

UMER FABRICS LIMITED ANNUAL REPORT 2004

Board of Directors:	Mrs. Ammil Raza Mansha Mian Hassan Mansha Mr. Khalid Qadeer Qureshi Mr. Muhammad Azam Rana Muhammad Mushtaq Mr. Farrukh Ifzal Mr. Farid Noor All Fazal	(Chief Executive)
Audit Committee:	Mian Hassan Mansha Mr. Muhammad Azam Rana Muhammad Mushtaq	(Chairman) (Member) (Member)
Company Secretary:	Mr. Abdul Aziz Shahid	
Bankers of the Company:	ABNAMROBankN.V. Citi Bank N.A. Crescent Commercial Bank Limited Faysal Bank Limited Habib Bank Limited Meezan Bank Limited NDLC - IFIC Bank Limited Standard Chartered Bank The Bank of Punjab The Hong Kong and Shanghai Banking Corporation Limited United Bank Limited	
Auditors:	Riaz Ahmad & Company Chartered Accountants	
Legal Advisor:	Mr. M. Aurangzeb Khan	
Registered & Head Office:	31-Q, Gulberg-II, Lahore, Pakistan. Phone : 5761730-39 Fax : 5878696-97	
Mills:	49th Kilometre, Lahore Multan Road, Bhai Pheru, Tehsil Chunian, District Kasur.	

Directors' Report

Economic Environment

During the year under review the economy continued to strengthen. All major economic indicators remained stable and interest rates remained low. However, the international economic scenario remained under depression, in the aftermath of Iraq war and due to higher oil prices. Moreover cotton prices both locally and internationally went up drastically and hit an all time high of Rs.3,600 per maund. The textile industry remained under pressure because of the unfavourable international conditions and high cotton prices.

Performance of the Company

High cotton prices directly affected the profitability of the company. Although sales have increased by about 7% to Rs. 1.408 billion, net profit has decreased by 21.5% to Rs. 107.60 million. Net profit margin reduced to 7.6% from 10.4% last year. The performance of the company, although not as good as the last year's, is impressive as compared to the industry. The drop in the profitability is due to the reason that cotton prices remained high during the year, whereas the prices of yarn remained under pressure because of the worldwide recession and the effect of Iraq war.

Keeping in view the exposure of textile industry to seasonal and cyclical risks, we have maintained a conservative financial structure and all of the fixed assets have been financed by equity. Short-term debt is used only for the current assets. The total debt ratio is 31%, one of the lowest in the industry. The return on equity this year is 9.5%, while earning per share this year is Rs. 4.48. This year Rs. 36.008 million are proposed to be distributed as dividend that translates into a dividend per share of Rs. 1.50. The financial strategy for the company has been to keep it cash rich, low leverage and low risk so that it can absorb the unforeseen shocks easily.

Future Outlook

The management has proposed to merge the company into Nishat (Chunian) Limited and Nishat Mills Limited. The plants are located in the vicinity of Nishat (Chunian) Limited, which is also the single largest buyer for the products of the company. The management has considered various options for consolidating the activities and operations with Nishat (Chunian) Limited and Nishat Mills Limited. The proposed merger of the company will rationalize the business structure, bring economies and significantly improve the efficiency and financial strength. It will also result in reducing expenses, cutting down the reporting requirements, saving in the tax and enhancing the profitability in the benefit of the shareholders.

The pattern of shareholdings as at 30 September 2004 is annexed.

Change of Financial Year

The Central Board of Revenue has directed the change of financial year end from September to June for textile industry. Consequent upon above direction and Circular No. 29 of 2004, issued by the Securities and Exchange Commission of Pakistan (SECP), the next financial year will be of nine months and will close on 30 June 2005.

Placement of Quarterly Financial Statements on Web Site

Pursuant to SECP's Circular No. 19 dated 14 April 2004, directors have proposed, subject to the permission of SECP, to place the quarterly financial statements on company's web site instead of sending the same by post to shareholders.

Corporate Governance

As required by the Code of Corporate Governance, directors are pleased to report that:

- a. The financial statements prepared by the management of the Company present fairly its true state of affairs, the results of its operations, cash flows and changes in equity.
- b. Proper books of accounts have been maintained by the Company.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. The International Accounting Standards, as applicable in Pakistan have been followed in preparation of financial statements.
- e. The system of internal controls is sound in design and has been effectively implemented and monitored.
- f. There are no doubts upon the Company's ability to continue as a going concern.
- g. There has been no departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. There has been no departure from the best practices of transfer pricing.
- i. The key operating and financial data for the last ten years is annexed.
- j. There has been no trading of Shares by Chief Executive, Directors, Chief Financial Officer, Company Secretary, their spouses and minor children, during the year.
- k. The value of investment of contributory provident fund as at 30 September 2004 amounts to Rs. 1.6 million.

NAME OF DIRECTOR
Mian Raza Mansha

ATTENDANCE
1

Mrs. Ammil Raza Mansha	(Chief Executive)	3
Mian Hassan Mansha		3
Mr. Khalid Qadeer Qureshi		5
Mr. Muhammad Azam		5
Rana Muhammad Mushtaq		5
Mr. Farrukh Ifzal		5
Mr. Farid Noor Ali Fazal		2
Mr. Firasat Ali	(Nominee NIT)	3

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	(Rupees in thousand)									
Capital	240,052	240,052	240,052	240,052	240,052	240,052	240,052	240,052	240,052	240,052
Reserves	7,113	70,941	134,574	145,310	156,417	299,190	346,303	468,273	889,486	1,232,765
Net Worth	247,165	310,993	374,626	385,362	396,469	539,242	586,355	708,325	1,129,538	1,472,817
Long Term Liabilities	139,825	94,567	54,800	31,299	6,839	43,620	7,342	108,374	37,103	24,458
Current Liabilities	324,945	359,218	473,029	597,153	1,000,512	475,541	637,475	594,776	661,997	626,808
Capital and Liabilities	711,935	764,778	902,455	1,013,814	1,403,820	1,058,403	1,231,172	1,411,475	1,828,638	2,124,083
Fixed Capital Expenditure	501,876	459,723	420,373	474,606	506,163	501,848	544,419	605,540	610,641	555,683
Long Term Investments and Deposits	21,074	20,755	5,363	126,476	126,777	127,775	74,751	71,096	130,539	160,963
Current Assets	188,985	284,300	476,719	412,732	770,880	428,780	612,002	734,839	1,087,458	1,407,437
Total Assets	711,935	764,778	902,455	1,013,814	1,403,820	1,058,403	1,231,172	1,411,475	1,828,638	2,124,083
Sales	1,247,766	1,359,869	1,579,859	1,496,418	1,608,595	1,605,890	1,778,157	1,344,708	1,317,667	1,408,548
Gross Profit	108,231	251,115	334,041	237,427	229,468	421,240	311,596	215,775	202,044	147,542
EBIT	62,150	179,364	279,924	184,873	214,883	381,921	274,812	190,033	230,463	177,683
Financial & Other Charges	95,454	108,964	168,300	126,232	144,445	118,227	166,691	86,115	55,963	31,130
Taxation	17,632	6,572	11,983	11,897	11,321	24,900	25,000	34,981	37,328	38,953
Net Profit / (Loss)	-50,936	63,828	99,641	46,744	59,117	238,794	83,121	68,937	137,172	107,600
Gross Margin (% age)	8.7	18.5	21.1	15.9	14.3	26.2	17.5	16	15.3	10.5
Net Margin (% age)	-4.1	4.7	6.3	3.1	3.7	14.9	4.7	5.1	10.4	7.6
Current Ratio	0.58	0.79	1.01	0.69	0.77	0.9	0.96	1.24	1.64	2.25
Leverage (Total Liabilities / Net Worth)	1.88	1.46	1.41	1.63	2.54	0.96	1.1	0.99	0.62	0.44
Long Term Debt : Equity	36:64	23:77	13:87	8:92	2:98	7:93	1:99	13:87	3:97	2:98
EPS (Rupees)	-2.1	2.7	4.2	1.9	2.5	9.9	3.5	2.9	5.7	4.48

Statement of Compliance

with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No.37 (Chapter XI) of listing regulations of Karachi Stock Exchange (Guarantee) Limited and Clause 40 (Chapter XIII) of the listing regulations of Lahore Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

- The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors.
- The directors have confirmed that none of them is serving as a director in more than ten 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 DPI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- Casual vacancies occurring in the Board on 9 February 2004 and 7 July 2004 were filled up by the directors within same day thereof.
- The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
- The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged orientation courses for its directors during the year to apprise them of their duties and responsibilities.
10. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
12. 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.
13. The Company has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an audit committee. It comprises three members, of all of whom are non-executive directors.
15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

Review Report

to the members on statement of Compliance with best practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Umer Fabrics Limited to comply with the Listing Regulation No.37 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited and Listing Regulation No.40 (Chapter XIII) of the Lahore Stock Exchange (Guarantee) Limited, where the Company is listed.

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

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

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.

Auditors' Report to the Members

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

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

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

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

(b) in our opinion:

i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 30 September 2004 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Balance Sheet as at

	NOTE	2004	2003
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized share capital		300,000	300,000
30,000,000 ordinary shares of Rupees 10 each	3	240,052	240,052
Issued, subscribed and paid up share capital	4	1,232,765	889,486
Reserves		1,472,817	1,129,538
NON-CURRENT LIABILITIES			
Deferred tax	5	24,458	24,650
Employees' retirement benefits		-	12,453
		24,458	37,103
CURRENT LIABILITIES			
Short term finances	6	501,151	501,161
Creditors, accrued and other liabilities	7	50,504	65,145
Provision for taxation		39,145	35,678
Proposed dividend		36,008	60,013
	8	626,808	661,997
CONTINGENCIES AND COMMITMENTS		2,124,083	1,828,638
	NOTE	2004	2003
		(Rupees in thousand)	

ASSETS

NON-CURRENT ASSETS

Operating fixed assets- Tangible	9	555,683	610,641
Long term investments	10	159,553	129,070
Long term security deposits		1,410	1,469
		716,646	741,180
CURRENT ASSETS			
Stores, spare parts and loose tools	11	14,746	15,205
Stock-in-trade	12	238,598	87,437
Short term investments	13	933,036	720,760
Trade debts	14	88,944	49,385
Advances, deposits and other receivables	15	121,713	210,924
Cash and bank balances	16	10,400	3,747
		1,407,437	1,087,458
		2,124,083	1,828,638

Profit and Loss Account

for the year ended 30 September 2004

	NOTE	2004	2003
(Rupees in thousand)			
SALES	17	1,408,548	1,317,667
COST OF GOODS SOLD	18	1,261,006	1,115,623
GROSS PROFIT		147,542	202,044
ADMINISTRATIVE, SELLING AND GENERAL EXPENSES	19	53,645	51,011
OPERATING PROFIT		93,897	151,033
OTHER INCOME	20	83,786	79,430
		177,683	230,463
FINANCIAL AND OTHER CHARGES	21	31,130	55,963
PROFIT BEFORE TAXATION		146,553	174,500
PROVISION FOR TAXATION	22	38,953	37,328
PROFIT AFTER TAXATION		107,600	137,172
UNAPPROPRIATED PROFIT BROUGHT FORWARD		913	2,754
PROFIT AVAILABLE FOR APPROPRIATION		108,513	139,926
APPROPRIATIONS			
Proposed dividend Rupees 1 .50 (2003: Rupees 2.50) per share		36,008	60,013
Transfer to general reserve		70,000	79,000
		106,008	139,013
UNAPPROPRIATED PROFIT		2,505	913
EARNINGS PER SHARE (Rupees)	26	4.48	5.71

Cash Flow Statement

for the year ended 30 September 2004

	2004	2003
(Rupees in thousand)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	146,553	174,500
Adjustment for non-cash charges and other items		
Depreciation	61,759	64,484
Gratuity	-	3,454
Unrealized loss on forward contracts	-	1,345
Gain on disposal of fixed assets	-1,425	-16,811
Dividend income	-54,464	-60,967
Gain on disposal of investment	-23,017	-
Gratuity Provision reverse	-2,880	-
Financial charges	23,393	45,414
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE ADJUSTMENT OF WORKING CAPITAL	149,919	211,419
(Increase)/decrease in current assets		

Stores, spare parts and loose tools	459	5,352
Stock-in-trade	-151,161	73,361
Trade debts	-39,559	4,080
Advances, deposits and other receivables	80,580	-68,093
Increase/(decrease) in current liabilities		
Short term finances	-10	20,444
Creditors, accrued and other liabilities	-9,629	5,998 L_
EFFECT ON CASH FLOW DUE TO WORKING CAPITAL CHANGES	-119,320	41,142
CASH GENERATED FROM OPERATING ACTIVITIES	30,599	252,561
Financial charges paid	-28,777	-53,988
Income tax paid	-27,047	-16,800
Gratuity paid	-9,514	-1,375
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	-34,739	180,398

	2004	2003
	(Rupees in thousand)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed assets acquired	-13,781	-83,248
Sale proceeds of fixed assets	8,403	30,475
Long term security deposits	59	-933
Dividend income received	54,464	60,967
Sale proceeds of investment	52,276	-
Short term investment acquired	-332	-97,938
NET CASH GENERATED/(USED IN) FROM INVESTING ACTIVITIES	101,089	-90,677
CASH FLOWS FROM FINANCING ACTIVITIES		
Redeemable capital	.	-75,000
Dividend paid	-59,697	-35,701
NET CASH USED IN FINANCING ACTIVITIES	-59,697	-110,701
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	6,653	-20,980
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,747	24,727
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10,400	3,747

Statement of Changes in Equity
for the year ended 30 September 2004

	CAPITAL RESERVE	SHARE-	SHARE-	SHARE-	SHARE-	SHARE-
	SHARE CAPITAL	Fair Value	General Reserve	Unappropriated Profit	Sub-Total	HOLDERS' EQUITY
	(Rupees in thousand)					
Balance as at 01 October 2002	240,052	59,408	406,111	2,754	408,865	708,325
Fair value gain during the year	-	344,054	-	-	-	344,054
Net profit for the year	-	-	-	137,172	137,172	137,172
Appropriations:						
Dividend	-	-	-	-60,013	-60,013	-60,013
Transfer to general reserve	-	-	79,000	-79,000	-	-
Balance as at 30 September 2003	240,052	403,462	485,111	913	486,024	1,129,538
Fair value gain during the year	-	305,880	-	-	-	305,880
Release of fair value gain on disposal of investment	-	-34,193	-	-	-	-34,193
Net profit for the year	-	-	-	107,600	107,600	107,600
Appropriations:						
Proposed dividend	-	-	-	-36,008	-36,008	-36,008
Transfer to general reserve	-	-	70,000	-70,000	-	-
Balance as at 30 September 2004	240,052	675,149	555,111	2,505	557,616	1,472,817

Notes to the Accounts
for the year ended 30 September 2004

1. THE COMPANY AND ITS ACTIVITIES

Umer Fabrics Limited is a public limited company incorporated in Pakistan under the Companies Ordinance, 1984 and listed on Lahore and Karachi Stock Exchanges of Pakistan. Its registered office is situated at Lahore. The company is principally engaged in the manufacturing and trading of yarn.

1.1 The company is in the process of merger with Nishat (Chunian) Limited and Nishat Mills Limited. The effective date of merger is 01 October 2004 subject to approval of scheme of arrangement by the Honourable Lahore High Court, Lahore.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 **Basis of preparation of financial statements**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

The accounts have been prepared under the historical cost convention except for revaluation of certain financial instruments at fair value.

2.3 **Employees' retirement benefits**

Gratuity

The company has replaced the gratuity scheme with provident fund scheme for permanent employees with effect from 30 June 2003.

Provident Fund

There are approved and unapproved contributory provident funds for its site and head office employees respectively. Equal monthly contributions are made by the company and employees to the fund in accordance with the fund rules. The company's contributions to these funds are charged to income currently.

2.4 Provision

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

2.5 Taxation

Current

Provision for tax on income from local sales and other income is based on taxable income at current rates after taking into account tax rebates and credits available, if any. The company falls in the ambit of presumptive tax regime under section 169 of the Income Tax Ordinance, 2001 to the extent of its export sales.

Deferred

Deferred tax is accounted for by using the liability method on all timing differences between the carrying amounts of assets and liabilities in the financial statements and their tax base. Deferred tax liabilities are recognized for all taxable temporary differences. The company recognizes deferred tax assets on all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which these deductible temporary differences can be utilized. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

2.6 Foreign currency

Assets and liabilities in foreign currencies are translated at the rates of exchange prevailing at balance sheet date or at the contracted rates while foreign currency transactions are initially recorded at the rates of

Tangible fixed assets and depreciation

Operating fixed assets except freehold land are stated at cost less accumulated depreciation. Freehold land and capital work-in-progress are stated at cost. Cost of tangible fixed assets consists of historical cost, borrowing cost pertaining to the erection/construction period and other directly attributable cost of bringing the assets to working condition.

Depreciation on operating fixed assets is charged to income on the reducing balance method at the rates given in note 9 to write off the cost over their expected useful lives. The full annual rate of depreciation is applied to the cost of additions except for major additions or extensions to production facilities. Major additions or extensions to production facilities are depreciated on a pro-rata basis for the period of use

during the year. No depreciation is charged on assets deleted during the year.

Maintenance and normal repairs are charged to current year's income. Major renewals and replacements are capitalized. Gain or loss on disposal of operating fixed assets is included in current year's income.

Equity investments

Investments are initially recognized on trade-date at cost, comprising of consideration paid and cost of transaction. For listed securities, closing quotations of stock exchanges on last working day of the accounting year are considered for determining fair value, while for unquoted securities, fair value is determined considering break-up value of the securities. Its classification is made on the basis of intended purpose for holding such investments. These are measured at the balance sheet date on the following basis:

Held-to-Maturity

These are stated at amortized cost less impairment loss, if any, recognized to reflect irrecoverable amounts. Impairment losses are charged to profit and loss account.

Held for Trading

These are recognized at fair value and changes in carrying values are included in profit and loss account.

Available for Sale

These are stated at fair value and changes in carrying values are recognized in equity until investment is sold or determined to be impaired at which time the cumulative gain or loss previously recognized in equity is included in profit and loss account for the year.

Financial instruments

All other financial assets and liabilities are recognized at cost which is the fair value of the consideration given or received at the time when the company becomes a party to the contractual provisions of the instrument by following trade date accounting. Any gain or loss on subsequent measurement and derecognition is charged to income.

) Derivative financial instruments

Forward exchange covers from banks are stated at fair value. The fair value is equivalent to unrealized gain or loss from re-measuring the derivative using prevailing exchange rates. Unrealized gain included in other receivables and unrealized losses are included in other liabilities in the balance sheet. The resulting gain and losses are credited / charged to income currently.

I Stores, spare parts and loose tools

Usable stores, spare parts and loose tools are valued principally at moving average cost, while items considered obsolete are carried at nil value.

Stock-in-trade

Stocks of raw material, work-in-process and finished goods are valued at the lower of annual average cost and net realizable value except waste which is valued at contract prices. Average cost of work-in-process and finished goods comprises cost of direct material, labour and appropriate manufacturing overheads. Goods purchased for resale are stated at lower of cost based on average purchase price and net realizable value. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make a sale.

2.13 Trade debts

Known bad debts are written off. Receivables are carried at original and provision is made against debts considered doubtful.

2.14 Borrowing costs

Interest, mark up and other charges on long term liabilities are capitalized up to the date of commissioning of respective fixed assets acquired out of the proceeds of such long term liabilities, if it takes considerable period for erection / construction. All other interests, mark-up and other charges are charged to income.

2.15 Offsetting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the company intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

2.16 Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated and impairment losses are recognized in the profit and loss account.

2.17 Revenue recognition

Revenue from sales is recognized on dispatch of goods to customers. Dividend income on equity investments is recognized as and when right to receive dividend is established. The return on short term placement of funds with banks and financial institutions is accounted for on a time proportion basis at the rates of profit applicable thereon.

2.18 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and in transit and balances with banks.

2.19 Related party transactions and transfer pricing

Transactions and contracts with the related parties are carried out at an arm's length price determined in accordance with comparable uncontrolled price method.

	2004	2003
	(Rupees in thousand)	
ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL		
14,127,750 ordinary shares of Rupees 10 each fully paid up in cash	141,277	141,277
9,877,455 ordinary shares of Rupees 10 each issued as fully paid to the shareholders of Raza Textile Mills Limited in accordance with the scheme of arrangement allowed by the Lahore High Court, Lahore	98,775	98,775
	240,052	240,052

	2004	2003
	(Rupees in thousand)	
RESERVES		
Capital		
Fair value reserves	675,149	403,462
Revenue		
General	555,111	485,111
Unappropriated profit	2,505	913
	557,616	486,024
	1,232,765	889,486

	2004	2003
	(Rupees in thousand)	
SHORT TERM FINANCES		
From banking companies		
Cash finances (Notes 6.1 and 6.2)	261,689	227,132
Preshipment finances (Notes 6.1 and 6.3)	100,515	225,000
Temporary bank overdraft (Notes 6.1 and 6.4)	138,947	49,029
	501,151	501,161

	2004	2003
	(Rupees in thousand)	
CREDITORS, ACCRUED AND OTHER LIABILITIES		
Creditors	14,871	24,698
Income tax deducted at source	1,030	150
Mark-up on redeemable capital	-	57
Mark-up on short term finances		
Cash finances	2,077	2,519
Preshipment finances	869	2,054
Postshipment finances	-	270
Overdraft facilities	471	488
	3,417	5,331

Unclaimed dividend	4,072	3,756
Excise duty payable	2,950	6,363
Workers' profit participation fund (Note 7.1)	8,181	9,652
Accrued liabilities (Note 7.3)	15,983	15,138
	50,504	65,145

7.1 WORKERS' PROFIT PARTICIPATION FUND

Balance as on 01 October	9,652	6,788
Interest provided during the year (Note 7.2)	444	367
	10,096	7,155
Payments made during the year	9,652	6,707
Unclaimed balances	444	448
Share in company's profit for the year (Note 21)	7,737	9,204
	8,181	9,652

2004 2003
(Rupees in thousand)

10. LONG TERM INVESTMENTS

Available for sale:

Quoted

Muslim Commercial Bank Limited - Bank

2,952,035 (2003: 2,683,668) fully paid ordinary shares of Rupees 10 each	68,945	68,945
Add :Surplus on revaluation	78,362	51,283
Market Value	147,307	120,228

Unquoted

Security General Insurance Company Limited-Insurance

775,581 (2003: 705,075) fully paid ordinary shares of

Rupees 10 each. Equity held 7.05 % (2003: 7.05%)

Break-up value was Rupees 15.79 (2003: Rupees 12.54) per share as per audited accounts for the year ended on 31 December 2003.

Add:Surplus on revaluation	5,250	5,250
Fair Value	6,996	3,592
	12,246	8,842
	159,553	129,070

11. STORES, SPARE PARTS AND LOOSE TOOLS

Stores	5,029	5,472
Spare parts	10,138	10,135
Loose tools	29	48
	15,196	15,655
Less: Provision for obsolete stores	450	450
	14,746	15,205

12. STOCK-IN-TRADE

Raw material [Including in transit Rupees 0.087 million (2003: Rupees 5.549 million)]

Work-in-process	201,943	67,979
Finished goods	15,493	9,556
Waste	18,802	6,141
	2,360	3,761
	238,598	87,437

2004 2003
(Rupees in thousand)

SHORT TERM INVESTMENTS

Available For Sale

Quoted

Related Parties

Nishat Mills Limited -Textile

Nil (2003: 1,201,750) fully paid ordinary shares of Rupees 10 each

Nishat (Chunian) Limited -Textile

6,096,750 (2003: 6,096,750) fully paid ordinary shares of Rupees 10 each
Equity held 13.75% (2003: 13.75%)

Others

Adamjee Insurance Co Limited - Insurance

3,967 (2003: NIL) fully paid ordinary shares of Rupees 10 each

Muslim Commercial Bank - Bank

	332	-
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10,996,175 (2003: 9,996,525) fully paid ordinary shares of Rupees 10 each	223,176	223,176
	343,246	372,173
Add: Surplus on revaluation of investment	589,790	348,587
Market value	933,036	720,760
TRADE DEBTS-CONSIDERED GOOD		
Unsecured	18,486	18,765
Secured (against letters of credit)	70,458	30,620
	88,944	49,385
ADVANCES, DEPOSITS AND OTHER RECEIVABLES		
Advances - Considered good		
To company's employees (Note 15.1)	496	450
To goods suppliers/contractors	9,987	8,039
Letters of credit	26,212	79,774
Income tax	74,201	82,832
Sales tax refundable	10,319	36,831
Other receivables - Considered good		
Rebate and other claims receivable	498	2,998
	121,713	210,924

2004 2003
(Rupees in thousand)

CASH AND BANK BALANCES		
Cash in hand	95	44
Cash with banks on		
Saving accounts	218	289
Current accounts	10,087	3,414
	10,400	3,747

SALES		
Export (Note 17.1)	896,800	838,866
Local (Note 17.2)	521,049	493,272
	1,417,849	1,332,138
Less: Commission to selling agents (Notes 17.3)	9,301	14,471
	1,408,548	1,317,667

17.1 EXPORT SALES		
Yarn	806,284	781,743
Waste	40,306	53,131
Purchased goods	50,210	3,992
	896,800	838,866

17.2 LOCAL SALES		
Yarn	529,246	483,521
Waste	31,431	25,513
Purchased goods	26,054	50,966
Doubling income	3,288	6,788
	590,019	566,788
Less: Sales tax	68,970	73,516
	521,049	493,272

17.3 COMMISSION TO SELLING AGENTS		
Export Sales	9,059	13,873
Local Sales	242	598
	9,301	14,471

2004 2003
(Rupees in thousand)

COST OF GOODS SOLD		
Raw material consumed (Note 18.1)	898,308	739,736
Salaries, wages and other benefits	64,572	63,334
Provident fund/Employees gratuity	1,686	3,454
Fuel and power	124,800	129,239
Packing material	17,047	18,374
Stores, spare parts and loose tools	25,399	17,210
Insurance	2,340	2,523
Other factory overheads	16,004	14,519

Depreciation (Note 9.1)	60,003	62,293
	1,210,159	1,050,682
Work-in-process		
Opening inventory	9,556	10,965
Closing inventory	-15,493	-9,556
	-5,937	1,409
Cost of goods manufactured	1,204,222	1,052,091
Cost of goods purchased for resale		
Export	44,987	3,611
Local	23,057	44,190
	68,044	47,801
Finished goods		
Opening inventory	9,902	25,633
Closing inventory	-21,162	-9,902
	-11,260	15,731
	1,261,006	1,115,623
18.1 RAW MATERIAL CONSUMED		
Opening stock	62,430	124,200
Purchases during the year	1,037,734	677,966
	1,100,164	802,166
Closing stock	201,856	62,430
	898,308	739,736

2004 2003
(Rupees in thousand)

ADMINISTRATIVE, SELLING AND GENERAL EXPENSES

Salaries, wages and other benefits	10,666	7,980
Provident fund contributions	165	142
Clearing and forwarding	25,783	27,867
Legal and professional	496	210
Insurance	775	829
Traveling and conveyance	2,666	2,959
Vehicles' running	829	811
Entertainment	140	107
Fee, subscription and taxes	1,929	1,823
Auditors' remuneration		
Statutory audit	160	160
Half year review	50	50
Certifications and others	28	50
	238	260
Advertisement	178	117
Postage, telephone and telegrams	2,278	2,392
Electricity and sui gas	650	824
Printing and stationery	674	701
Miscellaneous	3,478	1,022
Depreciation	1,756	2,191
Donations (Note 19.1)	944	776
	53,645	51,011

19.1 Donations were given to Mian Muhammad Yahya Trust.

OTHER INCOME

Dividend (Note 20.1)	54,464	60,967
Sale of scrap	727	1,594
Mark-up on balance due from D.G. Khan Cement Company Limited - Related party (Note 20.3)	66	30
Gain on disposal of Investment (Note 20.2)	23,017	-
Gain on disposal of fixed assets	1,425	16,811
Profit on deposits with banks	5	28
Provision for gratuity reversed	2,880	-
Exchange gain	1,202	-
	83,786	79,430

2004 2003

(Rupees in thousand)

FINANCIAL AND OTHER CHARGES

Financial		
Mark-up on redeemable capital		3,384
Interest on workers' profit participation fund (Note 7.2)	444	367
Mark-up on short term finances		
Cash finances	6,683	24,454
Preshipment finances	6,842	7,549
Overdraft facilities	3,407	2,045
	16,932	34,048
Bank charges and commission	6,017	7,615
	23,393	45,414
Other charges		
Workers' profit participation fund (Note 7.1)	7,737	9,204
Unrealized loss on forward contracts (Note 7.3)		1,345
	31,130	55,963
PROVISION FOR TAXATION		
Current	29,404	34,521
Prior year	9,741	1,157
Deferred	-192	1,650
	38,953	37,328

22.1 RELATIONSHIP BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT

Profit before taxation	146,553	174,500
Tax at the applicable rate of 35%	51,294	61,075
Tax effect of accelerated tax depreciation and provision for gratuity	-192	1,650
Tax effect of dividend income taxed at different rate	-16,399	-18,290
Tax effect due to income under section 169	-3,558	-9,309
Tax effect due to separate blocks of income	(1,933)	1,045
Effect of change in prior year's tax	9,741	1,157
	38,953	37,328

2004 2003

(Rupees in thousand)

Purchase of goods and services	48,344	13,442
Sale of goods and services	324,220	321,215
Dividend paid	29,659	17,795
Dividend income	24,665	13,856
	426,888	366,308

2004 2003

(Rupees in thousand)

EXECUTIVES

Remuneration	1,848	1,696
House rent	804	735
Utilities	120	113
Leave encashment	45	42
Bonus	146	-
	2,963	2,586
Number of persons	3	3

EARNINGS PER SHARE - BASIC

There is no dilutive effect on the basic earnings per share of the company which is based on:

2004 2003

(Rupees in thousand)

Net profit for the year	107,600	137,172
Number of ordinary shares	24,005,205	24,005,205
Earnings per share	4.48	5.71

2004 2003

Percentage Percentage

Financial assets		
Due from associated undertakings	-	14.5
Profit on bank deposits	1 to 2	1 to 2
Financial liabilities		
Redeemable capital	-	10
Short term finances	1 .75 to 8	1.75 to 14. 50
Employees provident fund	3 to 8.33	3 to 5
Workers' profit participation fund	18.75	11.25

PLANT CAPACITY AND ACTUAL PRODUCTION

	2004	2003
Total number of spindles installed (Per Shift)	38,544	38,544
Rated capacity converted into 20/s count (Kgs.)	15,461,761	15,271,849
Actual production converted into 20/s count (Kgs.)	15,232,684	15,040,416
Number of shifts worked per day	3	3
Total number of shifts worked during the year	1,093	1,093

Pattern of Share Holding

SHARE HOLDERS	SHARES FROM	HOLDING TO	TOTAL SHARES HELD	
	813	1	100	35588
	1178	101	500	257916
	267	501	1000	204806
	274	1001	5000	630721
	47	5001	10000	340820
	13	10001	15000	165130
	12	15001	20000	214466
	4	20001	25000	94060
	6	25001	30000	166441
	3	30001	35000	101000
	1	35001	40000	35178
	1	40001	45000	44200
	1	45001	50000	48652
	1	50001	55000	53152
	1	55001	60000	55415
	1	60001	65000	63000
	1	80001	85000	84000
	1	85001	90000	86500
	1	100001	105000	105000
	1	120001	125000	123500
	11 70001	1 75000		171267
	1	285001	290000	285050
	3	315001	320000	947335
	1	340001	345000	341026
	1	395001	400000	400000
	1	515001	520000	518914
	1	695001	700000	700000
	1	870001	875000	875000
	1	1470001	1475000	1472000
	1	2035001	2040000	2036030
	1	2185001	2190000	2185500
	1	4685001	4690000	4686758
	1	6475001	6480000	6476780
	2,642			24,005,205

INFORMATION UNDER CLAUSE XIX(i) OF THE CODE OF CORPORATE GOVERNANCE

Shareholding Percentage

1. Associated Companies:		
D.G.Khan Cement Company Limited	6,476,780	26.98

Nishat Mills Limited	-	-
2. NIT & ICP:		
National Bank of Pakistan, Trustee Department	2,041,689	8.51
Investment Corporation of Pakistan Limited	652	0
3. Directors, CEO, their spouse and minor children:		
Mian Hassan Mansha (Director)	315,793	1.32
4. Executives:	-	-
5. Public Sector, Companies & Corporations:		
Joint Stock Companies	8,966,205	37.35
6. Banks, Development Finance Institutions, Non Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds:		
a) Investment Companies	7,942	0.03
b) Insurance Companies	6,849,281	28.53
c) Financial Institutions	3,612,276	15.05
d) Modaraba Companies	28,122	0.12
e) Mutual Fund	44,200	0.18
7. Share holding ten percent or more voting interest in the company:		
D.G.Khan Cement Company Limited	6,476,780	26.98
Security General Insurance Company Limited	4,686,758	19.52