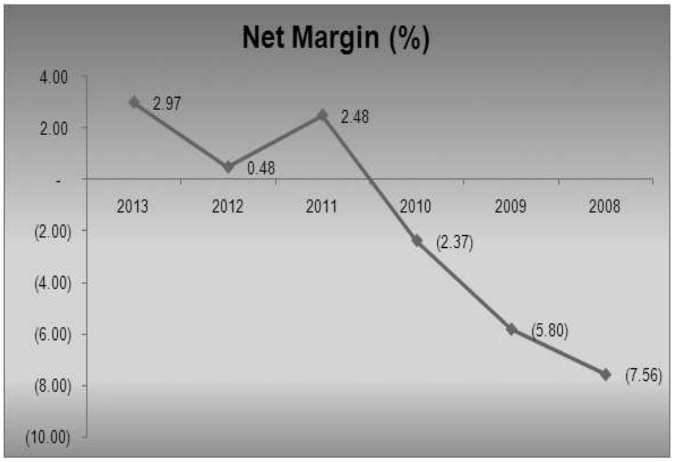
| | 2013 | | 2012 | |
|---|---|---|---|---|
| **WEALTH GENERATED** | | | | |
| Sales Revenue | 3,840,907,094 | | 3,135,629,471 | |
| Other Income | 147,399,457 | | 42,963,748 | |
| | 3,988,306,551 | | 3,178,593,219 | |
| Less: | | | | |
| Material & Services | | | | |
| Material & Factory Costs | 3,168,896,733 | | 2,529,125,457 | - |
| Administrative Costs | 40,252,299 | | 33,510,965 | - |
| Distribution Costs | 77,078,471 | | 67,815,144 | - |
| | 3,286,227,503 | | 2,630,451,566 | |
| | 702,079,048 | 100 | 548,141,653 | 100 |
| **WEALTH DISTRIBUTED** | | | | |
| To Employees | | | | |
| Salaries & Benefits | 195,535,705 | 27.85% | 162,902,752 | 29.72% |
| To Government | | | | |
| Tax | 8,523,549 | 1.21% | 20,452,427 | 3.73% |
| Worker Profit Participation Fund | - | 0.00% | 15,342 | 0.00% |
| Worker Welfare Fund | - | 0.00% | - | 0.00% |
| To Providers of Capital | | | | |
| Dividends to Share Holders | | | | |
| Mark Up/Interest on Borrowed Funds | 236,683,809 | 33.71% | 196,080,169 | 35.77% |
| To Poviders for Maintenance & Expansion of Assets | | | | |
| Depreciation | 147,075,088 | 20.95% | 153,762,020 | 28.05% |
| Profit Retained | 114,260,897 | 16.27% | 14,928,943 | 2.72% |
| | 702,079,048 | | 548,141,653 | |

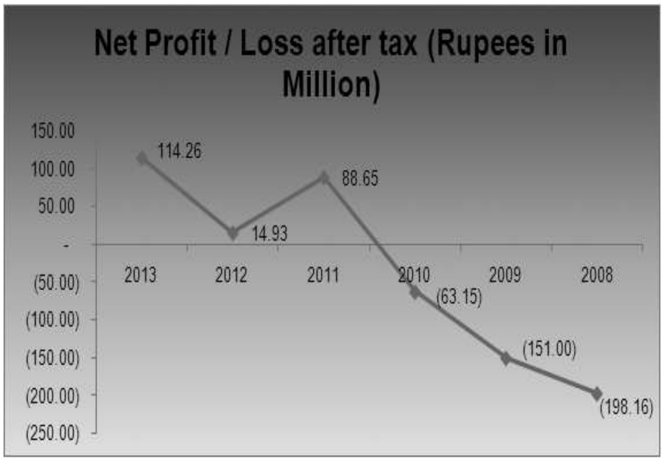


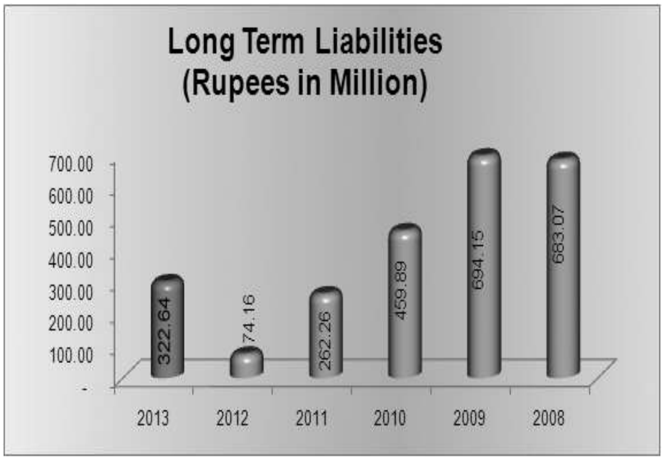



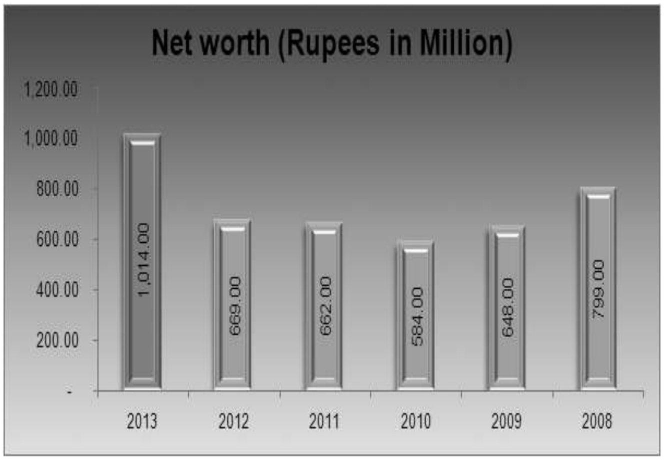

Sales (Rupees in Million)
4,000.00
3,500.00
3,000.00
2,500.00
2,000.00
1,500.00
1,000.00
500.00
-
3,840.91
3,135.63
3,573.50
2,663.77
2,601.77
2,621.11
2013
2012
2011
2010
2009
2008

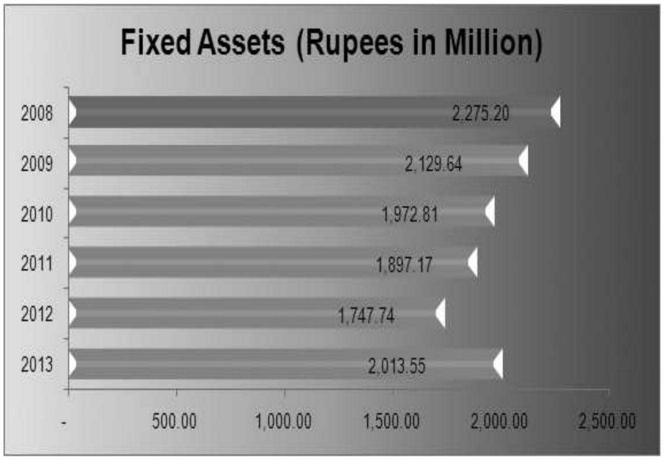

Gross Profit (Rupees in Million)
450.00
400.00
350.00
300.00
250.00
200.00
150.00
100.00
50.00
-
359.23
316.04
423.51
247.93
274.64
246.05
2013
2012
2011
2010
2009
2008

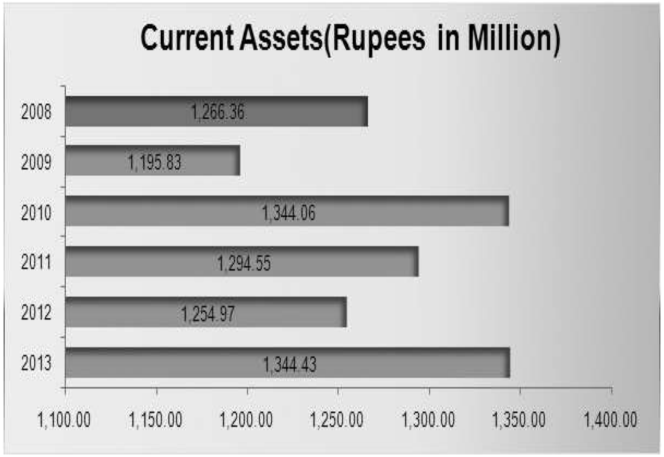

Net Margin (%)
4.00
2.00
-
(2.00)
(4.00)
(6.00)
(8.00)
(10.00)
2.97
0.48
2.48
(2.37)
(5.80)
(7.56)
2013
2012
2011
2010
2009
2008

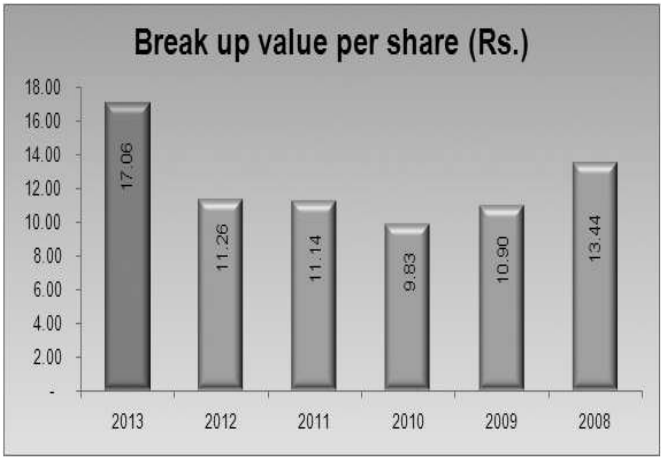

Net Profit / Loss after tax (Rupees in Million)
150.00
100.00
50.00
-
(50.00)
(100.00)
(150.00)
(200.00)
(250.00)
114.26
14.93
88.65
(63.15)
(151.00)
(198.16)
2013
2012
2011
2010
2009
2008

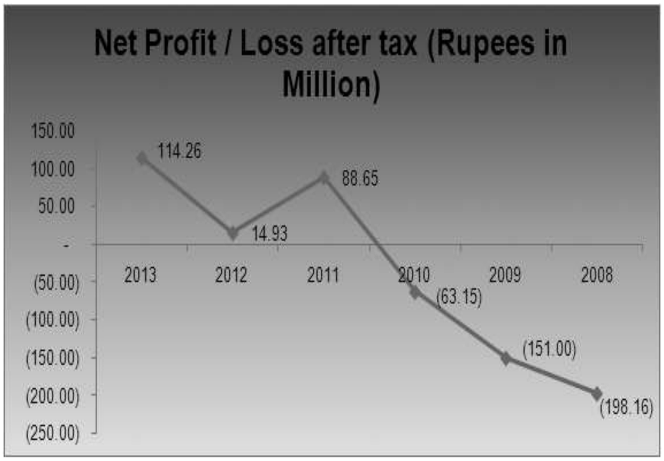

Long Term Liabilities (Rupees in Million)
700.00
600.00
500.00
400.00
300.00
200.00
100.00
-
322.64
74.16
262.26
459.89
694.15
683.07
2013
2012
2011
2010
2009
2008

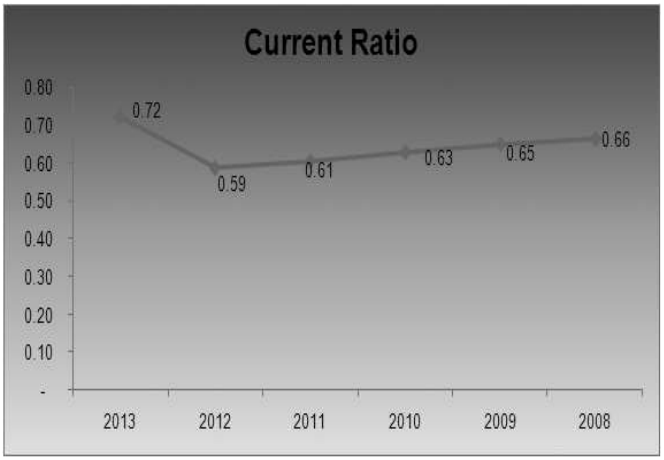

Net worth (Rupees in Million)
1,200.00
1,000.00
800.00
600.00
400.00
200.00
-
1,014.00
669.00
662.00
584.00
648.00
799.00
2013
2012
2011
2010
2009
2008

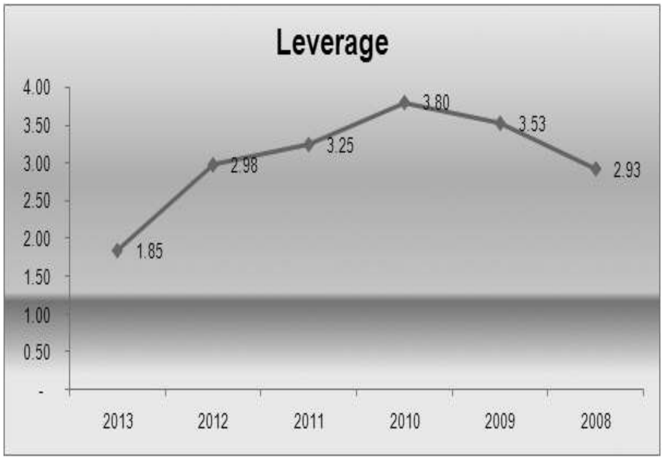

Fixed Assets (Rupees in Million)
2008 2,275.20
2009 2,129.64
2010 1,972.81
2011 1,897.17
2012 1,747.74
2013 2,013.55
- 500.00 1,000.00 1,500.00 2,000.00 2,500.00


Current Assets(Rupees in Million)
2008 1,266.36
2009 1,195.83
2010 1,344.06
2011 1,294.55
2012 1,254.97
2013 1,344.43
1,100.00 1,150.00 1,200.00 1,250.00 1,300.00 1,350.00 1,400.00


Break up value per share (Rs.)
18.00 16.00 14.00 12.00 10.00 8.00 6.00 4.00 2.00 -
17.06 11.26 11.14 9.83 10.90 13.44
2013 2012 2011 2010 2009 2008


Net Profit / Loss after tax (Rupees in Million)
150.00 100.00 50.00 - (50.00) (100.00) (150.00) (200.00) (250.00)
114.26 14.93 88.65 (63.15) (151.00) (198.16)
2013 2012 2011 2010 2009 2008


Current Ratio
0.80 0.70 0.60 0.50 0.40 0.30 0.20 0.10 -
0.72 0.59 0.61 0.63 0.65 0.66
2013 2012 2011 2010 2009 2008


Leverage
4.00 3.50 3.00 2.50 2.00 1.50 1.00 0.50 -
1.85 2.98 3.25 3.80 3.53 2.93
2013 2012 2011 2010 2009 2008

# Statement of Compliance with Code of Corporate Governance
FOR THE YEAR ENDED JUNE 30, 2013

This statement is being presented to comply with the Code of Corporate Governance contained in Regulations No.35 of Listing Regulations of the Karachi Stock Exchange, Chapter XIII of Listing Regulations of the Lahore Stock Exchange and chapter XI of Listing Regulations of the Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practice of corporate governance.

The company has applied the principles contained in the CCG in the following manner:

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

| Category | Names |
|---|---|
| Executive Directors | Mussaid Hanif (CEO)<br>Burhan Muhammad Khan<br>Gauhar Abdul Hai<br>Syed Manzar Us Salam |
| Non-Executive Directors | Arbab Muhammad Khan<br>Tehniat Mussaid<br>Sabah Burhan |

The directors have confirmed that none of them is serving as a director on more than Seven listed companies, including this company.

All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.

A Casual vacancy occurred on the Board was filled up by directors on the same day.

The company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.

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.

All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board.

The meetings of the board were presided over by the CEO 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.

The board arranged in -house training program for its directors during the year.

The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.

The financial statements of the company were duly endorsed by CEO and CFO before approval of the board.

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.

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

The board has formed an audit committee. It comprises 03 members, who are non-executive directors

The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the CCG. The terms of reference of the Committee have been formed and advised to the committee for compliance.

The board has formed an HR and Remuneration committee. It comprises 03 members, of whom one is non-executive director while two are Executive directors.

The Board has set up an effective internal audit function and the persons involved are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review programme of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.

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.

The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange(s).

Material/Price sensitive information has been disseminated among all market participants at once through stock exchange(s).

We confirm that all other material principles enshrined in the CCG have been complied with except certification of a director under Directors' Training Programme (DTP) by the end of financial year: however efforts would be made attain certification by the end of next accounting Year.

For and on behalf of the Board of Directors

Lahore
September 28, 2013

MUSSAID HANIF
Chief Executive

# Review Report to the Members on Statement of Compliance with the 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 for the year ended June 30, 2013 prepared by the Board of Directors of Zephyr Textiles Limited (the Company) to comply with the Listing Regulation No. 35 of Karachi and Lahore Stock Exchanges where the Company is listed.

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

As part of our audit of financial statements we are required to obtain an 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 covers all risks or controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub-Regulation (x) (previously sub-regulation (xiii a)) of Listing Regulation No. 35 of Krachi and Lahore Stock Exchanges requires the Company to place before the Board of Directors for their Consideration and approval the related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm' length price or not.

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

Azhar Zafar & Company
CHARTERED ACCOUNTANTS
Audit Engagement Partner: Zafar Iqbal
Lahore
Dated: September 28, 2013

# Auditors' Report to the Members

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

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

We conducted our audit in accordance with 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 qualified audit 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, 2013 and of the profit, its comprehensive income, cash flows and changes in equity for the year then ended; and

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

We draw attention to Note 1.2 to the financial statements which describes that as at June 30, 2013, the Company's current liabilities exceeded its current assets by Rs. 491.983 million, and its accumulated losses stood at Rs. 31.341 million. These and other conditions stated in note 1.2 to the financial statements indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements have however been prepared on a going concern basis for the reasons as explained in note 1.2 to the financial statements. Our opinion is not qualified in respect of this matter.

The financial statements of the company for the year ended June 30, 2012 were audited by Anjum Asim Shahid Rehman, Chartered Accountants through their Report dated Oct 5, 2012 expressing qualified opinion in regard to suit filed by Bank of Punjab (BOP) against the company in the Honorable Lahore High Court, Lahore for recovery of its outstanding loans and markup aggregating Rs.494.40 Million. The company and BOP has entered into out of Court settlement and filed applications with the Honorable Lahore High Court, Lahore in this regard. Due to settlement packages as per BOP letter dated May 24, 2013, the qualification is removed.

Azhar Zafar & Company
CHARTERED ACCOUNTANTS
Audit Engagement Partner: Zafar Iqbal
Lahore
Dated: September 28, 2013

# Balance Sheet
## AS AT JUNE 30, 2013

| | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Share capital and reserves** | | | |
| Authorized capital | | | |
| 62,500,000 ordinary shares of Rs. 10/- each | | 625,000,000 | 625,000,000 |
| Issued, subscribed and paid-up capital | 6 | 594,287,290 | 594,287,290 |
| Accumulated loss | | (31,340,506) | (165,553,829) |
| **Total equity** | | 562,946,784 | 428,733,461 |
| Surplus on revaluation of property, plant and equipment | 7 | 451,216,271 | 239,866,820 |
| **Liabilities** | | | |
| **Non-current** | | | |
| Long term financing | 8 | 322,644,260 | 74,155,644 |
| Deferred liabilities | 10 | 246,895,115 | 125,859,615 |
| **Total non-current liabilities** | | 569,539,375 | 200,015,259 |
| **Current** | | | |
| Trade and other payables | 11 | 279,335,226 | 217,294,853 |
| Accrued mark-up | 12 | 199,695,886 | 209,269,687 |
| Short term borrowings | 13 | 963,810,392 | 1,036,478,913 |
| Current portion of long term borrowings | 9 | 393,573,971 | 674,059,921 |
| **Total current liabilities** | | 1,836,415,475 | 2,137,103,374 |
| **Contingencies and commitments** | 14 | - | - |
| **Total liabilities** | | 2,405,954,850 | 2,337,118,633 |
| **Total equity and liabilities** | | 3,420,117,905 | 3,005,718,914 |
| **Assets** | | | |
| **Non-current** | | | |
| Property, plant and equipment | 15 | 2,013,545,943 | 1,747,741,937 |
| Capital work in progress | 16 | 58,839,841 | - |
| Long term deposits | 17 | 3,299,170 | 3,004,447 |
| **Total non-current assets** | | 2,075,684,954 | 1,750,746,384 |
| **Current** | | | |
| Stores, spare parts and loose tools | | 105,104,138 | 95,080,930 |
| Stock in trade | 18 | 670,156,815 | 721,379,609 |
| Trade debts | 19 | 329,322,119 | 247,810,852 |
| Loans and advances | 20 | 43,623,353 | 35,575,359 |
| Trade deposits, prepayments and balances with statutory authorities | 21 | 100,175,002 | 69,474,559 |
| Other receivables | 22 | 12,772,118 | 16,524,064 |
| Investments | 23 | 40,311,825 | 57,284,216 |
| Cash and bank balances | 24 | 42,967,581 | 11,842,941 |
| **Total current assets** | | 1,344,432,951 | 1,254,972,530 |
| **Total assets** | | 3,420,117,905 | 3,005,718,914 |

The annexed notes 1 to 41 form an integral part of these financial statements.

DIRECTOR

CHIEF EXECUTIVE

# Profit and Loss Account
## FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| Sales - net | 25 | 3,840,907,094 | 3,135,629,471 |
| Cost of sales | 26 | (3,481,673,358) | (2,819,588,884) |
| Gross profit | | 359,233,736 | 316,040,587 |
| Distribution cost | 27 | (79,082,161) | (71,560,237) |
| Administrative expenses | 28 | (62,523,215) | (52,467,203) |
| Other operating expenses | 29 | (5,559,562) | (3,515,356) |
| Operating profit | | 212,068,798 | 188,497,791 |
| Other operating income | 30 | 147,399,457 | 42,963,748 |
| Operating profit before finance cost | | 359,468,255 | 231,461,539 |
| Finance cost | 31 | (236,683,809) | (196,080,169) |
| Profit before tax | | 122,784,446 | 35,381,370 |
| Taxation | 32 | (8,523,549) | (20,452,427) |
| Profit after taxation | | 114,260,897 | 14,928,943 |
| Earnings per share: | | | |
| Basic and diluted earnings per share | 33 | 1.92 | 0.25 |

The annexed notes 1 to 41 form an integral part of these financial statements.

DIRECTOR

CHIEF EXECUTIVE

# Statement of Comprehensive Income
## FOR THE YEAR ENDED JUNE 30, 2013

| | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|
| Profit after taxation | 114,260,897 | 14,928,943 |
| Other comprehensive income: | | |
| Other comprehensive income for the year | - | - |
| Total comprehensive income for the year | 114,260,897 | 14,928,943 |

The annexed notes 1 to 41 form an integral part of these financial statements.

DIRECTOR

CHIEF EXECUTIVE

# Cash Flow Statement
FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 34 | 381,748,401 | 351,817,146 |
| Finance cost paid | | (92,527,845) | (66,299,595) |
| Taxes paid | | (25,096,214) | (20,154,835) |
| Staff retirement benefits - gratuity paid | | (5,292,400) | (5,800,804) |
| **Net cash flow from operating activities** | | 258,831,942 | 259,561,912 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 2,362,524 | 430,000 |
| Purchase of property, plant and equipment | | (117,655,622) | (23,875,735) |
| Long term deposits | | (294,723) | - |
| Dividends, capital gains and income from investments | | 917,993 | 59,671 |
| Short term investments | | 16,972,391 | 4,531,853 |
| **Net cash flow from investing activities** | | (97,697,437) | (18,854,211) |
| **Cash flows from financing activities** | | | |
| Increase/(decrease) in short term borrowings - net | | 52,331,479 | (101,940,642) |
| Repayment of long term financing - net | | (182,341,344) | (148,668,151) |
| **Net cash flow from financing activities** | | (130,009,865) | (250,608,793) |
| **Net (decrease)/ increase in cash and cash equivalents** | | 31,124,640 | (9,901,093) |
| Cash and cash equivalents at beginning of the year | | 11,842,941 | 21,744,034 |
| **Cash and cash equivalents at end of the year** | | 42,967,581 | 11,842,941 |

The annexed notes 1 to 41 form an integral part of these financial statements.

DIRECTOR

CHIEF EXECUTIVE

# Statement of Changes in Equity
## FOR THE YEAR ENDED JUNE 30, 2013

| | Share capital (Rupees) | Accumulated loss (Rupees) | Total equity (Rupees) |
|---|---|---|---|
| Balance as at July 01, 2011 | 594,287,290 | (192,134,103) | 402,153,187 |
| Total comprehensive income for the year | - | 14,928,943 | 14,928,943 |
| Transfer of surplus on revaluation on disposal of property, plant and equipment | - | 2,732,970 | 2,732,970 |
| Current year incremental depreciation - net of tax | - | 17,574,659 | 17,574,659 |
| Final dividend for the period ended June 30, 2011 | - | (8,656,298) | (8,656,298) |
| Balance as at June 30, 2012 | 594,287,290 | (165,553,829) | 428,733,461 |
| Balance as at July 1, 2012 | 594,287,290 | (165,553,829) | 428,733,461 |
| Total comprehensive income for the year | - | 114,260,897 | 114,260,897 |
| Current year incremental depreciation - net of tax | - | 19,952,426 | 19,952,426 |
| Balance as at June 30, 2013 | 594,287,290 | (31,340,506) | 562,946,784 |

The annexed notes 1 to 41 form an integral part of these financial statements.

DIRECTOR

CHIEF EXECUTIVE

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

## 1 LEGAL STATUS AND NATURE OF BUSINESS

1.1 Zephyr Textiles Limited (the "Company") was incorporated in Pakistan on February 26, 1999 as a private limited company under the Companies Ordinance, 1984. Subsequently on October 04, 2004 it was converted into a public limited company. The Company is principally engaged in the manufacturing, dying and trading of woven cloth which also includes towels. The registered office of the Company is situated at 3rd Floor, IEP Building, 97 B/D-1, Gulberg III, Lahore, Punjab and the manufacturing facilities are located at Bhai Pheru and Jumber. The shares of the Company are listed on the Karachi and Lahore Stock Exchanges in Pakistan.

1.2 During the year the Company has earned profit of Rs. 114.261 million (2012: Rs. 14.929 million), however there are accumulated losses of Rs. 31.341 million (2012: Rs. 165.554 million) as at the year end, and, as of that date, the Company's current liabilities exceeded its current assets by Rs. 491.983 million (2012: Rs. 882.131 million). The Company has also not repaid certain over dues claimed by the banks due to ongoing negotiations/litigation with banks. Continuation of the Company as a going concern is dependent on its ability to attain satisfactory levels of profitability in the future and support of financial institutions by restructuring of liabilities and availability of adequate working capital from the principal lenders and sponsors of the Company.

To substantiate its going concern assumption, over the last few years the management has been successful in getting its loans restructured/settled with its lenders. In addition, an amicable out of court settlement of the case with the Bank of Punjab has been made, without prejudice to the respective contentions (refer note 14.5). These financial statements have been prepared on a going concern basis on the grounds that the Company will be able to achieve satisfactory levels of profitability in the future based on the plans drawn up by the management for this purpose, bringing its liabilities to serviceable levels upon restructuring/settlements of loans and availability of adequate working capital from its lenders and sponsors. The financial statements consequently do not include any adjustment relating to the realization of the assets and liquidation of its liabilities that might be necessary would the Company be unable to continue as a going concern.

## 2 STATEMENT OF COMPLIANCE

These financial statements 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 such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

## 3 BASIS OF PREPARATION

### 3.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for cash flow information and the following:

- staff retirement benefits which are measured at present value of defined benefit obligation plus/(less) any unrecognized actuarial gains/(unrecognized actuarial losses and past service cost) (refer note 5.1);

- free hold land, buildings and plant and machinery which are measured at revalued amount (refer note 5.2); and

- financial assets and financial liabilities which are measured at fair value (refer note 5.5).

### 3.2 Accounting standards, amendments and interpretations, which have been effective and adopted by the Company

During the year, certain amendments to existing standards and interpretations that were issued in prior periods became effective; however, these amendments are either not relevant or did not have any material effect on the financial statements of the Company.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

3.3 New/revised accounting standards and interpretations, and amendments to published accounting standards and interpretations that are not yet effective

The following new interpretation and amendments to standards and interpretations of approved accounting standards are only effective for annual periods beginning from the dates specified below. These amendments and interpretations are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements, other than increased disclosures in certain cases:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards (effective for annual periods beginning on or after 1 January 2013): International Accounting Standards Board (IASB) issued amendments to IFRS 1 in March 2012 and May 2012. March 2012 amendments have added an exception to retrospective application of IFRS 9 Financial Instruments and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. Amendments issued in May 2012 have been made regarding repeated application of IFRS 1 and borrowing costs.

- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2013): the amendments are related to enhancing disclosures about offsetting of financial assets and financial liabilities to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities, on the entity's financial position.

- Amendments to IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015): the amendments provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9.

- Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2013): the amendments provide clarification of the requirements for comparative information.

- Amendments to IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2013): the amendments clarify the accounting for spare parts, stand-by equipment and servicing equipment. As a result of the amendments, the definition of 'property, plant and equipment' in IAS 16 will now be 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.

- Amendments to IAS 34 Interim Financial Reporting (effective for annual periods beginning on or after 1 January 2013): the amendments aligned the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. As a result of these amendments IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment.

- During the year, International Financial Reporting Interpretations Committee issued IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013).

3.4 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is the Company's functional and presentation currency. All financial information presented in Pak Rupees have been rounded to the nearest rupee.

## 4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These estimates and underlying assumptions are recognized in the period in which the estimate is revised and in any future periods affected. Following are the significant estimates and judgments made by the management:

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

4.1 Useful lives and residual values of property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on a regular basis. Any change in the estimates in the future years might affect the carrying amount of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment. Revaluation is carried with sufficient regularity to ensure that the carrying amounts of assets does not differ materially from the fair value.

4.2 Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 5.1 to the financial statements for the valuation of present value of defined benefit obligation. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

4.3 Income taxes

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

4.4 Stock in trade and stores, spare parts and loose tools

The Company reviews the net realizable value (NRV) and impairment of stock in trade and stores, spare parts and loose tools to assess any diminution in the respecting carrying values and whenever required provisions for NRV impairment is made. The difference in provision, if any is recognized in the future period.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Staff retirement benefits

Defined Benefit Plan

The Company operates an unfunded gratuity scheme (defined benefit plan) covering all eligible employees, payable at the cessation of employment. The liability is provided on the basis of actuarial valuation using Projected Unit Credit (PUC) actuarial method while movement in the liability is included in the profit or loss. The Company has a policy of carrying out actuarial valuations annually with the assistance of independent actuarial appraisers to cover the obligations under the scheme.

Actuarial gains and losses related to employees defined plan as at the start of the financial year, exceeding ten percent of the present value of defined benefit obligations as at that date are recognized in the profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise the actuarial gains and losses are not recognized.

The amount recognized in balance sheet represents the present value of the defined benefit obligation adjusted for the actuarial gains and losses.

Principal actuarial assumptions used in the actuarial valuation carried out as at June 30, 2013 are as follows:

| | |
|---|---|
| - Discount rate | 10.50% (2012: 13%) |
| - Expected rate of salary increase in future | 9.50% (2012: 12%) |
| - Average expected remaining working life time of employees | 5 years (2012: 5 years) |

The assumptions have been developed by management with the assistance of independent actuarial appraisers. Discount rate is determined by reference to market yields on government bonds since long term private sector bonds market is not deep enough in Pakistan. Rate of salary growth reflects regular/special increments and any promotional increase.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

## 5.2 Property, plant and equipment

Property, plant and equipment are initially recognized at acquisition cost. Subsequently, property, plant and equipment, except for free hold land, building on free - hold land and plant and machinery are stated at cost less accumulated depreciation and impairment, if any. Free - hold land, building on free - hold land and plant and machinery are stated at revalued amounts less subsequent accumulated depreciation and impairment, if any.

Cost of property, plant and equipment consists of historical cost, borrowing costs pertaining to the erection and other directly attributable costs of bringing the assets to their working condition or for commencement of commercial production.

Depreciation on all the items of property, plant and equipment except for free - hold land is charged to income applying the reducing balance method at the rates specified in Note 15.

Depreciation on additions to property, plant and equipment is charged from the month in which asset become available for use, while on disposals depreciation is charged up to the month of disposal.

The assets' residual values and useful lives are reviewed at each financial year end, and adjusted if impact on depreciation is significant.

Gain/loss on disposal of property, plant and equipment is credited or charged to income in the year of disposal. Normal repairs and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalized.

Any surplus arising on revaluation of property, plant and equipment is credited to the surplus on revaluation of property, plant and equipment account. Revaluation is carried with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of incremental depreciation charged on the revalued assets, the related surplus on revaluation of property, plant and equipment (net of deferred tax) is transferred directly to accumulated (loss)/profit.

## 5.3 Stores, spare parts and loose tools

These are stated at lower of cost using moving average or net realizable value (NRV) method except goods in transit which are stated at cost comprising invoice value plus other charges paid thereon.

## 5.4 Stock in trade

Stock-in-trade is valued at lower of cost and net realizable value except waste which is valued at net realizable value. Materials in transit are stated at cost comprising invoice value plus other charges paid thereon.

Cost of major components of stock in trade is determined as follows:-

| | |
|---|---|
| Raw material | - At weighted average cost |
| Work in process and finished goods | - At prime cost plus appropriate production overheads determined on weighted average basis. |

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale.

## 5.5 Financial instruments

### 5.5.1 Financial assets

Financial assets are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transaction costs.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

Subsequent measurement of financial assets are described below. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

For the purpose of subsequent measurement financial assets of the Company are classified into the following categories upon initial recognition.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. These are included in current assets, except for maturities for greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables with less than twelve months maturities are classified as current assets. The Company's cash and cash equivalents, trade debts, advances, deposits and other receivables fall into this category of financial instruments. Loans and receivables are subject to review for impairment at each reporting date to identify whether there is objective evidence that the financial asset is impaired.

b) Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at a FVTPL upon initial recognition.

Assets in this category are initially measured at cost which is their fair value of the consideration given with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Company's short term investments fall into this category of financial instruments. These investments are measured at subsequent reporting dates at fair value and resulting gains and losses are included in the net profit or loss for the period.

5.5.2 Financial liabilities

The Company's financial liabilities include borrowings and trade and other payables.

Financial liabilities are measured initially at fair value, less attributable transaction costs. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, if any, 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, if any, pending their expenditure on qualifying asset is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized as expense in the period in which they are incurred.

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

5.6 Capital work in progress

Capital work in progress is stated at cost less impairment, if any. Cost of property, plant and equipment consists of historical cost, borrowing costs pertaining to the erection/construction period and other directly attributable costs of bringing the assets to their working condition or for commencement of commercial production. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work in progress. These are transferred to specific assets as and when these assets are available for use.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

### 5.7 Foreign currency translation

Transactions in currencies other than Pak Rupee are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date except where forward exchange contracts have been entered into wherein the rates contracted for are used.

### 5.8 Revenue recognition

Export sales are accounted for on shipment basis. Local sales are recorded on dispatch of goods to customers.

Export rebates are accounted for on accrual basis. Investment and interest income is recognized on time proportion basis.

Dividend income on ordinary shares is recognized when the right to receive dividend has been established.

Capital gains or losses arising on sale of investments are taken to income in the period in which they arise.

Rebate income is recognized on accrual basis.

### 5.9 Taxation

#### Current

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credit, rebates and exemption available, if any, and tax paid on presumptive basis.

#### Deferred

Deferred tax is provided using the balance sheet liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amount for financial reporting purposes. In this regard the effects on deferred taxation of the portion of income subject to final tax regime is also considered in accordance with the requirement of "Technical Release - 27" issued by the Institute of Chartered Accountants of Pakistan.

Deferred income tax asset is recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilized. Deferred tax liabilities are recognized for all major taxable temporary differences.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to the income statements, except in the case of items credited or charged to equity in which case it is included in equity.

### 5.10 Impairment

The carrying amounts of the assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If any such indication exits, the recoverable amount of that asset or group of assets is estimated and impairment loss is recognized in the profit or loss.

### 5.11 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that out flow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

5.12 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

5.13 Related party transactions

Transactions with related parties are priced on arm's length basis. Prices for these transactions are determined on the basis of comparable uncontrolled price method, which sets the price by reference to comparable goods and services sold in an economically comparable market to a buyer unrelated to the seller.

| | | 2013 | 2012 | 2013 | 2012 |
|---|---|---|---|---|---|
| | | (Number of shares) | | (Rupees) | (Rupees) |
| 6 | ISSUED, SUBSCRIBED AND PAID UP CAPITAL | | | | |
| | Ordinary shares of Rs. 10 each issued as fully paid in cash | 51,900,883 | 51,900,883 | 519,008,830 | 519,008,830 |
| | Ordinary shares of Rs. 10 each issued as fully paid bonus shares | 7,527,846 | 7,527,846 | 75,278,460 | 75,278,460 |
| | Total | 59,428,729 | 59,428,729 | 594,287,290 | 594,287,290 |

| | | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|---|
| 7 | SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT | | | |
| | Surplus arising on revaluation | 7.1 | 663,233,241 | 338,392,542 |
| | Less: Deferred tax arising on surplus on revaluation | 7.2 | 212,016,970 | 98,525,722 |
| | Total | | 451,216,271 | 239,866,820 |

7.1 Surplus on revaluation of property plant and equipment

| | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|
| Opening surplus on revaluation of property plant and equipment | 338,392,542 | 369,635,047 |
| Surplus arising on revaluation as on March 31, 2013 | 355,536,739 | - |
| Incremental depreciation on: | | |
| Plant and machinery | (26,037,732) | (25,776,384) |
| Building | (4,658,308) | (2,733,151) |
| | (30,696,040) | (28,509,535) |
| Adjustment on disposal of property, plant and equipment | - | (2,732,970) |
| | (30,696,040) | (31,242,505) |
| Closing surplus on revaluation of property plant and equipment | 663,233,241 | 338,392,542 |

This represents surplus over book value resulting from the revaluation of free - hold land, buildings on free - hold land and plant and machinery. The valuation was carried out by independent valuer as on March 31, 2013 considering the market value.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

| | | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| 7.2 | Relating deferred tax liability | | |
| | Relating deferred tax liability as on July 1, 2012 | 98,525,722 | 109,460,598 |
| | Deferred tax relating to surplus arising on revaluation as on March 31, 2013 | 124,234,862 | - |
| | Tax effect on incremental depreciation | (10,743,614) | (10,934,876) |
| | Related deferred tax liability as on June 30, 2013 | 212,016,970 | 98,525,722 |

## 8 LONG TERM FINANCING- SECURED

| Facility | Note | Repayment commencement | Mark Up | Sanctioned limit (Rs. in million) | Number of installments | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|---|---|---|---|
| Demand Finance - I BOP | 8.1 and 8.2 | May-13 | 3 months Kibor+2% | 196.780 | 54 monthly | 196,779,999 | 196,003,255 |
| Demand Finance - II BOP | 8.1 and 8.3 | Oct-17 | Interest free | 204.379 | 31 monthly | 67,950,247 | 61,490,601 |
| Subtotal - BOP | | | | | | 264,730,247 | 257,493,856 |
| Demand Finance NBP | 8.1 | Mar-11 | 6 Month Kibor+1.5% | 206.595 | 16 Quarterly | 205,956,761 | 203,956,729 |
| Term Finance NBP | 8.1 | Mar-11 | Interest free | 90 | 16 Quarterly | 70,700,000 | 70,700,000 |
| Subtotal - NBP | | | | | | 276,656,761 | 274,656,729 |
| Fixed Assets Finance- II HBL | 8.1 | Sep-11 | SBP REF+2% | 150 | 16 Monthly | - | 15,000,000 |
| Term Finance HBL | 8.1 | Sep-11 | 1 month kibor+1% | 87 | 16 Monthly | - | 23,800,000 |
| Deferred Markup HBL | 8.1 | Jan-13 | Interest free | 111.066 | 18 Monthly | 80,317,600 | 88,204,980 |
| Subtotal - HBL | | | | | | 80,317,600 | 127,004,980 |
| Term Finance UBL | 8.1 | Oct-10 | 5.95% | 91.5 | 18 Monthly | - | 75,930,000 |
| Subtotal - UBL | | | | | | - | 75,930,000 |
| Demand Finance ABL | 8.1 | Oct-12 | 6.00% | 125 | 36 Monthly | 94,513,623 | - |
| Demand Finance ABL | 8.1 | Apr-10 | Interest free | 131.250 | 30 Monthly | - | 13,130,000 |
| Subtotal - ABL | | | | | | 94,513,623 | 13,130,000 |
| Total | | | | | | 716,218,231 | 748,215,565 |
| Current portion | 9 | | | | | (231,717,480) | (329,555,680) |
| Overdue portion | 9 | | | | | (161,856,491) | (344,504,241) |
| Total current portion | | | | | | (393,573,971) | (674,059,921) |
| Total long term portion | | | | | | 322,644,260 | 74,155,644 |

8.1 It represents long term financing from commercial banks (stated above) and the amounts claimed by such institutions. Markup is leviable along with installment as per schedule stated above. The loans are secured against first ranking pari passu charge over current and fixed assets of the Company executed through the joint pari passu agreement with the lenders of the Company and joint memorandum of deposit of title deeds, equitable mortgage charge on land and personal guarantees of the directors of the Company.

8.2 It represents loan from The Bank of Punjab which has been restructured through out of court amicable settlement on terms agreed between the parties.

8.3 It represents restructured loan converted from mark up payable on the facilities from the Bank of Punjab till March 31, 2013. This transaction is a part of amicable out of court settlement as stated in note 8.2 above.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

| | | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|---|
| 9 | CURRENT PORTION OF LONG TERM BORROWINGS | | | |
| | Current portion of long term borrowing | 8 | 231,717,480 | 329,555,680 |
| | Overdue portion of long term borrowing | 8 | 161,856,491 | 344,504,241 |
| | Total | | 393,573,971 | 674,059,921 |
| 10 | DEFERRED LIABILITIES | | | |
| | Deferred tax relating to surplus on revaluation of property, plant and equipment | 7 | 212,016,970 | 98,525,722 |
| | Employee retirement benefits- gratuity | 10.1 to 10.5 | 34,878,145 | 27,333,893 |
| | Total | | 246,895,115 | 125,859,615 |

10.1 The scheme provides for gratuity benefits for all the permanent employees of the Company who attain the minimum qualifying period of one year. Provision has been made on the basis of latest actuarial valuation made as on June 30, 2013 using Projected Unit Credit Actuarial Cost Method.

| | | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|---|
| 10.2 | Movement in liability | | | |
| | Balance at beginning of year | | 27,333,893 | 21,663,266 |
| | Charge for the year | | 12,836,652 | 11,471,431 |
| | Benefits paid during the year | | (5,292,400) | (5,800,804) |
| | Unrecognised actuarial loss | | - | - |
| | Balance at end of year | | 34,878,145 | 27,333,893 |
| 10.3 | Charge for the year | | | |
| | Current service cost | | 9,423,833 | 8,415,868 |
| | Interest cost | | 3,412,819 | 3,055,563 |
| | Actuarial gain | | - | - |
| | Total | | 12,836,652 | 11,471,431 |
| 10.4 | Allocation of charge for the year | | | |
| | Cost of sales | 26.2 | 10,104,940 | 8,739,427 |
| | Administrative expenses | 28.1 | 1,754,464 | 1,738,553 |
| | Distribution Cost | 27.1 | 977,248 | 993,451 |
| | Total | | 12,836,652 | 11,471,431 |

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

| | | Year | Value (Rupees) |
|---|---|---|---|
| 10.5 | Historical information | | |
| | Present value of defined benefit obligation | | |
| | | 2013 | 34,878,145 |
| | | 2012 | 27,333,893 |
| | | 2011 | 21,825,447 |
| | | 2010 | 16,621,534 |
| | | 2009 | 14,754,756 |

## 11 TRADE AND OTHER PAYABLES

| | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| Creditors | | 163,502,438 | 127,283,543 |
| Advances from customers | | 15,703,108 | 22,351,447 |
| Accrued liabilities | | 53,200,823 | 32,002,863 |
| Income tax withheld | | 10,940,141 | 2,009,670 |
| Retention money payable | | 1,000,000 | 1,005,146 |
| Workers' funds | 11.1 & 11.2 | 26,332,418 | 23,985,886 |
| Dividend payable | 11.3 | 8,656,298 | 8,656,298 |
| Total | | 279,335,226 | 217,294,853 |

### 11.1 Workers' funds

| | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| **Workers' profit participation fund** | | | |
| Opening balance | | 21,332,111 | 19,196,250 |
| Provision for the year | | - | 15,342 |
| Interest on funds utilized in Company's business | 31 | 2,346,532 | 2,120,519 |
| Sub total | | 23,678,643 | 21,332,111 |
| **Workers' welfare fund** | | | |
| Opening balance | | 2,653,775 | 2,653,775 |
| Provision for the year | | - | - |
| Sub total | | 2,653,775 | 2,653,775 |
| Total | | 26,332,418 | 23,985,886 |

11.2 Mark up on Workers' Profit Participation Fund has been provided @ 11 % per annum (2012 : 14.93% per annum).

11.3 The Board of Directors had recommended to pay 10% cash dividend to the shareholders of the Company. The Directors of the Company have waived their right to receive this dividend. This was duly approved by the shareholders of the Company in 13th annual general meeting held on October 31, 2011. The Bank of Punjab obtained a stay order for non payment of such dividend from the Honorable Lahore High Court till repayment of its loans and the matter is still pending adjudication. Pending the decision of the Honorable Lahore High Court, the Company is maintaining this amount as the liability for dividend payable and the funds are being maintained in escrow account.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

| | | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| 12 | ACCRUED MARK-UP | | |
| | Long term financing | 84,910,727 | 88,108,133 |
| | Short term borrowings | 114,785,159 | 121,161,554 |
| | Total | 199,695,886 | 209,269,687 |

13 SHORT TERM BORROWINGS- SECURED

| Facility | Note | Sanctioned limit Rupees (M) | Markup rate (Matching KIBOR/ LIBOR+) | Mark-up/ repayment terms | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|---|---|---|
| Pre - shipment | 13.1 & 13.3 | 774 | 9.50% to 12.99% | Quarterly | 774,041,800 | 848,012,595 |
| Running finance | 13.2 & 13.3 | 190 | 10.58% to 12.99% | Quarterly | 189,768,592 | 188,466,318 |
| Total | | | | | 963,810,392 | 1,036,478,913 |

13.1 The Company has aggregate sanctioned limits of finance against packing credit (FAPC) of Rs. 400 million and export refinance facilities (ERF) of Rs. 374.477 million. The company has availed limits of FAPC loans amounting to Rs. 200 million from Bank of Punjab and Rs. 199.665 million from National Bank of Pakistan. Further, the company has also availed the ERF facility of Rs. 236.900 million from Habib Bank Limited, Rs. 87.477 million from Faysal Bank Limited and Rs. 50 million from United Bank Limited.

13.2 The Company has aggregate sanctioned limits of running finances of Rs. 190 million. The Company has availed limits of running finances amounting to Rs.144.969 million from NIB Bank Limited, Rs. 22.920 million from Habib Bank Limited and Rs. 21.880 million from National Bank Limited.

13.3 These facilities are secured against first ranking pari passu charge over current assets of the Company executed through joint pari passu agreement with the lenders of the Company, hypothecation of stocks, lien on confirmed export orders and personal guarantees of the directors.

14 CONTINGENCIES AND COMMITMENTS

14.1 The Company has filed a recovery suit against the Punjab Cotton Mills Limited for Rs. 5,106,639 along with interest. The suit is pending before the Honorable Civil Judge, Lahore. The Company is hopeful of settlement of the case in its favor.

14.2 M/s. M. J. Industries has filed a suit against the Company for declaration for Rs. 544,644. The case is dismissed by the Honorable Civil Judge, Lahore. M/s. M. J. Industries has filed an application for the restoration of the suit.

The Company has filed a recovery suit against the M/s M. J. Industries for Rs. 544,644. The summon and notices have been issued to the defendant and the case is pending due to non appearance of the defendant before the Honorable Civil Judge, Lahore. The Company is hopeful of settlement of the case in its favor.

14.3 The Company has filed a recovery suit against the M/s. Amtex Limited for Rs. 2,916,762. The case is fixed for final order by Honorable Judge, high Court, Lahore. The Company is hopeful of settlement of the case in its favor.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

14.4 M/s. Sitara Textiles has filed a suit against the Company for recovery of damages against non performance of contract no. LO417 for supply of fabric. According to legal confirmation status, suit is pending for framing of issues.

The Company has filed a suit against M/s. Sitara Textiles Limited for financial loss, cost of sales loss, loss of business and loss due to breach of contract for Rs. 37.670 million. Company is hopeful of settlement of the case in its favor.

14.5 The Bank of Punjab had instituted a suit for the recovery of amounts aggregating Rs. 494.400 million ( long term loans Rs. 257,493,856 million, short term borrowings Rs. 200,000,000, markup Rs. 36,906,819) bearing C.O.S 8/2011. The Company had initially instituted leave application in the aforesaid suit which was decided in its favor and Company was allowed to defend the suit unconditionally. Now both the parties have reached to an amicable out of court settlement by withdrawing the suits from the Honorable Lahore High Court. The restructuring agreement has been executed between the parties and case withdrawal from the Honorable Lahore High Court is under process.

14.6 The Company has filed a suit against old tenants for vacation of property purchased by the Company situated at Ek Moria Pull Lahore. The matter is pending for adjudication. Certain suits were filed against the Company regarding the said property which are as under:

-Muhammad Sajid (the plaintiff) has filed a suit for permanent injunctions and declaration against interfering the possession of plaintiff property by pretending that the suit property has been purchased by Zephyr Textiles Limited (the defendant) through registered sales deed bearing distavez no. 2775 dated 01-09-2010, whereas the purchased property of the defendant is separate and different from the suit property of the plaintiff. The case is pending for framing of issues.

-Sh. Zafar Iqbal V/s. M/s Zephyr Textiles Limited. Sh. Zafar Iqbal has filed a suit for cancelation of registry with respect to the said property purchased by the Company. The case is pending for adjudication.

The Company is hopeful for settlement of the above stated suits in its favor.

14.7 Workers' Welfare Fund Ordinance, 1971 has been amended through Finance Acts 2006 & 2008. These amendments were held unconstitutional and struck down by the Honorable Lahore High Court, Lahore (HLHCL) on August 05, 2011. The decision of the HLHCL has been challenged in the Supreme Court of Pakistan, which is still pending.

Owing to the above, the management of the Company has not made provision for Workers' Welfare Fund in these financial statements.

| | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|
| **14.8 Contingencies** | | |
| Bills discounted with recourse | 75,955,931 | 298,344,581 |
| Bank guarantees issued in the ordinary course of business | 36,140,500 | 36,140,500 |
| | 112,096,431 | 334,485,081 |
| **14.9 Commitments** | | |
| Letters of credit | 2,151,652 | 7,294,599 |

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

## 15 PROPERTY, PLANT AND EQUIPMENT

| Particulars | Land - freehold | Buildings on free - hold land | Link road | Non factory building | Plant and Machinery | Furniture and fittings | Vehicles | Electrical installation | Office equipment | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| COST | | | | | | | | | | |
| Balance as at July 01, 2011 | 174,775,000 | 372,170,511 | 29,702,478 | 59,300,010 | 1,648,878,048 | 4,084,142 | 21,428,821 | 53,159,038 | 18,560,896 | 2,382,058,943 |
| Additions during the year | 1,150,000 | 12,114,869 | - | - | 74,085,329 | 1,055,086 | 7,070,880 | 5,931,703 | 1,796,986 | 103,204,853 |
| Disposals | - | - | - | - | (27,534,754) | - | (590,000) | - | - | (28,124,754) |
| Balance as at June 30, 2012 | 175,925,000 | 384,285,380 | 29,702,478 | 59,300,010 | 1,695,428,623 | 5,139,228 | 27,909,701 | 59,090,741 | 20,357,882 | 2,457,139,042 |
| Additions during the year | - | - | - | - | 52,912,652 | 186,662 | 5,324,480 | - | 391,987 | 58,815,781 |
| Revaluation Adjustment | 580,000 | 86,014,621 | - | - | (453,588,279) | - | - | - | - | (366,993,658) |
| Disposals | - | - | - | - | (1,175,000) | - | (1,896,660) | - | - | (3,071,660) |
| Balance as at June 30, 2013 | 176,505,000 | 470,300,001 | 29,702,478 | 59,300,010 | 1,293,577,996 | 5,325,890 | 31,337,521 | 59,090,741 | 20,749,869 | 2,145,889,505 |
| DEPRECIATION | | | | | | | | | | |
| Balance as at July 01, 2011 | - | 52,571,917 | 5,941,288 | 22,683,171 | 439,240,100 | 1,877,743 | 12,295,608 | 21,920,745 | 7,685,850 | 564,216,423 |
| Accumulated depreciation eliminated on disposal | - | - | - | - | (8,131,020) | - | (450,318) | - | - | (8,581,338) |
| Depreciation expense | - | 16,484,712 | 1,188,060 | 3,661,680 | 125,125,440 | 305,826 | 2,211,426 | 3,618,138 | 1,166,738 | 153,762,020 |
| Balance as at June 30, 2012 | - | 69,056,629 | 7,129,348 | 26,344,851 | 556,234,520 | 2,183,569 | 14,056,716 | 25,538,883 | 8,852,588 | 709,397,105 |
| Revaluation Adjustment | - | (80,877,706) | - | - | (641,652,687) | - | - | - | - | (722,530,393) |
| Accumulated depreciation eliminated on disposal | - | - | - | - | (67,563) | - | (1,530,675) | - | - | (1,598,238) |
| Depreciation expense | - | 17,699,826 | 1,128,660 | 3,295,524 | 116,983,952 | 304,902 | 3,132,970 | 3,355,188 | 1,174,066 | 147,075,088 |
| Balance as at June 30, 2013 | - | 5,878,749 | 8,258,008 | 29,640,375 | 31,498,222 | 2,488,471 | 15,659,011 | 28,894,071 | 10,026,654 | 132,343,562 |
| Written down value as at June 30, 2013 | 176,505,000 | 464,421,252 | 21,444,470 | 29,659,635 | 1,262,079,774 | 2,837,419 | 15,678,510 | 30,196,670 | 10,723,215 | 2,013,545,943 |
| Written down value as at June 30, 2012 | 175,925,000 | 315,228,751 | 22,573,130 | 32,955,159 | 1,139,194,103 | 2,955,659 | 13,852,985 | 33,551,858 | 11,505,294 | 1,747,741,937 |
| Rate of depreciation | 0% | 5% | 5% | 10% | 10% | 10% | 20% | 10% | 10% | |

| | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| **15.1 Depreciation for the year has been allocated as under:** | | | |
| Cost of sales | 26 | 142,463,150 | 150,078,030 |
| Distribution cost | 27 | 2,305,969 | 1,841,995 |
| Administrative expenses | 28 | 2,305,969 | 1,841,995 |
| Total | | 147,075,088 | 153,762,020 |

15.2 Free-hold land, building on free-hold land and plant and machinery represents values subsequent to revaluation as at March 31, 2013. Had there been no revaluation, the cost, accumulated depreciation, and book value of the revalued property, plant and equipment as on June 30, 2013 would have been as follows:

| | Cost as at June 30, 2013 | Accumulated depreciation as at June 30, 2013 | Book value as at June 30, 2013 | Book value as at June 30, 2012 |
|---|---|---|---|---|
| Free - hold land | 104,553,476 | - | 104,553,476 | 73,128,476 |
| Buildings on free - hold land | 360,775,899 | 110,641,960 | 250,133,939 | 240,918,768 |
| Plant and machinery | 1,671,750,171 | 840,882,343 | 830,867,828 | 791,404,978 |
| Total | 2,137,079,546 | 951,524,303 | 1,185,555,243 | 1,105,452,222 |

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

15.3 Disposal of Property, Plant and Equipment

The following is the detail of disposals during the year:

| Particulars | Quantity | Cost/ Assessed value | Book value | Sale Proceed | Gain/ (loss) | Mode of Disposal | Name and address |
|---|---|---|---|---|---|---|---|
| Vehicles | | | | | | | |
| Suzuki Alto LWG-1985 | 1 | 602,160 | 99,447 | 460,000 | 360,553 | Negotiation | Muhammad Asim, H#98, St#3, Khokhar Road, Taj Park, Badami Bagh, Lahore. |
| Honda Civic LWH-1373 | 1 | 1,294,500 | 266,538 | 775,000 | 508,462 | Negotiation | Syed Arshad Gilani, H#25, St#1, Main Mir Pind, Mughalpura, Lahore Cantt. |
| Plant and Machinery | | | | | | | |
| Generator | 1 | 1,175,000 | 1,107,437 | 1,127,524 | 20,087 | Negotiation | Energy Solutions (Pvt.) Ltd. ESL House, Plot#431-D, Off Ferozepur Road, Lahore. |
| 2013 Rupees | 3 | 3,071,660 | 1,473,422 | 2,362,524 | 889,102 | | |
| 2012 Rupees | 2 | 28,124,754 | 19,543,416 | 17,430,000 | (2,113,416) | | |

| | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| **16 CAPITAL WORK IN PROGRESS** | | | |
| Opening Balance | | - | 79,329,118 |
| Additions during the period | | 94,127,202 | 2,822,256 |
| Transfers /adjustments during the period | | (35,287,361) | (82,151,374) |
| Closing balance | | 58,839,841 | - |
| **17 LONG TERM DEPOSITS** | | | |
| Security deposits - WAPDA | | 2,149,972 | 2,149,972 |
| Other security deposits | | 1,149,198 | 854,475 |
| Total | | 3,299,170 | 3,004,447 |
| **18 STOCK IN TRADE** | | | |
| Raw material | | 196,157,893 | 206,058,503 |
| Work in process | | 131,397,506 | 130,531,403 |
| Finished goods and waste | 18.1 | 342,601,416 | 384,789,703 |
| Total | | 670,156,815 | 721,379,609 |

18.1 This includes goods in transit amounting to Rs. 13,031,948 (2012: Rs. 22,393,507).

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

| | | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| 19 | **TRADE DEBTS** | | |
| | Considered good | | |
| | Export - Secured against letters of credit | 90,018,211 | 84,861,455 |
| | Local - Unsecured | 239,303,908 | 162,949,397 |
| | | 329,322,119 | 247,810,852 |
| | Considered doubtful | - | 4,000,000 |
| | | 329,322,119 | 251,810,852 |
| | Provision for bad and doubtful debts | - | (4,000,000) |
| | Total | 329,322,119 | 247,810,852 |
| 20 | **LOANS AND ADVANCES** | | |
| | Considered good: | | |
| | Loan due from employees | 16,771,774 | 7,438,796 |
| | Advances to: | | |
| | Suppliers | 24,699,927 | 20,841,964 |
| | Suppliers against letters of credit | 2,151,652 | 7,294,599 |
| | Total | 43,623,353 | 35,575,359 |
| 21 | **TRADE DEPOSITS, PREPAYMENTS AND BALANCES WITH STATUTORY AUTHORITIES** | | |
| | Prepayments | 2,850,384 | 2,891,270 |
| | Advance income tax | 10,663,921 | 4,834,870 |
| | Margin deposits | 8,402,393 | 15,890,029 |
| | Sales tax refundable | 65,634,939 | 37,655,438 |
| | Export rebate receivable | 12,623,365 | 8,202,952 |
| | Total | 100,175,002 | 69,474,559 |
| 22 | **OTHER RECEIVABLES** | | |
| | Other receivables | 12,772,118 | 16,524,064 |
| | Total | 12,772,118 | 16,524,064 |

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 Number of shares/ units | 2012 Number of shares/ units | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|---|---|
| **23 SHORT TERM INVESTMENTS** | | | | | |
| Investment in Funds | 23.1 | | | | |
| Atlas Money Market Fund | | 20,487 | 106,689 | 10,288,388 | 53,615,327 |
| Faysal Money Market Fund | | 247,805 | - | 25,325,705 | - |
| Total investment in funds | | 268,292 | 106,689 | 35,614,093 | 53,615,327 |
| Investments at fair value through profit or loss - listed securities | | | | | |
| Pak Electron Limited | | 944 | 944 | 15,229 | 5,220 |
| Fauji Fertilizer Bin Qasim Limited | | 10,000 | 10,000 | 375,400 | 408,200 |
| New Jubilee Life Insurance Company Limited | | 41,000 | 41,000 | 3,771,998 | 2,747,410 |
| JS Growth Fund Limited | | 37,132 | 37,132 | 450,410 | 274,777 |
| Attock Refinery Limited | | 111 | 111 | 19,153 | 13,639 |
| Samba Bank Limited | | 24,500 | 24,500 | 62,965 | 56,350 |
| Dewan Farooq Spinning Mills Limited | | - | 24,500 | - | 60,760 |
| Summit Bank Limited | | 1,111 | 1,111 | 2,577 | 3,533 |
| Sitara Peroxide Limited | | - | 10,000 | - | 99,000 |
| Total quoted securities | | 114,798 | 149,298 | 4,697,732 | 3,668,889 |
| Un-quoted Securities: | | | | | |
| Innovative Investment Bank Limited | | 250 | 250 | - | 250,000 |
| Impairment of investment at FVTPL | | - | - | - | (250,000) |
| Total un-quoted securities | | 250 | 250 | - | - |
| Total | | 383,340 | 256,237 | 40,311,825 | 57,284,216 |

23.1 Atlas Money Market Fund and Faysal Money Market Fund are open ended money market mutual funds managed by Atlas Asset Management Company Limited and Faysal Asset Management Company respectively. The said investment is valued at fair value and any gain or loss resulting from fair value adjustment is charged to profit or loss.

| | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| **24 CASH AND BANK BALANCES** | | | |
| Cash in hand | | 400,393 | 505,376 |
| Cash at banks | | | |
| - current accounts | 24.1 | 41,968,715 | 11,210,098 |
| - saving account | | 15,303 | 14,894 |
| Cash at banks - foreign currency | | 583,170 | 112,573 |
| Total | | 42,967,581 | 11,842,941 |

24.1 This includes amount held in Habib Metropolitan Bank escrow account against dividend payable amounting to Rs. 8,134,718.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

| | | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|---|
| 25 | SALES - NET | | | |
| | Export | | 1,254,099,012 | 1,413,343,351 |
| | Exchange gain | | 11,876,293 | 28,708,490 |
| | Total export sales | | 1,265,975,305 | 1,442,051,841 |
| | Local | | 2,599,333,615 | 1,725,387,029 |
| | Total sales | | 3,865,308,920 | 3,167,438,870 |
| | Export rebate | | 11,426,328 | 8,771,358 |
| | | | 3,876,735,248 | 3,176,210,228 |
| | Commission and claims | | (28,786,574) | (30,959,451) |
| | Trade discount | | (7,041,580) | (9,621,306) |
| | Total Sales - Net | | 3,840,907,094 | 3,135,629,471 |
| 26 | COST OF SALES | | | |
| | Raw material consumed | 26.1 | 2,499,813,437 | 2,042,259,460 |
| | Stores, spare parts and lose tools consumed | | 67,218,092 | 52,978,383 |
| | Packing, sizing and lubricants consumed | | 211,538,156 | 213,777,574 |
| | Fuel and power | | 264,716,578 | 220,843,468 |
| | Salaries, wages and other benefits | 26.2 | 170,313,475 | 140,385,397 |
| | Processing charges | | 63,696,020 | 41,862,974 |
| | Insurance | | 3,797,779 | 3,955,555 |
| | Repairs and maintenance | | 9,681,479 | 8,369,819 |
| | Traveling and conveyance | | 3,790,050 | 1,173,609 |
| | Depreciation | 15.1 | 142,463,150 | 150,078,030 |
| | Other production overheads | | 3,322,958 | 6,594,605 |
| | | | 3,440,351,174 | 2,882,278,874 |
| | Adjustment of work-in-process | | | |
| | Opening stock | | 130,531,403 | 99,415,664 |
| | Closing stock | | (131,397,506) | (130,531,403) |
| | Net increase/(decrease) in work in process | | (866,103) | (31,115,739) |
| | Cost of goods manufactured | | 3,439,485,071 | 2,851,163,135 |
| | Adjustment of finished goods and waste | | | |
| | Opening stock | | 384,789,703 | 353,215,452 |
| | Closing stock | | (342,601,416) | (384,789,703) |
| | Net increase/(decrease) in finished goods and waste | | 42,188,287 | (31,574,251) |
| | Cost of sales | | 3,481,673,358 | 2,819,588,884 |

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| **26.1 Raw material consumed** | | | |
| Opening stock | | 206,058,503 | 218,338,975 |
| Purchases | | 2,516,633,812 | 2,073,089,438 |
| Return / discount on purchases | | (43,443,248) | (58,072,487) |
| Net purchases | | 2,473,190,564 | 2,015,016,951 |
| Freight | | 16,722,263 | 14,962,037 |
| | | 2,695,971,330 | 2,248,317,963 |
| Closing stock | | (196,157,893) | (206,058,503) |
| Raw material consumed | | 2,499,813,437 | 2,042,259,460 |

26.2 This includes employee benefits amounting to Rs. 10,104,940 (2012 : Rs. 8,739,427).

## 27 DISTRIBUTION COST

| | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| Salaries, wages and other benefits | 27.1 | 5,257,283 | 5,403,112 |
| Traveling and conveyance | | 493,021 | 549,423 |
| Sales promotion | | 347,414 | 683,685 |
| Communication | | 2,153,181 | 2,884,973 |
| Vehicles running and maintenance | | 1,021,698 | 934,073 |
| Freight | | 58,011,356 | 47,770,801 |
| Clearing and forwarding | | 7,471,675 | 3,147,108 |
| Depreciation | 15.1 | 2,305,969 | 1,841,995 |
| Others | | 2,020,564 | 8,345,067 |
| Total | | 79,082,161 | 71,560,237 |

27.1 This includes employee benefits amounting to Rs. 977,248 (2012 : Rs. 993,451).

## 28 ADMINISTRATIVE EXPENSES

| | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| Directors' remuneration | | 4,080,000 | 4,080,000 |
| Salaries and other benefits | 28.1 | 15,884,947 | 13,034,243 |
| Traveling and conveyance | | 6,741,614 | 7,641,978 |
| Rent, rates and taxes | | 3,003,725 | 1,831,086 |
| Printing and stationery | | 1,347,801 | 1,226,269 |
| Communication | | 3,104,316 | 2,925,667 |
| Vehicle running and maintenance | | 3,812,149 | 2,794,226 |
| Repairs and maintenance | | 1,206,352 | 1,062,783 |
| Auditors' remuneration | 28.2 | 800,000 | 800,000 |
| Fee and subscription | | 2,200,114 | 1,178,014 |
| Legal and professional | | 5,059,090 | 4,447,072 |
| Electricity, gas and water | | 527,030 | 396,136 |
| Insurance | | 774,441 | 625,522 |
| Advertisement | | 124,050 | 26,150 |
| Depreciation | 15.1 | 2,305,969 | 1,841,995 |
| Provision for doubtful debts | | - | 4,000,000 |
| Advances written off | | - | 537,773 |
| Debtors written off | | 11,141,161 | 3,046,979 |
| Insurance claim written-off | | - | 439,730 |
| Impairment of investment at fair value through profit or loss | | - | 250,000 |
| Others | | 410,456 | 281,580 |
| Total | | 62,523,215 | 52,467,203 |

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

28.1 This includes employee benefits amounting to Rs. 1,754,464 (2012: Rs.1,738,553).

| | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|
| **28.2 Auditors' remuneration** | | | |
| Audit fee | | 600,000 | 600,000 |
| Half yearly review | | 125,000 | 125,000 |
| Code of corporate governance review | | 75,000 | 75,000 |
| Total | | 800,000 | 800,000 |
| **29 OTHER OPERATING EXPENSES** | | | |
| Loss on disposal of property, plant and equipment | 15.3 | - | 2,113,416 |
| Exchange loss | | 5,559,562 | 1,386,598 |
| Provision for Workers' Profit Participation Fund | | - | 15,342 |
| Total | | 5,559,562 | 3,515,356 |
| **30 OTHER OPERATING INCOME** | | | |
| Profit on investments at fair value | | 1,817,304 | 2,744,905 |
| Dividend income | | 79,928 | 59,671 |
| Profit on bank deposits | | 871,426 | 750 |
| Gain on disposal of property, plant and equipment | | 889,102 | - |
| Amortization of interest free loan | 30.1 | 137,709,608 | 8,933,020 |
| Other Income - fair price shop | | 2,144,929 | 2,006,034 |
| Others | | 3,887,160 | 3,062,526 |
| Markup waived off on settlement of RF and FAPC facilities - Faysal Bank Limited | | - | 26,156,842 |
| Total | | 147,399,457 | 42,963,748 |
| **30.1 Amortization of interest free loan** | | | |
| Carrying value of interest free loan | | 218,967,844 | 258,590,968 |
| Present value adjustment | | (5,460,473) | (49,015,614) |
| | | 213,507,371 | 209,575,354 |
| Interest charged to profit and loss | | 5,460,473 | 23,950,227 |
| Current portion shown under current liabilities | | (146,933,500) | (164,569,937) |
| Total | | 72,034,344 | 68,955,644 |

This represented the interest free loans payable to National Bank of Pakistan (NBP) amounting to Rs. 70,700,000 payable in 16 quarterly installments commencing from March 2011, loan payable to Bank of Punjab (BOP) amounting to Rs. 204,379,000 payable in 31 monthly installments commencing from October 2017 and loan payable to Habib Bank Limited (HBL) amounting to Rs. 111,066,000 payable in 18 monthly installments commencing from January 2013. These loans have been discounted using the weighted average interest rate of 15.32%, 11.53% and 12.43% respectively.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

| | | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|---|
| 31 | FINANCE COST | | | |
| | Mark-up on long term financing | | 99,415,223 | 41,049,868 |
| | Mark-up on short term borrowings | | 122,990,383 | 119,214,336 |
| | Interest on Workers' Profit Participation Fund | 11.1 | 2,346,532 | 2,120,519 |
| | Bank charges and others | | 6,471,198 | 9,745,219 |
| | Unwinding of discount | | 5,460,473 | 23,950,227 |
| | Total | | 236,683,809 | 196,080,169 |
| 32 | TAXATION | | | |
| | Provision for taxation- current | 32.1 | 19,267,163 | 31,387,304 |
| | Deferred taxation | 32.2 | (10,743,614) | (10,934,877) |
| | Total | | 8,523,549 | 20,452,427 |

32.1 The Company is under the ambit of final tax up to the extent of export sales under Section 169 of Income Tax Ordinance 2001. Provision for income tax is made accordingly. Income tax provision for income which is not subject to final tax under Section 169 of Income Tax Ordinance, 2001 has been calculated in accordance with Section 113 of the Income Tax Ordinance, 2001 as the company has assessed tax losses. No provision for deferred tax has been charged except as explained in note 10. Reconciliation of tax expense and product of accounting profit multiplied by the applicable tax rate is not required in view of presumptive taxation.

32.2 This represents deferred tax associated with surplus on revaluation of property, plant and equipment transferred to retained earnings on account of incremental depreciation

| | | Note | 2013 | 2012 |
|---|---|---|---|---|
| 33 | EARNING/(LOSS) PER SHARE - BASIC AND DILUTED | | | |
| | Earnings attributable to ordinary shareholders | | 114,260,897 | 14,928,943 |
| | Weighted average number of ordinary shares | 6 | 59,428,729 | 59,428,729 |
| | Earning per share - basic and diluted | | 1.92 | 0.25 |

33.1 There is no dilutive effect on the basic earning per share.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

| | | Note | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|---|---|
| 34 | CASH FLOW FROM OPERATING ACTIVITIES | | | |
| | Profit for the year before taxation | | 122,784,446 | 35,381,370 |
| | Adjustments for: | | | |
| | Depreciation on property, plant and equipment | 15.1 | 147,075,088 | 153,762,020 |
| | Loss/ (gain) on disposal property, plant and equipment | 15.3 | (889,102) | 2,113,416 |
| | Gain on re-measurement of short term investments | | (1,817,304) | (2,744,905) |
| | Impairment of investment at fair value through profit or loss | | - | 250,000 |
| | Reversal of Markup waived off on settlement of RF and FAPC facilities - Faysal Bank Limited | | - | (26,156,842) |
| | Dividends, capital gains and income from investments | | (917,993) | (59,671) |
| | Staff retirement benefits - gratuity | | 12,836,652 | 11,471,431 |
| | Provision for doubtful debts | | - | 4,000,000 |
| | Advances written off | | - | 537,773 |
| | Debtors written off | | 11,141,161 | 3,046,979 |
| | Insurance claim written off | | - | 439,730 |
| | Provision for Workers' Profit Participation Fund | | - | 15,342 |
| | Interest on Workers' Profit Participation Fund | | 2,346,532 | 2,120,519 |
| | Amortization of interest free loans | | (137,709,608) | (8,933,020) |
| | Unwinding of discount | | 5,460,473 | 23,950,227 |
| | Finance cost | | 228,876,804 | 170,009,423 |
| | Profit before working capital changes | | 389,187,149 | 369,203,792 |
| | (Increase) / decrease in current assets | | | |
| | Stores, spare parts and loose tools | | (10,023,208) | (23,747,319) |
| | Stock in trade | | 51,222,794 | (50,409,518) |
| | Trade debts | | (81,511,267) | 44,978,463 |
| | Loans and advances | | (8,047,994) | 24,255,687 |
| | Other receivables | | 3,751,946 | 7,368,725 |
| | Trade deposits, prepayments and balances with statutory authorities | | (24,871,392) | 5,937,092 |
| | Increase / (decrease) in current liabilities | | | |
| | Trade and other payables | | 62,040,373 | (25,769,776) |
| | Net changes in working capital | | (7,438,748) | (17,386,646) |
| | Cash generated from operations | | 381,748,401 | 351,817,146 |

35 FINANCIAL ASSETS AND LIABILITIES

| | Mark-up bearing | | Non mark-up bearing | | Total | Total |
|---|---|---|---|---|---|---|
| | Maturity up to one year (Rupees) | Maturity after one year (Rupees) | Maturity up to one year (Rupees) | Maturity after one year (Rupees) | 2013 (Rupees) | 2012 (Rupees) |
| Financial Assets | | | | | | |
| - Loans and receivables | | | | | | |
| Long term deposits | - | - | - | 3,299,170 | 3,299,170 | 3,004,447 |
| Trade debts | - | - | 329,322,119 | - | 329,322,119 | 247,810,852 |
| Loans and advances | - | - | 16,771,774 | - | 16,771,774 | 7,438,796 |
| Trade deposits and other receivables | - | - | 8,402,393 | - | 8,402,393 | 15,890,029 |
| Cash and bank balances | 15,303 | - | 42,952,278 | - | 42,967,581 | 11,842,941 |
| - At fair value through profit or loss | | | | | | |
| Investments | 40,311,825 | - | - | - | 40,311,825 | 57,284,216 |
| | 40,327,128 | - | 397,448,564 | 3,299,170 | 441,074,862 | 343,271,281 |
| Financial Liabilities | | | | | | |
| - At amortized cost | | | | | | |
| Long term financing | 393,573,971 | 322,644,260 | - | - | 716,218,231 | 748,215,565 |
| Trade and other payables | - | - | 226,359,559 | - | 226,359,559 | 168,947,850 |
| | 393,573,971 | 322,644,260 | 226,359,559 | - | 942,577,790 | 917,163,415 |
| On balance sheet gap | (353,246,843) | (322,644,260) | 171,089,005 | 3,299,170 | (501,502,928) | (573,892,134) |

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

| | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|
| **Off balance sheet items** | | |
| Bills discounted with recourse | 75,955,931 | 298,344,581 |
| Bank guarantees issued in the ordinary course of business | 36,140,500 | 36,140,500 |
| Letters of credit | 2,151,652 | 7,294,599 |

## 36 FINANCIAL RISK MANAGEMENT

Effective interest rates
Financial liabilities

| | |
|---|---|
| Long term financing | 5.95% to 13.56% (2012: 5.95% to 15.28% ) per annum |
| Short term borrowings | 9.50% to 14.10% (2012: 11% to 16.53% ) per annum |

### 36.1 Financial risk factors

The Company has exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (Currency risk, other price risk and interest rate risk)

The Board of Directors has overall responsibility for the establishment and oversight of Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

#### Concentration and management of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail completely to perform as contracted.

Credit risk from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institution, as well as credit exposures to customers, including trade receivables and committed transactions. Out of total financial assets of Rs. 441.075 million (2012: Rs. 343.271 million), the financial assets that are subject to credit risk amounted to Rs. 357.795 million (2012: Rs. 285.482 million).

For trade receivables, internal risk assessments process determines the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal and external ratings in accordance with the limits set by the management. The utilization of credit limit is regularly monitored. Accordingly, the credit risk is minimal and the Company also believes that it is not exposed to major concentration of credit risk.

Concentration of the credit risk arises when the number of counter parties engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration risk.

The Company monitors the credit quality of the financial assets with reference to the historical performance of such assets and available external credit ratings. The carrying value of financial assets which are neither past due nor impaired are as under:

| | | |
|---|---|---|
| Long term deposits | 3,299,170 | 3,004,447 |
| Trade debts | 329,322,119 | 247,810,852 |
| Loans and advances | 16,771,774 | 7,438,796 |
| Trade deposits and other receivables | 8,402,393 | 15,890,029 |
| Bank balances | 42,567,188 | 11,337,565 |
| Total | 400,362,644 | 285,481,689 |

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

The credit quality of receivables can be assessed with reference to their historical performance with no or some defaults in recent history. The credit quality of Company's bank balances can be assessed with reference to external credit ratings as follows:

| Bank | Rating agency | Long term Rating | Short term Rating |
|---|---|---|---|
| Bank Alfalah Limited | PACRA | AA | A1+ |
| Askari Bank Limited | PACRA | AA | A1+ |
| Faysal Bank Limited | PACRA | AA | A1+ |
| Meezan Bank Limited | JCRVIS | AA | A1+ |
| MCB Bank Limited | PACRA | AAA | A1+ |
| Habib Metropolitan Bank Limited | PACRA | AA+ | A1+ |
| National Bank of Pakistan | JCRVIS | AAA | A1+ |
| Silk Bank Limited | JCRVIS | A- | A2 |
| SME Bank Limited | PACRA | BBB | A3 |
| Bank of Punjab | PACRA | AA- | A1+ |
| United Bank Limited | JCRVIS | AA+ | A1+ |
| Soneri Bank Limited | PACRA | AA- | A1+ |
| Habib Bank Limited | JCRVIS | AAA | A1+ |
| Allied Bank Limited | PACRA | AA+ | A1+ |
| NIB Bank Limited | PACRA | AA- | A1+ |
| Bank Al Habib Limited | PACRA | AA+ | A1+ |

Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure as far as possible to always have sufficient liquidity to meet its liabilities when due. The Company is not materially exposed to liquidity risk as the Company has obtained short term borrowings from various commercial banks to meet any deficit, if required to meet the short term liquidity commitments. In addition, the Company uses different methods including restructuring and rescheduling of existing loan facilities which assists it in monitoring cash flow requirements. Therefore, the management envisages that sufficient financial resources will be available for the continuing operations of the Company.

Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The Company is exposed to market risk on account of foreign currency balances, interest bearing borrowings, investments and foreign currency receivables.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in foreign exchange rates.

The Company is exposed to currency risk on import of raw materials and stores and spares and export of goods mainly denominated in US dollars and on foreign currency bank accounts. The Company's exposure to foreign currency risk for US Dollars, Pound Sterling and Euro is as follows:

| | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|
| Foreign debtors | 90,018,211 | 84,861,455 |
| Foreign currency bank account | 583,170 | 112,573 |
| Gross balance sheet exposure | 90,601,381 | 84,974,028 |
| Letters of credit | 2,151,652 | 7,294,599 |
| Net exposure | 92,753,033 | 92,268,627 |

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

| | Average rate 2013 | Average rate 2012 | Reporting date rate 2013 | Reporting date rate 2012 |
|---|---|---|---|---|
| Rupees per USD | 96.24 | 88.56 | 98.60 | 94.20 |
| Rupees per Euro | 123.80 | 118.57 | 128.85 | 118.50 |
| Rupees per Pound Sterling | 150.87 | 140.29 | 150.57 | 147.07 |

As at reporting date, had the exchange of USD, Euro and Pound Sterling depreciated or appreciated by 10% against the currency with all other variables held constant, the change in post tax profit/(loss), mainly as a result of foreign exchange gain/loss on translation of foreign currency denominated payables, would have been as follows:

| | 30-Jun-13 | | 30-Jun-12 | |
|---|---|---|---|---|
| | % Change (+ -) | Impact (+ -) | % Change (+ -) | Impact (+ -) |
| Effect on profit or loss | | | | |
| USD | 10 | 5,916,814 | 10 | 28,934,585 |
| Euro | 10 | 4,653,691 | 10 | 6,239,961 |
| Pound Sterling | 10 | 9,803,940 | 10 | 3,060,997 |

The sensitivity analysis prepared is not necessarily indicative of the effects on profit/(loss) for the year and assets/liabilities of the Company.

### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rate.

At the reporting date the variable interest rate profile of the Company's significant interest bearing financial instruments was as follows:

| Variable rate instruments | Effective interest rate % 2013 | Effective interest rate % 2012 | Carrying value in Rupees 2013 | Carrying value in Rupees 2012 |
|---|---|---|---|---|
| Long term financing | 5.95% to 13.56% | 5.95% to 15.28% | 716,218,231 | 748,215,565 |
| Short term financing | 9.50% to 14.10% | 11% to 16.53% | 963,810,392 | 1,036,478,913 |

### Cash flow sensitivity analysis for variable rate instruments

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

| | Profit and loss 100 bp Increase | Profit and loss 100 bp Decrease |
|---|---|---|
| As at 30 June 2013 | | |
| Cash flow sensitivity-Variable rate financial liabilities | 16,800,286 | (16,800,286) |
| As at 30 June 2012 | | |
| Cash flow sensitivity-Variable rate financial liabilities | 17,846,945 | (17,846,945) |

The sensitivity analysis prepared is not necessarily indicative of the effects on loss for the year and assets/ liabilities of the Company.

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

Past Due Balances

| | 2013 (Rupees) | 2012 (Rupees) |
|---|---|---|
| The aging of trade receivable at the reporting date is: | | |
| Past due 1-30 days | 262,663,825 | 163,200,168 |
| Past due 30-150 days | 7,314,106 | 11,223,694 |
| Past due 150 days | 59,344,188 | 73,386,989 |
| | 329,322,119 | 247,810,851 |

36.2 Capital risk management

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide adequate returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Company manages its capital structure which comprises capital and reserves by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders, appropriation of amounts to capital reserves or/and issue new shares, as the case may be.

Consistent with others in the industry, the Company manages its capital risk by monitoring its debt levels and liquid assets and keeping in view future investment requirements and expectations of the shareholders. Debt is calculated as total borrowings ("long term financing" and "short term borrowings" as shown in the balance sheet).Total capital comprises shareholders' equity as shown in the balance sheet under "share capital and reserves" and net debt.

The salient information relating to capital risk management of the Company as of June 30, 2013 and 2012 were as follows;

| | 2013 | 2012 |
|---|---|---|
| Total borrowings | 1,680,028,623 | 1,784,694,478 |
| Cash and bank balances | (42,967,581) | (11,842,941 |
| Net debt | 1,637,061,042 | 1,772,851,537 |
| Total equity | 562,946,784 | 428,733,461 |
| Total capital | 2,200,007,826 | 2,201,584,998 |
| Gearing ratio % | 74.41 | 80.53 |

37 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

| Description | 2013 Chief Executive | 2013 Directors | 2013 Executives | 2012 Chief Executive | 2012 Directors | 2012 Executives |
|---|---|---|---|---|---|---|
| Managerial remuneration | 800,004 | 1,872,000 | 8,244,120 | 800,004 | 1,872,000 | 7,329,333 |
| House rent allowance | 360,000 | 835,200 | 3,708,000 | 360,000 | 835,200 | 3,298,200 |
| Utilities | 39,996 | 172,800 | 407,880 | 39,996 | 172,800 | 366,467 |
| Rupees | 1,200,000 | 2,880,000 | 12,360,000 | 1,200,000 | 2,880,000 | 10,994,000 |
| No. of persons | 1 | 3 | 16 | 1 | 3 | 16 |

# Notes to the financial statements
FOR THE YEAR ENDED JUNE 30, 2013

37.1 Some of the Directors and the Executives are provided with free use of Company cars as per rules.

37.2 No meeting fee was paid to the Directors for attending the meetings of the Board.

37.3 Gratuity expense related to Directors is classified under note 28.

| | | 2013 (Number) | 2012 (Number) |
|---|---|---|---|
| 38 | PLANT CAPACITY AND PRODUCTION | | |
| | Grieg fabric unit | | |
| | No. of looms installed | 240 | 240 |
| | No. of looms worked | 240 | 240 |
| | Shifts per day | 3 | 3 |
| | No. of days actually worked | 365 | 365 |
| | Rated capacity (Square Meters in millions) | 75.5 | 75.5 |
| | Actual production (Square Meters in millions) | 69.9 | 71.1 |
| | Towel unit | | |
| | No. of looms installed | 31 | 31 |
| | No. of looms worked | 31 | 31 |
| | Shifts per day | 3 | 3 |
| | No. of days actually worked | 365 | 365 |
| | Rated capacity (Tons) | 2700 | 2700 |
| | Actual production (Tons) | 2240 | 2628 |
| | Towel dyeing and processing unit | | |
| | Rated capacity (Tons) | 3,600 | 2,400 |
| | Actual production (Tons) | 1734 | 1525 |

38.1 It is difficult to determine precisely the production capacity in textile weaving mills since it fluctuates widely depending on various factors such as speed, width and construction of cloth woven etc.

| | | 2013 | 2012 |
|---|---|---|---|
| 39 | NUMBER OF EMPLOYEES | | |
| | Number of employees at the year end | 935 | 891 |

40 AUTHORIZATION OF FINANCIAL STATEMENTS

These financial statements have been approved by the Board of Directors of the Company and authorised for issue on September 28, 2013.

41 FIGURES

Figures have been rounded off to the nearest Rupee.

DIRECTOR

CHIEF EXECUTIVE

# ZEPHYR TEXTILES LIMITED

3rd Floor IEP Building, 97-B/D-1, Gulberg III, Lahore

# PROXY FORM

I/We, ______________________________________________

Of ______________________________________________

being a member of ZEPHYR TEXTILES LTD. hereby appoint

(NAME)

of ______________________________ another member of the Company

or failing him / her ______________________________________________

(NAME)

of ______________________________ another member of the Company

(being member of the Company) as my/our proxy to attend and vote for and on my/our behalf at the 15th Annual General Meeting of the Company to be held at its Registered Office, 3rd Floor IEP Building 97-B/D-I Gulberg III, Lahore on October 31, 2013 at 11:30 AM and at every adjournment thereof.

As witnessed given under my/our hand(s) this ______________ day of ______________ 2013.

Affix
Revenue
Stamps of
Rs. 5/-

1. Witness:

Signature: ______________

Name: ______________

Address: ______________

______________
Signature of Member

2. Witness:

Signature: ______________

Name: ______________

Address: ______________

Shares held ______________

Shareholders' Folio No. ______________

CDC A/c # ______________

CNIC No. | | | | | | | | | | | | | |

NOTES:

1. Proxies, in order to effective, must be reached at the Company's Registered Office, not less than 48 hours before the time for holding the meeting and must be duly stamped, signed and witnessed.

2. CDC Shareholders, entitled to attend and vote at this meeting, must bring with them their national identity Cards/Passports in original to prove his/her identity, and in case of Proxy, must enclose an attested copy of his/her NIC or Passport. Representatives of Corporate members should bring the usual documents required for such purpose.