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54 Annual Report  
2009

**54<sup>th</sup>**

**Annual Report**

**2009**



# 54th Annual Report 2009

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***Company Informatnion***

**Board of Directors  
(Chairman/Cheif Executive)**

*Sohail Farooq Shaikh*

**Directors**

*Farrukh Haroon Rashid  
Shahid Aziz (Nominee NIT)  
Mrs. Neelum Sohail Shaikh  
Mrs. Nazifa Khaliq  
Mrs. Nadia Shaikh  
Miss. Surriyya Shaikh*

**Audit Committee**

*Mrs. Nazifa Khaliq  
Shahid Aziz  
Mrs. Neelum Sohail Shaikh*

**Company Secretary**

*Farzand Ali Bangash*

**Cheif Financial Officer**

*Mohammad Amjad Iqbal*

**Auditors**

*Naveed Zafar Hussain Jaffery & Co.  
Chartered Accountants, Islamabad.*

**Share Registrar**

*Nasir Absar & Co (Pvt) Ltd, Islamabad*

**Registered Office**

*125-Murree Road, Rawalpindi.*

**Factory :**

*Ismail Kot, Railway Station  
Khushalkot, Nowshera, NWFP*



**NOTICE OF MEETING**

Notice is hereby given that the Fifty Fourth Annual General Meeting of the Company will be held at the Registered Office 125 Murree Road Rawalpindi on Saturday the 31st day of October 2009 at 1400 hrs to transact the following business:

**ORDINARY BUSINESS**

1. To confirm the minutes of the Fifty Third Annual General Meeting.
2. To receive, consider and adopt the Balance Sheet and Profit and Loss Account along with notes for the year ended 30th June 2009 together with the Directors' and Auditors' reports thereon.
3. To appoint Auditors of the Company for the year 2009-2010 and fix their remuneration.
4. To transact any other business with the permission of Chair.

By order of the Board.

Rawalpindi  
06 October, 2009

**FARZAND ALI BANGASH**  
Company Secretary

**Notes:-**

1. The Share Transfer Books of the Company for the purpose of General Meeting will remain closed from 25th October 2009 to 31st October 2009 (both days inclusive).
  2. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend the meeting and vote for him/her. No person shall act as a proxy who is not a member of the Company. Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting.
  3. Members are requested to promptly communicate to the Company any change in their address to ensure prompt delivery of mail.
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## **DIRECTORS' REPORT TO THE SHAREHOLDERS**

The Directors welcome you to the 54<sup>th</sup> Annual General Meeting of the Company and are pleased to place before the members the financial statements along with Auditors' Report there on for the year ended 30 June 2009.

### **Company Affairs**

Adhering to the payment schedule fixed under the terms of the Settlement Agreement with the Banks and Financial Institutions has been the primary concern of the Company. We are pleased to report that the sponsor Directors continued to meet the requisite obligations on behalf of the Company during the period, thereby keeping the Company on track to achieving the substantial benefits of complying with the Settlement Agreement referred to earlier. These actions have increased the Directors' financial contribution towards sustaining the Company to RS. 166.306 Million from Rs. 137.303 Million at the end of the last financial year. This is significant as it is aimed at securing a long-term benefit to shareholders by the waiver of over RS.291 million of Deferred Income.

In furtherance of these objectives and related Court Orders, the Company was constrained to seek and secure shareholders approval to dispose off the unserviceable plant and machinery through a Special Resolution dated 29 November 2008, so as to meet its obligations to creditors. Pursuant to this the Company's plant and machinery was re-classified as 'available for sale' at a realisable value of Rs. 40 Million in accordance with IFRS 5 as at 30 June 2009.

### **Events subsequent to the close of the financial year**

The Company finalised a transaction with M/s Nawaz Khan Trading Company, to sell the unserviceable plant and machinery for an amount of Rs. 40 million. The said amount will be utilised to pay off the entire outstanding balance of the Settled Amount to its Creditors under the terms of the Settlement Agreement dated 19 May 2007, which process was ongoing at date of this Report.

The Company, however, remained in a non-operating mode during the entire year. The principal reason for first curtailing, and subsequently ceasing, production, was to mitigate the losses during the phase where the Company is not in any position to raise working capital and is in the process of meeting its debt Obligations fixed by an award under SBP Circular 29.

The Company has incurred book losses amounting to RS. 72.499 Million for the year, which translates into a loss of RS. 18.12 per share. The loss for the year includes an amount of RS.52.565 Million as an impairment loss on reclassification of assets as 'held for sale'. Additionally, there was an enhanced depreciation charge of over Rs 3.1 Million for the year as a result of compliance with the requirements of the accounting standards, as interpreted by the regulators and the Institute of Chartered Accountants. The losses also comprise unabsorbed costs relating to personnel compensation,, insurance, administrative expenses, audit fees and financial costs, all of which are at the minimum level required to preserve and protect the Company's existing Assets.



**Auditors' Qualifications***(a) Going Concern Assumption*

The Company has curtailed its operations but the Directors have continued to advance funds so as to meet expenditure and debt repayments. Payments under the Settlement Agreement of 19 March 2007, which quantified the total liability of the Company to its Bank and Financial Institutional Creditors at Rs. 52.27 million, were made on due dates making it possible to secure the benefit of the write-downs for the shareholders. Since the Company has, subsequent to the date of the Balance Sheet, almost discharged its obligation to the Banks and Financial Institutions, the Company's can now re-assess its course of action and formulate a meaningful plan. To this end the Company plans to seek shareholders' approval to engage in the exercise of formulating a plan during the ensuing period.

During the current financial year, the Company's Financial Statements were prepared on a going concern basis, primarily due to the commitment of the Directors to meet its obligations. The Principal creditors continued to be paid and funds continued to be provided to sustain the expenses of the Company. Based on the circumstances explained above and, till such time as the Deferred Income of RS. 291.622 Million and the related Court Decrees remained in place, it had not been possible to prepare a revival plan for the future direction of the Company.

Now that the Creditors obligations are almost discharged, the Company intends to move the Banks to release all securities and bring all Court related matters to closure. It is also intended to revalue the Land and Buildings and the value of the infrastructure that belongs to the Company. It is felt that, notwithstanding the disposal of unserviceable Plant and Machinery, the Company has sufficient assets and valuable infrastructure in place to explore new lines of business. Based on the outcome of the proposed plan the Directors shall make an assessment of the propriety or otherwise, of continuing to prepare the financial statements of the Company on a going concern basis in the following year.

Whilst it is not possible to provide precise details till a plan is formulated, the Directors feel that a scheme of arrangement with the Associated Company, Suhail Jute Mills Ltd., which is also located in Nowshera, would considerably enhance its ability to raise finances for a new venture as well as reduce duplicated administrative costs.

It is intended that a detailed plan be prepared after the obligations have fully met and all legal uncertainties are removed. It is expected that this can be attained during the course of the ensuing financial year.

*(b) Stock in Trade*

The Company continues to pursue its claims in this regard and this matter remains *sub-judice*. As such, it has been considered prudent to defer any final treatment of this matter till such time as the obligations under the Deferred Liability are waived or, the matter is otherwise settled by the Courts. It remains our contention that the issue is only finally determinable in the light of the award under SBP Circular 29, which quantified the total, final liability of the Company to its Institutional Creditors and will be computed only after the Company's obligations under the Settlement Agreement have been fully met.



Please refer to Note 16.1 where the background of this transaction is fully explained

The stock of cloth, not forming part of the collateral, remains in the custody of NBP and the Company is not allowed to access the stock. This matter is fully described in Note 8 and the final disposition of this matter is dependent upon the waiver adjustment available on the satisfactory conclusion of the terms of the Settlement Agreement.

#### **Emphasis of Matter paragraphs in the Auditors' Report**

In respect of the matters to which the auditors have drawn attention without qualifying their report, the waiver adjustment carried as 'Deferred Income' can only be recognised when the obligations to the Banks are fully discharged and the outstanding Court Decrees are vacated.

Further, the amount of Rs 13.5 Million represents a claim by the Company against a former employee. As the matter is the subject of Civil and Criminal litigation the Company believes that the amount ought to be so reflected in the books. The civil suit was decided in favour of the Company and execution proceedings are underway. Please refer to Note 18.1 in this regard.

In respect of the comments by auditors about matters qualified in previous years report but no longer in effect we are pleased to confirm that the Company has chosen to comply with the SECP directives in these matters and, comment thereon as under.

#### *Depreciation Charge*

The qualification relating to depreciation was first made in the Auditor's Report of 7 March 2002 pertaining to their Audit of the Accounts of the Company for the year ended 30 September 2001 and the matter was fully addressed in the Director's Report of 7 March 2002.

In our view, it was as a matter of policy that we chose to alter the extent to which depreciation was charged on fixed assets, based on our assessment of utilization of the asset for economic purposes in each year since. This reflects an Accounting policy decision that has been consistently applied since the financial year ended 30 September 2001.

The objective of IAS 16 is to prescribe the accounting treatment for property, plant, and equipment. The principal issues are the timing of recognition of assets, the determination of their carrying amounts, and the depreciation charges to be recognized in relation to them. IAS 16 does not prescribe the rates at which assets are to be depreciated and further allows leeway in the methodology to be adopted.

Nevertheless, based on the SECP's insistence and, following the interpretation of the ICAP, the management has chosen to apply the basis prescribed. This has had the effect of increasing the depreciation charge for the year by RS.3.8 Million over the previous year's charge. We have complied with the view taken by the regulators on this matter.

#### *Provident Fund*

As per requirements of the Section 227 of the Companies Ordinance, 1984 a separate bank account for this purpose was opened. The amount appearing as payable to provident fund consists of balances mainly payable to ex-employees of the Company whose services were terminated due to breach of contracts or downsizing during the period of ongoing disputes with financial institutions / banks. A major portion of these



balances would ultimately not be payable by the Company. Nevertheless, in compliance with the SECP directive, the Directors have deposited the funds from their own resources in a separate Bank Account opened for the Account of the Employees Provident Fund. Please refer to Notes 10.3 and 32.

**Earnings/ (Loss) per share**

The Company has incurred a net loss of RS. 18.12 per share as compared to the net loss per share of Rs. 3.70 in the corresponding period of last year. The increase in the net loss is primarily due to the impairment loss on re-classification and higher depreciation charges, which are fully described above under '**Company Affairs**'.

**Default in repayment of Debts**

We are pleased to report that the Company has not defaulted in the repayment of its debt obligations during the period under report.

**Dividends/ Payout**

The state of the Company's finances precludes the directors from even considering any payout and we thank the shareholders for their patience and support.

**Reserves .**

The amount of diminution in the fair value reserve of marketable securities, amounting to Rs. 5.490 Million was adjusted in Reserves through the equity statement. The corresponding amount adjusted last year was an unrealised gain in the fair value reserve of marketable securities, amounting to Rs. 8.740 Million

**Corporate Governance**

Our comments on the Auditors Review Report are as follows:

1. The Company has not been in a financial position to declare dividends and is facing strictures from the Stock Exchanges in this regard. The lack of funds has also not permitted the payments of subscription of the Stock Exchanges.
2. The Company has not organised a formalised, separate, Internal Audit Function as it is not financially feasible. However as a Company that has been in existence for over half a century it has built in procedures which, in the opinion of the Directors, provide an adequate degree of internal control in the special circumstances of the Company which has curtailed production. In any event the adequacy of internal control in the procedures is further augmented by involving the Audit Committee more closely in major transactional matters.
3. The Company has not been able to arrange structured orientation courses for its directors due to financial considerations. However, Directors have been made aware of their responsibilities and duties and the requirements of the Code as well as being acquainted with emerging changes in Best Practices, from time to time



**Pattern of Shareholding**

The pattern of Shareholding and information under clause xix(i) of the Code of Corporate Governance as on 30 June 2009 is annexed with the Financial Statements.

**Board Meetings**

During the year the four (4) meetings of the Board of Directors was held. Attendance of the Directors was as follows:

S.NO	NAME OF DIRECTOR	ATTENDANCE
1	Mr. Sohail Farooq Shaikh	4
2	Mr. Shahid Aziz	4
3	Mrs. Neelum Sohail	3
4	Mr. Farrukh Haroon Rashid	3
5	Mrs. Nadia Shaikh	3
6	Mrs. Nazifa Khaliq	1
7	Miss Surriya Shaikh	2

The Board wishes to place on record its sincere appreciation of the dedicated efforts of the Company's employees at all levels.

ON BEHALF OF THE BOARD OF DIRECTORS

RAWALPINDI  
06 OCTOBER 2009

SOHAIL FAROOQ SHAIKH  
CHAIRMAN/ CHIEF EXECUTIVE



## KEY OPERATING FINANCIAL DATA

A statement of summarised key operating and financial data of the Company for the seven (7) years is summarised to the annual report

PARTICULARS	2009	2008	2007	2006	2005	2004	2003
Net Sales	-	-	35,506,458	59,180,053	49,612,266	99,650,855	118,817,297
Unabsorbed direct cost / Cost of Sales	9,405,117	5,567,223	45,598,956	70,605,601	51,517,420	96,872,774	12,202,180
Operating Expenses	3,869,672	3,315,316	4,268,474	4,926,425	3,786,798	4,752,003	5,565,387
Other Income	(392,960)	(1,128,334)	(1,265,759)	283,999	488,076	409,966	412,407
 Earning per Share - Rupees	 (18.12)	 (3.70)	 (5.41)	 (6.19)	 (3.03)	 (2.76)	 (4.60)
 Financial Position							
Equity	(304,425,336)	(228,843,289)	(222,782,820)	(205,486,248)	(182,343,125)	(200,697,393)	(189,656,893)
Reserve on Revaluation of Fixed Assets	164,339,260	278,060,150	278,782,358	280,381,770	282,015,868	312,508,709	312,508,709
Disputed Liabilities	-	11,760,750	27,441,750	343,891,690	343,891,690	343,177,690	343,177,690
Due to Associated Undertaking	62,427,328	59,971,977	57,512,637	55,065,259	52,611,579	32,606,691	31,146,023
Deferred Liabilities	292,904,356	292,904,356	293,072,510	4,015,596	3,808,049	3,699,288	3,930,888
Taxation	3,234,716	3,232,576	3,365,392	3,470,528	3,176,867	2,928,806	2,834,764
Current Liabilities	209,655,049	184,583,594	156,806,548	121,634,659	112,134,658	122,015,271	115,256,853
	<b>428,135,373</b>	<b>601,670,114</b>	<b>594,198,375</b>	<b>602,973,253</b>	<b>615,295,587</b>	<b>616,239,062</b>	<b>619,198,034</b>
 Fixed Capital Expenditure	 177,745,824	 385,645,329	 386,560,613	 388,273,103	 390,703,231	 392,166,828	 394,174,192
Investment	11,000,000	16,490,000	7,750,000	5,000,000	5,000,000	5,000,000	5,000,000
Current Assets	239,389,549	199,534,785	199,887,762	209,700,150	219,592,356	219,072,234	220,023,842
	<b>428,135,373</b>	<b>601,670,114</b>	<b>593,998,375</b>	<b>602,973,253</b>	<b>615,295,587</b>	<b>616,239,062</b>	<b>619,198,034</b>



## PATTERN OF SHARE HOLDINGS AS AT 30TH JUNE 2009

No. of shareholders	share held		Total share held
287	From 1	to 100	SHARES 11,208
367	From 101	to 500	SHARES 86,750
147	From 501	to 1,000	SHARES 101,066
183	From 1,001	to 5,000	SHARES 376,546
25	From 5,001	to 10,000	SHARES 171,993
12	From 10,001	to 20,000	SHARES 173,022
8	From 20,001	to 50,000	SHARES 243,552
6	From 50,001	to 100,000	SHARES 482,715
7	From 100,001	to 200,000	SHARES 987,515
1	From 200,001	to 500,000	SHARES 222,257
2	From 500,001	to 1,000,000	SHARES 1,143,376
<b>1045</b>			<b>4,000,000</b>

Categories of shareholders	Number	Share held	Percentage
Individuals	1011	3,019,183	75.48
Investment Companies	8	52,206	1.30
Insurance Companies	3	73,898	1.85
Joint Stock Companies	13	4,747	0.12
Financial Institutions	8	827,151	20.68
Modaraba Companies	1	22,814	0.57
Corporate Law Authority	1	1	0.00
	<b>1040</b>	<b>4,000,000</b>	<b>100.00</b>



# (COLONY) SARHAD TEXTILE MILLS LIMITED 11

## DETAIL OF PATTERN OF SHAREHOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE AS AT 30TH JUNE, 2009

### ASSOCIATED COMPANIES, UNDERTAKING, RELATED PARTIES, NIT, ICP AND INVESTMENT COMPANIES

Investment Corporation of Pakistan	2,630
Naeem Securities Ltd	592
NH Securities (Pvt) Ltd	26
H M Investment, Karachi	547
Munizah Investment	673
Sheriaf F. Irani Investment Ltd	7
Investment Corporation of Pakistan	53,563
H M Investment Ltd (A/c Lahore Commercial Bank)	1,068

### BANKS / FINANCIAL INSTITUTIONS

Habib Bank Ltd	1,062
Commerce Bank Ltd	39
United Bank Ltd	30
Habib Bank Ltd, Karachi	84
United Bank Ltd, Sargodha	125
National Bank of Pakistan, Karachi	550,885
National Bank of Pakistan, Lahore	118,667
National Industrial Co Operative Finance Corpn, Lahore	154,295

### INSURANCE COMPANIES

EFU General Insurance Ltd	19
Union Insurance Co of Pakistan	173
State Life Insurance Corpn	73,705

### COMPANIES AND CORPORATIONS

Shaikh Co Ltd	625
Lahore Furniture Co Ltd	47
Colony Textile Mills Ltd	2,508
Ahmed Motors (A/c Bank of Bahawalpur)	143
AKD Securities & Safe Deposit Co Ltd	117
Fateh Textile Mills Ltd	172
United Executors & Trustee Co Ltd	46
Ahmed Motors (A/c HBL)	57
Ahmed Motors Ltd	1,032

### OTHER THAN COMPANIES

Modaraba Al Mali	22,770
Corporate Law Authority	1

### DIRECTORS, CEO, THEIR SPOUSE AND MINOR CHILDREN

#### Chief Executive / Director

Sohail Farooq Shaikh	592,991
Shahid Aziz (Nominee NIT)	-
Farrukh Haroon Rashid	500
Mrs Neelum Sohail	138,528
Mrs Nazifa Khaliq	138,528
Mrs Nadia Shaikh	138,528
Miss Surriyya Shaikh	138,528

#### Spouse and Minor Children

Master Shahmeer	158,441
Mrs Mehreen Haroon Rashid	88,657
Mrs Mehnaz Rashid	22,164
Mr Mamoon Rashid	43,635

### SHAREHOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST

Sohail Farooq Shaikh	592,491
National Bank of Pakistan, Karachi	550,885

NONE OF THE DIRECTORS, CEO, CFO, COMPANY SECRETARY AND THEIR SPOUSES AND MINOR CHILDREN HAS TRADED DURING THE YEAR.



**STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CORPORATE GOVERNANCE**

Code of corporate governance as applicable as on 30<sup>th</sup> June 2009 has been complied with.

For and on behalf of the Board.

Rawalpindi

Dated: October 06, 2009

Chairman/Chief Executive

**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 **(Colony) Sarhad Textile Mills Limited** ("the Company") for the year ended June 30, 2009 to comply with the Listing Regulations of the respective 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 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, we report that:

- (a) The Company has not declared dividend for last 15-16 years and is on defaulted counter of Karachi and Lahore Stock Exchanges. Further, the Company has not paid the subscription of both the stock exchanges.
- (b) The Board did not arrange any orientation course for its directors to appraise them of duties and responsibilities as required by clause (xiv) of the Code of Corporate Governance.
- (c) The Board has not arranged to establish an internal audit function as required by clause (xxxv) of the Code of Corporate Governance.

Except for the matters stated above, 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, 2009.

Date: 06th October, 2009  
Place: Islamabad

**Naveed Zafar Husain Jaffery & Co.**  
Chartered Accountants



## **AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of (Colony) Sarhad Textile Mills Limited ("the Company") as at June 30, 2009 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 financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, as discussed in Note 3 to these financial statements. However, the Company has ceased its operations since June 2007-08 and decided to dispose off its non-serviceable plant and machinery; has incurred a loss of Rs. 72.499 million during the year; thereby increasing shareholders' equity deficiencies to Rs. 304.425 million; and in the absence of management's definite future plan all these factors raise significant doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.
  - (b) Included in Stock in trade shown on the balance sheet as at June 30, 2009 and also on the balance sheet of the previous years since 1994-95 is an amount of Rs. 81.166 million in respect of gray fabric, which was under lien with National Bank of Pakistan as collateral and was auctioned and delivered, during the then year ended on September 30, 2004, by the CIRC Tribunal Peshawar High Court at a total value of Rs. 44.60 million as disclosed in note 16.1 to the financial statements. The Company has not recognized this auction transaction and had this been recognized in these financial statements the stock in trade would have been reduced by Rs. 81.166 million;
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accumulated loss would have been increased by Rs. 36.566 million and deferred income would have been decreased by Rs. 44.60 million.

- (c) Included in Stock in trade is an amount of Rs. 2.668 million as of June 30, 2009 in respect of stock which is in the custody of bank under lock and key and not available to the Company for use or sale until the satisfactory Settlement of the Agreement as fully detailed in note 8 to the financial statements. We were unable to observe the counting of physical stock due to the restriction placed on the Company to access the said stock.

Except for the effects on the financial statements of the matters stated above, 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 the 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, 2009 and of the loss, its 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).
- (e) Without qualifying our opinion, we draw attention to note 8, which states that under the Settlement Agreement the Company's total overdue liabilities (principal and markup) of Rs. 343.892 million with the financial institution and



commercial banks have been fixed at total amount of Rs. 52.270 million resulting in waiver adjustment of Rs. 291.622, subject to satisfactory payment of the settled amount. The Company has not yet recognized the said amount for waiver in the profit and loss account and shown as deferred income on the balance sheet. Similarly as explained in note 18.2, the Company will adjust the recoverable amount, from the National Bank of Pakistan against deferred income on completion of final settlement.

Further, as disclosed in note 18.1 to the financial statements, the Company has filed a suit against its former employee for the recovery of Rs. 13.5 million, the matter is pending before the court and its outcome could not be ascertained with reasonable certainty.

The financial statements of the Company for the year ended June 30, 2008 were audited by another firm of auditors; whose report dated October 24, 2008 expressed qualified opinion on those financial statements because of issues including (a) to (c) reported above, however, matter related to 'non-charging of depreciation in accordance with International Accounting Standard -16' reported last year has been corrected by management during the current financial year and matter related to 'non payment of employees' contribution towards provident fund' reported last year has been paid, subsequent to the balance sheet date, as disclosed in Note 32 to the financial statements.

Date: 06th October, 2009  
Place: Islamabad

**Naveed Zafar Husain Jaffery & Co.**  
Chartered Accountants



**(COLONY) SARHAD TEXTILE MILLS LIMITED**

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**BALANCE SHEET AS AT JUNE 30, 2009**

	Note	2009 Rupees	2008 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized capital 5,000,000 ordinary shares of Rs.10 each		50,000,000	50,000,000
Issued, subscribed and paid up capital	5	40,000,000	40,000,000
Capital reserves	6	7,251,607	12,741,607
Accumulated loss		(351,676,943)	(281,584,895)
		<u>(304,425,336)</u>	<u>(228,843,289)</u>
<b>Surplus on revaluation of property, plant and equipment</b>	7	164,339,260	278,060,150
<b>NON - CURRENT LIABILITIES</b>			
Long term finances	8	-	11,760,750
Due to Associated Company	9	62,427,328	59,971,977
Deferred liabilities - staff gratuity		1,282,666	1,282,666
Deferred income	8	291,621,690	291,621,690
		<u>355,331,684</u>	<u>364,637,083</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	31,587,895	31,599,996
Current portion of long term finances	8	11,760,750	15,681,000
Payable to related parties	11	166,306,404	137,302,599
Provision for taxation		3,234,716	3,232,576
		<u>212,889,765</u>	<u>187,816,170</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	12	-	-
		<u><b>428,135,373</b></u>	<u><b>601,670,114</b></u>
<b>ASSETS</b>			
<b>NON - CURRENT ASSETS</b>			
Property, plant and equipment	13	177,745,824	385,645,329
Long term investment	14	11,000,000	16,490,000
Long term deposits		294,482	294,482
<b>CURRENT ASSETS</b>			
Stores and spare parts	15	6,053,991	6,080,651
Stock in trade	16	83,964,401	83,964,401
Advance to employees - considered good		8,248	50,441
Deposits and prepayments	17	42,330	55,204
Other receivables	18	108,975,717	108,866,240
Cash and bank balances	19	50,380	223,365
		<u>199,095,067</u>	<u>199,240,303</u>
Non-current assets classified as held for sale	20	40,000,000	-
		<u>239,095,067</u>	<u>199,240,303</u>
		<u><b>428,135,373</b></u>	<u><b>601,670,114</b></u>

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

**CHAIRMAN / CHIEF EXECUTIVE****DIRECTOR**



**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2009**

	Note	2009 Rupees	2008 Rupees
Unabsorbed direct cost	21	9,405,117	5,567,223
Administrative expenses	22	3,869,672	3,315,316
Finance cost	23	7,050,024	7,046,264
Impairment loss on assets classified as held for sale	13.2	52,565,418	-
		<u>72,890,231</u>	<u>15,928,803</u>
Other income	24	(392,960)	(1,128,334)
Loss for the year before taxation		<u>72,497,271</u>	<u>14,800,468</u>
Taxation	25	2,140	-
Loss for the year		<u><u>72,499,411</u></u>	<u><u>14,800,468</u></u>
Loss per share - Basic	26	<u><u>(18.12)</u></u>	<u><u>(3.70)</u></u>

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

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**CHAIRMAN / CHIEF EXECUTIVE**

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**DIRECTOR**

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**(COLONY) SARHAD TEXTILE MILLS LIMITED** 18**CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2009**

	2009 Rupees	2008 Rupees
<b>a) Cash flows from operating activities</b>		
Loss before taxation	(72,497,271)	(14,800,468)
<b>Adjustment for:</b>		
Depreciation of property, plant and equipment	4,020,560	190,452
Impairment loss on assets classified as held for sale	52,565,418	-
Profit on sale of item of property, plant and equipment	-	(482,376)
Finance cost	7,050,024	7,046,264
Joint office expenses	1,000,000	-
Directors' remuneration and allowances	1,224,780	-
Rental income	(42,803)	(49,108)
Decrease in provision of gratuity	-	(124,246)
Profit on sale of scrap	(350,157)	(472,604)
	<u>65,467,822</u>	<u>6,108,381</u>
Operating cash flows before changes in working capital	(7,029,449)	(8,692,087)
Changes in working capital		
Decrease in current assets		
Stores and spare parts	26,660	431,773
Sale of scrap	350,157	472,604
Advances to employees	42,193	(45,901)
Deposits and prepayments	12,874	(17,679)
(Decrease) in current liabilities		
Trade, accrued and other payables	(366,623)	(210,863)
	<u>65,261</u>	<u>629,934</u>
Cash (used in) operations	(6,964,188)	(8,062,153)
Rental income received	42,803	49,108
Gratuity paid	-	(43,908)
Finance cost paid	(5,808)	(18,127)
Income tax paid	(109,477)	(132,816)
	<u>(72,482)</u>	<u>(145,743)</u>
Net cash (used in) operating activities	<u>(7,036,670)</u>	<u>(8,207,895)</u>
<b>b) Cash flows from investing activities</b>		
Proceeds from disposal of property, plant and equipment	-	485,000
Net cash generated from investing activities	-	<u>485,000</u>
<b>c) Cash flows from financing activities</b>		
Loan obtained from related party		
Associated company	5,590,000	-
Directors	58,726,773	22,419,112
Re-payment of long term finances	(15,681,000)	(15,681,000)
Due to related party - Suhail Jute Mills Limited	-	1,000,000
Re-payment of loan to related party		
Associated company	(41,272,088)	-
Directors	(500,000)	-
Net cash from financing activities	<u>6,863,685</u>	<u>7,738,112</u>
Net (decrease) / increase in cash and cash equivalents (a+b+c)	(172,985)	15,217
Cash and cash equivalents at the beginning of the year	223,365	208,149
Cash and cash equivalents at the end of the year	<u>50,380</u>	<u>223,365</u>

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

CHAIRMAN / CHIEF EXECUTIVE

DIRECTOR



**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2009**

Particulars	Share capital	Capital reserves		Accumulated Loss	Total
		Mergers	Fair value		
	Rupees	Rupees	Rupees	Rupees	Rupees
Balance as at July 01, 2007	40,000,000	1,251,607	2,750,000	(266,784,427)	(222,782,820)
Loss for the year	-	-	-	(14,800,468)	(14,800,468)
Fair value reserve for the year	-	-	8,740,000	-	8,740,000
Incremental depreciation on revalued assets for the year	-	-	-	-	-
Balance as at June 30, 2008	40,000,000	1,251,607	11,490,000	(281,584,895)	(228,843,288)
Loss for the year	-	-	-	(72,499,411)	(72,499,411)
Fair value reserve for the year	-	-	(5,490,000)	-	(5,490,000)
Incremental depreciation on revalued assets for the year	-	-	-	2,407,363	2,407,363
Balance as at June 30, 2009	40,000,000	1,251,607	6,000,000	(351,676,943)	(304,425,336)

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

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**CHAIRMAN / CHIEF EXECUTIVE**

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**DIRECTOR**



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009****1 STATUS AND NATURE OF BUSINESS**

(Colony) Sarhad Textile Mills Limited "the Company" was incorporated in Pakistan as a Private Limited Company in 1953 under the Companies Act, 1913 (now the Companies Ordinance, 1984) and was converted into Public Limited Company in 1955 and its shares are listed on Karachi and Lahore Stock Exchanges in Pakistan. The principal business of the Company is manufacture and sale of yarn and gray fabrics. The registered office of the Company is located at 125 - Murree Road, Rawalpindi. The manufacturing unit is located at Ismail Kot Railway Station Khushalkot, Nowshera, in the province of NWFP.

The Company has ceased its operations for the time being and its recurring costs together with repayment of settled amount of long term loans from banks under the Settlement Agreement dated March 19, 2007 are being financed by the sponsors of the Company through loans. The Company has also resolved to dispose off its non-serviceable assets, any or part thereof, at the best possible prices to raise funds for meeting the repayment of debts under Settlement Agreement.

The financial statements are presented in Pak Rupee, which is the Company's functional and presentation currency.

**2 STATEMENT OF COMPLIANCE**

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

**2.1 Amendments to published standards and new interpretations effective in current year**

The following standards, interpretations and amendments in approved accounting standards are effective from current accounting period:

IFRS 7 – "Financial Instruments: Disclosures" (effective for annual periods beginning on or after 28 April 2008) supersedes IAS 30 – "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and the disclosure requirements of IAS 32 – "Financial Instruments: Disclosure and Presentation". The application of the standard did not have significant impact on the Company's financial statements other than increase in disclosures.

IAS 29 – "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 28 April 2008). The Company does not have any operations in hyperinflationary economies and therefore the application of the standard is not likely to have an effect on the Company's financial statements.

IFRIC 13 – "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008) addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The application of IFRIC 13 is not likely to have an effect on the Company's financial statements.



IFRIC 14 – “IAS 19- The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction” (effective for annual periods beginning on or after 1 January 2008). IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on minimum funding requirements for such asset. The interpretation has no effect on Company’s financial statements for the year ended 30 June 2009.

IFRIC 4 – “Determining whether an Arrangement contains a Lease” (effective for annual periods beginning on or after 1 January 2006) and IFRIC 12 – “Service Concession Arrangements” (effective for annual periods beginning on or after 1 January 2008). However, the application of these interpretations have been deferred by the Securities and Exchange Commission of Pakistan (SECP), through circular 21 of 2009 dated 22 June 2009, for all companies till 30 June 2010. However, the companies are encouraged to comply with the said interpretations but the fact of compliance shall be disclosed in their financial statements.

## **2.2 New accounting standards, interpretations and amendments which are not yet effective**

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 1 July 2009. These standards, interpretations and the amendments 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 increase in disclosures in certain cases.

Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.

Revised IAS 23 - Borrowing costs (effective for annual periods beginning on or after 1 January 2009) removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

IAS 27 – “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after 1 January 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor.

IAS 27 – “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the group loses control of subsidiary, any interest retained in the former a subsidiary will be measured at fair value with gain or loss recognised in the profit or loss.

Amendments to IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met.



Amendments to IAS 39 and IFRIC 9 – “Embedded derivatives” (effective for annual periods beginning on or after 1 January 2009). Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value.

Amendments to IAS 39 – “Financial Instruments: Recognition and measurement - Eligible hedged items” (effective for annual periods beginning on or after 1 July 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship.

Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations.

Amendment to IFRS 2 – “Share-based Payment - Group Cash-settled Share-based Payment Transactions” (effective for annual periods beginning on or after 1 January 2010). Currently effective IFRS requires attribution of group share-based payment transactions only if they are equity-settled. The amendment resolves diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.

Revised IFRS 3 Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

IFRS 4 – “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2009). The IFRS makes limited improvements to accounting for insurance contracts until the Board completes the second phase of its project on insurance contracts. The standard also requires the entity issuing insurance contracts (an insurer) to disclose information about those contracts.

IFRS 5 (Amendment) – “Non-current assets held-for-sale and discontinued operations” (effective from 1 July 2009). The amendment clarifies that all of a subsidiary’s assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control.

Amendment to IFRS 7 – “Improving disclosures about Financial Instruments” (effective for annual periods beginning on or after 1 January 2009). These amendments have been made to bring the disclosure requirements of IFRS 7 more closely in line with US standards. The amendments introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements.

IFRS 8 – “Operating segments” (effective for annual periods beginning on or after 1 January 2009) ‘introduces the management approach’ to segment reporting. IFRS 8 will require a change in presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Company’s ‘chief operating decision maker’ in order to assess each segment’s performance and to allocate resources to them. Currently the Group presents segment information in respect of its business segments.



IFRIC 15 – “Agreement for Construction of Real Estate” (effective for annual periods beginning on or after 1 October 2009) clarifies the recognition of revenues by real estate developers for sale of units, such as apartments or houses, ‘off-plan’, that is, before construction is complete.

IFRIC 16 – “Hedge of Net Investment in a Foreign Operation” (effective for annual periods beginning on or after 1 October 2008) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity’s functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss. The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used.

### **3 BASIS OF PREPARATION OF FINANCIAL STATEMENTS ON GOING CONCERN ASSUMPTION**

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

- revaluation of certain items of property, plant and equipment.
- investment available for sale that is carried at fair value.

The Company has suffered a loss of Rs. 82.499 million during the year ended June 30, 2009 including impairment loss of Rs. 62.565 million recognised on reclassification of non-serviceable plant and machinery as held for sale resulting in accumulated loss at balance sheet date of Rs. 361.767 million. Further, as fully explained in note 20 to the financial statements, the Company has resolved to dispose off the non-serviceable plant and machinery, keeping the remaining infrastructure intact. Although these factors appear to have impact on the Company's ability to continue as a going concern, yet these losses will be mitigated to the large extent with the waiver arising out of the Settlement Agreement in respect of liabilities of financial institution and commercial banks as fully explained in note 8.

Further, the sponsors have already contributed an amount of Rs. 141.305 million as at balance sheet date as loans and further funds will be contributed to completely settle the obligation to take the benefit of waiver adjustment available under the Settlement Agreement and to ensure that the Company remains a going concern.

The Company after meeting the obligation fixed under the Settlement Agreement intends to arrange/contribute/generate further funds to utilise the valuable infrastructure of the Company through an alternative business plan for the benefit of all the stakeholders of the Company.

These financial statements, therefore, have been prepared under the going concern basis and do not include adjustments relating to recoverability/ reclassification of recorded assets and reclassification/discharge of liabilities that might be necessary, should the Company not be able to continue as a going concern.

#### **3.1 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with IASs / IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

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Significant areas requiring the use of management estimates in these financial statements relate to the useful life of depreciable assets, un-serviceability of operating assets, provision for doubtful receivables and slow moving inventory and deferred taxation. However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year.

#### **4 SIGNIFICANT ACCOUNTING POLICIES**

##### **4.1 Foreign currencies**

All monetary assets and liabilities in foreign currencies are translated into Pak Rupee at the exchange rates prevailing at the balance sheet date, except for the US Dollar loan from National Bank of Pakistan (formerly NDFC), which is translated at the exchange rate (selling) prevailing on the date of disbursement of such loan. Transactions in foreign currencies are translated into Pak Rupee at exchange rates prevailing on the date of transactions.

Exchange differences are included in current income. All non-monetary items are translated into Pak Rupee at exchange rates prevailing on the date of transactions.

##### **4.2 Staff retirement benefits**

The Company was operating an unfunded defined benefit gratuity scheme for its permanent employees. Provision was made to cover the obligations under the scheme based on one month's last drawn gross salary for each completed year. The Company has discontinued the scheme and therefore, no additional provision has been made in financial statements.

##### **4.3 Taxation**

###### **Current**

Provision for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credits and tax rebates, if any, available under the law.

###### **Deferred**

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

Deferred 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 assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited in the income statement, except in case of items charged or credited to equity in which case it is included in equity.

##### **4.4 Property, plant and equipment**

Property, plant and equipment except land are stated at cost / valuation less accumulated depreciation and impairment in value, if any. Land is stated at revalued amount.

Assets' residual values, if significant and their useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.



Depreciation is charged to income applying the reducing balance method at the rates specified in the property, plant and equipment note.

In respect of additions and disposals during the year, depreciation is charged from the month of acquisition and upto the month preceding the disposal respectively.

Repair and maintenance costs are charged to income during the period in which they are incurred. Major renewals and improvements are capitalized.

Gains and losses on disposal of assets, if any, are recognized as and when incurred.

Surplus arising on revaluation is credited to surplus on revaluation of property, plant and equipment. The surplus on revaluation of property, plant and equipment to the extent of incremental depreciation charged on the related assets is transferred by the Company to its accumulated loss.

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.

#### **Assets subject to finance lease:**

In view of certainty of ownership of the assets at the end of the lease period, assets subject to finance lease are stated at cost less accumulated depreciation. Depreciation is charged at the rates and basis applicable to Company owned assets.

In pursuant to the direction of the Securities and Exchange Commission of Pakistan (SECP) under section 472 of the Companies Ordinance, 1984, the management has decided to change the policy of depreciation to make it in compliance with the requirements of the International Accounting Standard 16.

#### **4.5 Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before being classified as held for sale, the assets are remeasured in accordance with the Company's accounting policies. Thereafter, the assets are measured at the lower of their carrying values and fair values less cost to sell.

#### **4.6 Impairment of assets**

The Company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

Where impairment loss subsequently is reversed, the carrying amount of the asset is increased to the revised recoverable amount but limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



**4.7 Stock in trade**

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

Raw and trading materials	
In hand	Average cost
In transit	Invoice value and related expenses incurred upto balance sheet date
Work in process	Prime cost and related overheads based on normal capacity
Finished goods	Prime cost and related manufacturing overheads based on normal capacity
Wastes	Net realizable value

Net realizable value represents the estimated selling price less estimated cost of completion and estimated cost necessary to make the sale.

**4.8 Stores and spares**

These are valued at cost, determined on moving average method less allowance for obsolete and slow moving items. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

**4.9 Revenue recognition**

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

Sales represent the invoiced value of goods dispatched to the customers during the year. Return on investments and marketable securities accounted for on receipt basis. Profit on bank deposits is recognized on accrual basis.

**4.10 Investment available for sale**

All investments in public limited Companies, classified as available for sale are initially recognized at cost being fair value of consideration given. At subsequent dates these are measured at fair value based on quoted prices. Unrealized gains or losses from changes in fair values are recognized in equity. Realized gains and losses are taken to profit and loss account.

**4.11 Financial Instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of the contractual rights that comprise the financial assets and, in case of financial liabilities, when the obligation specified in the contract is discharged, cancelled or expired.

Recognition methods adapted by the Company are disclosed in the individual policy statements associated with each item of financial instruments.

**4.12 Trade and other receivables**

Known bad debts are written off while debts considered doubtful of recovery are fully provided for.



**4.13 Trade and other payable**

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

**4.14 Provisions**

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

**4.15 Borrowing cost**

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

All other borrowing costs are recognized in profit and loss account in the period in which these are incurred.

**4.16 Off setting of Financial Assets and Liabilities**

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

**4.17 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.

**4.18 Cash and cash equivalents**

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

**5 ISSUED, SUBSCRIBED AND PAID UP CAPITAL**

2009	2008		2009 Rupees	2008 Rupees
		Number of shares		
750,000	750,000	Ordinary shares of Rs.10 each issued fully paid in cash	7,500,000	7,500,000
3,250,000	3,250,000	Ordinary shares of Rs.10 each issued as fully paid bonus shares	32,500,000	32,500,000
<u>4,000,000</u>	<u>4,000,000</u>		<u>40,000,000</u>	<u>40,000,000</u>



6 CAPITAL RESERVES	2009 Rupees	2008 Rupees
Mergers reserve (Note 6.1)	1,251,607	1,251,607
Fair value reserve	6,000,000	11,490,000
	<u>7,251,607</u>	<u>12,741,607</u>

6.1 It represents the net capital gains as a result of mergers amounting to Rs. 334,060, Rs. 881,547 and Rs. 36,000 in years 1982, 1983 and 1984 respectively.

7 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	2009 Rupees	2008 Rupees
Opening balance	278,060,150	278,782,358
Revaluation decrease on assets classified as held for sale (Note 13.2)	(111,313,527)	-
Incremental depreciation on revalued assets for the year	(2,407,363)	(722,208)
	<u>164,339,260</u>	<u>278,060,150</u>

Revaluation of freehold land on market value and building, plant and machinery, tools, equipment and other installations on depreciated replacement values was carried out by independent valuers "M/S Razzaque Umerani & Co.", as at September 30, 1996.

#### 8 LONG TERM FINANCES

Secured	Note	Principal portion	Adjustment portion	2009 Rupees	2008 Rupees
From banking companies					
Bank of Khyber	8.1	10,000,000	3,665,801	13,665,801	13,665,801
Allied Bank of Pakistan	8.2	850,000	1,753,237	2,603,237	2,603,237
National Bank of Pakistan	8.3	118,403,446	154,870,565	273,274,011	273,274,011
National Bank of Pakistan (formerly National Development Finance Corporation)	8.4	14,799,875	39,548,766	54,348,641	54,348,641
		<u>144,053,321</u>	<u>199,838,369</u>	<u>343,891,690</u>	<u>343,891,690</u>
Transferred to deferred income		(91,783,321)	(199,838,369)	(291,621,690)	(291,621,690)
Settled amount of outstanding liability	8.5	<u>52,270,000</u>	<u>-</u>	<u>52,270,000</u>	<u>52,270,000</u>
Paid upto last balance sheet date				(24,828,250)	(9,147,250)
Paid during the year				(15,681,000)	(15,681,000)
				<u>(40,509,250)</u>	<u>(24,828,250)</u>
Shown under current liabilities				11,760,750	27,441,750
installments due within one year				(11,760,750)	(15,681,000)
				<u>-</u>	<u>11,760,750</u>

8.1 The facility was sanctioned in 1984 under sale/buy back arrangements. The sanctioned limit of the facility was Rs. 15 million at the rate of 45 paise per thousand Rupees on daily product basis and was secured by way of hypothecation of stores, spares and stocks. However, disbursement was made to the extent of Rs. 10 million.

Bank of Khyber lodged a suit against the Company for the recovery of Rs. 23.716 million in the Honorable Peshawar High Court, Peshawar which was contested by the Company and the dispute Resolution Committee of State Bank of Pakistan (SBP) has settled the amount of liability to Rs. 8.363 Million as fully explained in note 8.5.

8.2 The local currency loan was sanctioned in 1975 at the borrowing rate then prevailing. The loan was secured by way of registered mortgage to the extent of Rs. 7 million over the fixed assets of the Company. Dispute Resolution Committee of State Bank of Pakistan (SBP) has fixed the amount of total liability to Rs. 3.659 million as fully detailed in note 8.5.



Previously the Company lodged a law suit against Allied Bank of Pakistan (ABL) for claim of Rs. 15.2 million before Banking Court, Rawalpindi while the bank also lodged a counter suit of Rs. 2.6 million against the Company.

8.3 Cash Finance Facilities were sanctioned in 1994 on sale/buy back of goods basis which expired on December 31, 1994 and renewal was not made during 1995. However, a cash finance facility was sanctioned in 1996 on sale/buy back of goods basis. These facilities were secured against hypothecation, pledge and charge over stocks, stores, spares and loose tools. The facilities carry mark up at the rate of 51 paisas per thousand Rupees on daily product basis. The bank has not made disbursement to the Company on account of said facilities during 1996 or thereafter.

Demand Finance was sanctioned during the year 1994 comprising of compounding of interest/markup on fines. Demand Finance was the shortfall on export fines which is refundable by the SBP. Partial refund had been received during previous years and the remaining portion is currently under consideration of SBP. No renewal of such demand finance was made by the Bank in 1995. However, a sanction in 1996 was made under Demand Finance II but no disbursement was made during the year of sanction or thereafter.

A new Demand Finance was sanctioned in 1996 termed as Demand Finance I at the rate of 51 paisas per thousand Rupees per day and secured by way of equitable mortgage of the assets of the Company. However, no disbursement was made on account of this facility during 1996 or thereafter.

The facilities were in place on yearly rollover basis since number of years and as per practice, blank documents were provided by the Company to the bank in good faith which the bank had filled on their own without our knowledge.

National Bank of Pakistan has lodged a suit against the Company for the recovery of Rs. 449.597 million plus Rs. 5 million as liquidation damages in the Honorable Peshawar High Court, Peshawar, which is being contested by the Company. The Company also filed a counter claim of Rs. 600 million against the bank for losses sustained due to treatments made to the facilities and blocking of the working capital lines, which were in place for a number of years.

8.4 Seven loans were sanctioned in 1982-83 for Balancing, Modernization and Replacement (BMR) purposes and subsequently turned into disputed claims. M/s NDFC claimed Rs. 50.477 million including markup etc, from the Company in response to which the Company without prejudice, provided for Rs. 54.349 million in the books of account.

Subsequently, NDFC lodged a law suit against the Company for the recovery of its dues aggregating to Rs.109.005 million in the Honorable Lahore High Court, Rawalpindi Bench which was being contested by the Company.

The above loans were secured by way of pari passu charge over all immovable properties, hypothecation of book debts and receivables, a floating charge on the business undertaking and other properties and assets of the Company.

Dispute Resolution Committee of State Bank of Pakistan (SBP) has settled the amount of liability through Settlement Agreement at Rs. 18.294 million as fully explained in note 8.5.

8.5 On March 19, 2007 the Company entered into a Settlement Agreement with principal creditor National Bank of Pakistan (NBP), (NBP was also the successor institution to NDFC and CIRC), for full settlement of all the Company's outstanding obligations to all Banks and financial Institution.



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The agreement was entered into following a judgment of the Supreme Court of Pakistan in CP.3018 of 2003 dated 20th October, 2006 and was in accordance with the ordained procedure for settlement of outstanding liabilities as laid down by the State Bank of Pakistan (SBP) vide its circular No. 29 of October 15, 2002. The SBP's Resolution Committee, by an award specified in its documents dated 31st May, 2004 fixed the Company's total liability to Rs. 52.270 million, net of all claims by the company, in respect of all Banks and financial Institution and has been allocated among the lenders as follows:

Bank Name	% age share	Share of settled liability Rupees
Bank of Khyber	16	8,363,000
Allied Bank of Pakistan	7	3,659,000
National Bank of Pakistan	42	21,953,500
National Bank of Pakistan (formerly National Development Finance Corporation)	35	18,294,500
	100	52,270,000

In accordance with the terms of the agreement, the Directors, on behalf of the Company, initially made a down payment of Rs. 5.227 million, representing 10% of the final settled liability, while the balance 90% is payable in twelve quarterly installments of Rs.3.920 million each, over three years, from the date of signing of the agreement. The directors have paid nine quarterly installments on their respective due dates, on behalf of the Company.

As per terms of the agreement the total outstanding liability, as reduced by the payments under the agreement, may only be extinguished after the payments specified under the agreement are fully made. Further the existing securities including the mortgage, hypothecation, pledge and personal guarantees of the Company and its guarantors shall remain intact, enforceable, effective binding, valid, operative and subsisting and shall be released only after payment of the total settled amount as specified in the said agreement.

9 DUE TO ASSOCIATED COMPANY	2009 Rupees	2008 Rupees
Unsecured		
M/s Sohail Jute Mills Limited		
Principal (Note 9.1)	10,120,991	10,120,991
Mark up	29,390,171	27,934,820
	39,511,162	38,055,811
Joint office expenses (Note 9.2)	22,916,166	21,916,166
	62,427,328	59,971,977

9.1 It is subject to mark up at the rate of 14% per annum, no further borrowing has been availed after the amendment incorporated in section 208 of the Companies Ordinance, 1984.

9.2 It is interest free and represents share of the joint administration and common office running expenses in the nature of normal trade credit. Re-payment terms has not been decided so far.



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	2009 Rupees	2008 Rupees
<b>10 TRADE AND OTHER PAYABLES</b>		
Creditors	17,836,251	18,237,049
Accrued liabilities	1,629,846	1,632,862
Security deposits (Note 10.1)	108,097	108,097
Customers' advances	1,150,523	1,150,523
Workers' (profit) participation fund (Note 10.2)	6,263,273	5,908,748
Workers' welfare fund	269,503	269,503
Unclaimed dividend	186,811	186,811
Taxation	500,000	500,000
Others (Note 10.3)	3,643,591	3,606,403
	<b>31,587,895</b>	<b>31,599,996</b>
<b>10.1</b>	It represents security amounts received from various customers and dealers, which do not carry interest and are payable on demand.	
	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>10.2 Workers' profit participation fund</b>		
Opening balance	5,908,748	5,574,291
Interest on funds utilized by the Company	354,525	334,457
	<b>6,263,273</b>	<b>5,908,748</b>
<b>10.3</b>	Included in "Others" is Rs. 2.780 million (2008: Rs. 2.780 million) on account of provident fund. The Company has discontinued the scheme and accordingly, no provision has been made in these financial statements.	
	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>11 PAYABLE TO RELATED PARTIES</b>		
Unsecured		
Due to directors:		
Bridge finances (Note 11.1)	87,465,301	82,230,961
Remuneration and others (Note 11.2)	8,758,141	7,533,361
Loans (Note 11.3)	70,082,962	11,856,189
Due to associated company		
Farooq Sohail (Pvt) Ltd (Note 11.4)	-	35,682,088
	<b>166,306,404</b>	<b>137,302,599</b>
<b>11.1 Bridge finance through sponsor directors</b>		
Principal	52,343,400	52,343,400
Markup	35,121,901	29,887,561
	<b>87,465,301</b>	<b>82,230,961</b>
<b>11.2</b>	The Company obtained the short term finance facility from Cress Investment Bank. At the time of maturity, due to non-availability of funds, the facility was repaid by obtaining loan from the directors of the Company. This loan from directors is repayable on demand and is subject to interest at the rate of 10% per annum.	
	It represents amount payable to Chief Executive/director on account of salary of Rs. 6,095,884 (2008: Rs. 5,197,934), rent allowance of Rs. 2,636,157 (2008: Rs. 2,327,327) and on account of other allowance amounting to Rs.26,100 (2008: Rs.8,100) accruing to him for the last seven years and eleven months.	



**11.3** These are unsecured and interest free loans obtained to settle the amount of long term finances under the Settlement Agreement dated March 19, 2007 as fully explained in note 8.

**11.4** These are unsecured and interest free loans obtained to settle the amount of long term finances under the Settlement Agreement dated March 19, 2007 as fully explained in note 8. However, during this year the amount has been totally assumed by Mr. Farooq Sohail Sheikh, director of the Company from M/s Farooq Sohail (Pvt) Ltd which has been accepted by the Company.

## **12 CONTINGENCIES AND COMMITMENTS**

**12.1** The Company is contingently liable in respect of guarantees issued by the banks in the normal course of business.

**12.2** The Company is in litigation with Sales Tax Authorities Circle 1, Rawalpindi for the refund of Sales Tax amounting to Rs. 2.452 million (2008: Rs. 2.452 million). The case is pending with the Honorable Lahore High Court, Lahore.

**12.3** The Company is in litigation with various parties for which cases have been filed by / against the Company in different courts of law as normal business events.

## **13 PROPERTY, PLANT AND EQUIPMENT**

Particulars	Cost / Valuation			Accumulated depreciation at July 01, 2008	Depreciation charge for the year / adjustment	Depreciation on assets classified as held for sale	Accumulated depreciation at June 30, 2009	Impairment loss on classification of assets held for sale	Book value at June 30, 2009	Annual rate of depreciation (%)
	as at July 01, 2008	additions / (disposal)	transferred to assets classified as held for sale							
Company owned										
Free hold land	131,509,000	-	-	131,509,000	-	-	-	-	131,509,000	-
Building on free hold land (Note 13.4)	67,937,995	-	-	67,937,995	22,845,303	676,390	23,521,693	-	44,416,302	1.5
Plant and machinery	298,996,399	-	(298,996,399)	-	92,996,455	3,089,999	-	(163,107,027)	-	3
Non working Plant and Machinery	1,143,929	-	(1,143,929)	-	123,929	51,000	(174,929)	(771,918)	-	10
Tools and equipment	1,555,878	-	-	1,555,878	1,265,603	29,028	1,294,631	-	261,247	10
Electrical fitting	5,731,669	-	-	5,731,669	4,288,592	144,308	4,432,900	-	1,298,769	10
Arms	5,845	-	-	5,845	5,762	8	5,770	-	75	10
Furniture and fixture	1,654,289	-	-	1,654,289	1,482,190	17,210	1,499,400	-	154,889	10
Office equipment	414,293	-	-	414,293	370,499	4,379	374,878	-	39,415	10
Other installations	74,594	-	-	74,594	66,296	830	67,126	-	7,468	10
Motor vehicles	501,818	-	-	501,818	493,811	1,601	495,412	-	6,406	20
Fire fighting equipment	236,638	-	-	236,638	178,584	5,805	184,389	-	52,249	10
Library books	7,692	-	-	7,692	7,686	2	7,688	-	4	30
Rupees	509,770,039	-	(300,140,328)	209,629,711	124,124,710	4,020,560	(96,261,383)	31,883,887	(163,878,945)	177,745,824
2008 Rupees	510,118,310	-	-	509,770,039	123,557,697	912,659	-	124,124,709	-	385,645,330
		(348,271)				(345,647)				

**13.1** Depreciation for the year has been allocated as under:

	2009 Rupees	2008 Rupees
Un-absorbed direct cost	3,817,389	152,362
Administrative expenses	203,171	38,090
	<u>4,020,560</u>	<u>190,452</u>

**13.2** Impairment loss on assets classified as held for sale has been allocated as under:

	2009 Rupees	2008 Rupees
Revaluation decrease	111,313,527	-
Profit and loss account	52,565,418	-
	<u>163,878,945</u>	<u>-</u>



**13.3** Had there been no revaluation the carrying amounts of revalued assets would have been as follows:

	Carrying amount	
	2009 Rupees	2008 Rupees
Freehold land	4,930,017	4,930,017
Buildings on freehold land	7,937,742	8,058,621
Plant and machinery	-	93,379,719
Non working Plant and Machinery	-	617,259
Tools and equipment	76,646	85,162
Electrical fitting	248,224	275,805
Fire fighting equipment	5,678	6,309
	<u>13,198,307</u>	<u>107,352,892</u>

**13.4** During the year the management has revised estimate of useful life of building on freehold land, accordingly the rate of depreciation in respect of building has been reduced to 1.5% per annum from previous rate of depreciation 3% per annum.

The revision has been accounted for as change in accounting estimate in accordance with the requirements of IAS-8 "Accounting Policies, Changes in accounting estimates and Errors". Accordingly the effect of change in accounting estimate has been recognized prospectively in the profit and loss account of the current year. Had there been no change in this accounting estimate, the loss before taxation and carrying amount of building would have been increased by Rs. 676,390.

<b>14 LONG TERM INVESTMENT</b>			2009 Rupees	2008 Rupees
<b>Available for sale</b>				
Associated Company				
<b>Number of shares</b>				
	2009	2008		
	500,000	500,000	16,490,000	5,000,000
Sohail Jute Mills Limited				
Change in fair value reserve			(5,490,000)	11,490,000
			<u>11,000,000</u>	<u>16,490,000</u>
Percentage of holding			<u>13.35%</u>	<u>13.35%</u>

<b>15 STORES AND SPARE PARTS</b>			2009 Rupees	2008 Rupees
Stores			4,788,124	4,788,551
Spare parts			1,265,867	1,292,100
			<u>6,053,991</u>	<u>6,080,651</u>

Consequently upon the Company's resolution to dispose off its un-serviceable plant and machinery shown assets held for sale (note 20), these stores and spares are also available as held for sale and expected to realise the full value.

<b>16 STOCK IN TRADE</b>			2009 Rupees	2008 Rupees
Raw materials			54,825	54,825
Finished goods				
	Cloth		2,706,383	2,706,383
	Others (Note 16.1)		81,166,359	81,166,359
			83,872,742	83,872,742
Waste			36,834	36,834
			<u>83,964,401</u>	<u>83,964,401</u>



**16.1** Finished stock of cloth valuing Rs.81.166 million (2,898 bales) approximate 2,295,000 meters was lying as Collateral in the custody of National Bank of Pakistan (NBP) under lock and key against Sale / Buy Back as detailed in note 6 above had been auctioned at Rs.44.60 million during the financial year ended on September 30, 2004 by CIRC (tribunal Peshawar High Court) and goods were lifted. Transaction of sale proceeds and deliveries of stock were handled by CIRC/ NBP / Court Supervisor directly. Dues of sales tax / excise duty etc, as per auction notice of the court has not been deposited as yet. Furthermore the Company's right to match the higher bid as per law and to as per SBP's circular No. 29 of 2002 as adapted by CIRC itself has not been granted. The final treatment is deferred till settlement of outstanding liabilities as detailed in note 8.

	2009 Rupees	2008 Rupees
<b>17 DEPOSITS AND PREPAYMENTS</b>		
Deposits	34,980	53,379
Prepayments	7,350	1,825
	<u>42,330</u>	<u>55,204</u>
<b>18 OTHER RECEIVABLES</b>		
Claim against the former employee (Note 18.1)	11,554,312	11,554,312
Other receivables	525,693	525,693
Receivable under export refinance scheme from NBP - (routed through State Bank of Pakistan) (considered doubtful) (Note 18.2)	93,621,498	93,621,498
Advance income tax	3,274,214	3,164,737
	<u>108,975,717</u>	<u>108,866,240</u>
<b>18.1</b>	The Company has filed suits involving total sum of Rs. 13.5 million against a former Manager of Karachi Office and his accomplices. The complaints were filed following unauthorized withdrawals and diversion of funds for the said individual's own benefits. The civil suit has been decided in favor of the Company and execution proceedings are still in process, however, the criminal cases against Karachi Office manager are still under trial.	
<b>18.2</b>	Fines were imposed by the State Bank of Pakistan (SBP) from 1991 onward, on shortfall of exports and compounded interest were charged by the agent bank, i.e. National Bank of Pakistan on these fines. The Company has earlier lodged refund claims in full documents and as a result Rs. 25.601 million were refunded. The balance claim is pending and is under consideration of SBP. The process of reviewing and clarifying the matter is continuing and based on its experience, the Company is confident that claim is recoupable. Furthermore, as per SBP circulars 32 and 33 of October 1996, SBP has decided to put in place a mechanism for objective and expeditious review of such claims in order to redress the grievances of the exporters relating to imposition / recovery of penalties under the Export Refinance Scheme. This amount represents compounded interest illegally and mala fide charged by the agent bank on fines through unrelated accounts.	
	Since the corresponding liability for this amount is included in the amount classified as 'Deferred Income' and the amount of the receivable can only be offset against deferred income once the final settlement with National Bank of Pakistan (NBP) is complete. As such no provision for doubtful recovery is being made at this time.	
<b>19 CASH AND BANK BALANCES</b>		
Cash in hand at Nowshera	19,697	2,523
Cash at banks		
In current accounts	30,683	220,842
	<u>50,380</u>	<u>223,365</u>



**20 NON - CURRENT ASSETS CLASSIFIED AS HELD FOR SALE**

Plant and machinery	39,802,918	-
Non working Plant and Machinery	197,082	-
	<u>40,000,000</u>	<u>-</u>

On January 15, 2009, the Company through special resolution authorized the Board of Directors to dispose of the non-productive assets of the Company to meet the terms of the Court Decree (refer to Note 8). Recoverable amount of the asset held for sale has been determined with reference to the contract for sale entered into, subsequent to the balance sheet date, between the company and M/s Nawaz Khan Trading Company through offer dated July 11, 2009, duly approved by the Board of Directors in their meeting held on September 4, 2009.

**21 UNABSORBED DIRECT COST**

	2009 Rupees	2008 Rupees
Salaries and other benefits	3,188,376	3,018,564
Bonus and welfare (Note 21.1)	373,966	386,003
Fuel and power	1,598,989	1,713,925
Depreciation (Note 13.1)	3,817,389	152,362
Repairs and maintenance	426,397	296,369
	<u>9,405,117</u>	<u>5,567,223</u>

**21.1** Bonus and welfare include gratuity amounting to Rs. nil (2008: Rs. 5,000).

**22 ADMINISTRATIVE EXPENSES**

	2009 Rupees	2008 Rupees
Salaries and allowances	1,038,425	1,040,411
Director's remuneration	842,220	631,650
Directors' meeting fee	8,000	8,000
Traveling expenses	107,457	143,516
Vehicle running and maintenance	405,893	258,306
Entertainment	105,037	118,713
Printing and stationary	152,180	161,904
Communication	121,066	136,439
Rent, rates and taxes	541,736	453,266
legal and professional charges	101,000	80,000
Electricity charges	8,486	(110,222)
Auditors' remuneration (Note 22.1)	130,000	130,000
Donations and subscriptions (Note 22.2)	60,460	94,906
Advertisement	37,641	120,360
Depreciation (Note 13.1)	203,171	38,090
Miscellaneous expenses	6,900	9,977
	<u>3,869,672</u>	<u>3,315,316</u>



22.1	<b>Auditors' remuneration</b>		
	Audit fee		
	Statutory audit	100,000	100,000
	Half yearly review	10,000	10,000
	Out of pocket expenses	20,000	20,000
		<u>130,000</u>	<u>130,000</u>
22.2	No director or his / her spouse had any interest in the donees' fund.		
		<b>2009</b>	<b>2008</b>
		<b>Rupees</b>	<b>Rupees</b>
23	<b>FINANCE COST</b>		
	Markup / interest on:		
	Loan from Associated Company	1,455,351	1,459,340
	Bridge finance	5,234,340	5,234,340
	Workers' (Profit) Participation Fund	354,525	334,457
	Bank charges	5,808	18,127
		<u>7,050,024</u>	<u>7,046,264</u>
24	<b>OTHER INCOME</b>		
	Rental income	42,803	49,108
	Profit on sale of item of property, plant and equipment	-	482,376
	Decrease in provision of gratuity	-	124,246
	Sales of scrap	350,157	472,604
		<u>392,960</u>	<u>1,128,334</u>
25	<b>TAXATION</b>		
25.1	<b>Current</b>		
	The provision for the year relates to property income. The relationship between tax expense and accounting loss has not been presented in these financial statements as the total income of the Company falls under final tax regime and hence tax has been provided under section 169 of the Income Tax Ordinance, 2001.		
25.2	<b>Deferred</b>		
	Deferred tax asset amounting to Rs. 14.59 Million (2008 : Rs. 14.59 million) representing unused tax losses has not been recognized in the financial statements since it is not probable that taxable profits will be available in the foreseeable future against which these can be utilized.		
26	<b>LOSS PER SHARE</b>	<b>2009</b>	<b>2008</b>
	Loss for the year (Rupees)	(72,499,411)	(14,800,468)
	Weighted average number of ordinary shares	4,000,000	4,000,000
	Loss per share - Basic (Rupees)	(18.12)	(3.70)
26.1	There is no dilutive effect on the basic loss per share of the Company.		



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## 27 REMUNERATION AND BENEFITS OF CHIEF EXECUTIVE AND DIRECTORS

	Chief Executive Officer	Directors	Chief Executive Officer	Directors
	2009		2008	
	----- Rupees -----		----- Rupees -----	
Fee	-	8,000	-	8,000
Remuneration	842,220	-	631,650	-
Allowances	382,560	-	284,220	-
<b>Rupees</b>	<b>1,224,780</b>	<b>8,000</b>	<b>915,870</b>	<b>8,000</b>
<b>Number of persons</b>	<b>1</b>	<b>7</b>	<b>1</b>	<b>7</b>

## 28 PRODUCTION DATA

	2009	2008
a. Total spindles / looms installed	-	24,960
Number of spindles / looms lying inoperative	-	5,963
Workable spindles / looms installed	-	18,997
b. Estimated working capacity after conversion into 20/S count and 50 picks in 900 to 1050 shifts and subject to pattern of production.	-	3.5 million to 4.0 million
c. Actual production of yarn (Kgs)	-	-
Actual production after conversion into 20/S	-	-
Number of shifts per day	-	-
Number of shifts worked during the period	-	-

## 29 AGGREGATE TRANSACTIONS WITH RELATED PARTIES

The Company in the normal course of business carries out transactions with various related parties which comprise of associated undertakings, directors and key management personnel. Amounts due from and due to related parties, if any, are shown under receivables and payables. Remuneration and benefits of Chief Executive Officer and Directors is disclosed in Note 27. Other significant transactions with related parties are as under:

Relationship	Nature of transaction	2009 Rupees	2008 Rupees
Associated Undertaking	Markup on borrowing	1,455,351	1,459,340
	Joint office expenses	1,000,000	1,000,000
	Sale of spare parts	26,233	-



**30 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES****30.1 Interest / markup rate risk management**

Interest / markup rate risk arises from the possibility that changes in interest / markup rates will affect the value of financial instruments. Effective interest rate is disclosed in the respective note of financial liabilities.

	Interest / markup bearing		Non-interest / markup bearing		2009 Total	2008 Total
	Maturity within one year	Maturity after one year	Maturity within one year	Maturity after one year		
<b>Rupees</b>						
<b>Financial Assets</b>						
Advances, deposits and Other receivables	-	-	105,744,731	-	105,744,731	105,523,672
Cash and bank balances	-	-	50,380	-	50,380	223,365
	-	-	105,795,111	-	105,795,111	105,747,037
<b>Financial Liabilities</b>						
Long term financing	11,760,750	-	-	-	11,760,750	303,382,440
Due to Associated Company	52,343,400	10,120,991	78,841,103	22,916,166	164,221,660	38,055,811
Trade and other payables	-	-	23,404,596	-	23,404,596	31,599,996
Markup / interest payable	-	-	-	64,512,072	64,512,072	-
	64,104,150	10,120,991	102,245,699	87,428,238	263,899,078	373,038,247
<b>Off balance sheet item</b>						
Bank guarantees	-	-	-	-	-	-
	64,104,150	10,120,991	102,245,699	87,428,238	263,899,078	373,038,247

**30.2 Credit risk and concentration of credit risk**

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. Out of the total financial assets of Rs. 106.090 million (2008 : Rs. 105.747 million), the financial assets which are subject to credit risk amounted to Rs. 105.176 million (2007: Rs. 105.176 million). The management monitors and limits Company's exposure of credit risk through monitoring and review of credit exposure and conservative estimates of provisions for doubtful receivables. Out of total financial assets Rs. 93.621 million are receivable from State Bank of Pakistan.

**30.3 Foreign exchange risk management**

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. As at June 30, 2009, the Company is not directly exposed to any foreign currency risk.

**30.4 Liquidity risk**

Liquidity risk reflects the Company's inability in raising funds to meet commitments. Management closely monitors the Company's liquidity and currently follows a cash management policy, mainly sponsored by its directors, to ensure availability of funds to take appropriate measures to meet the financial needs/commitments of the Company.

**30.5 Fair values of financial assets and financial liabilities**

The carrying values of all the financial assets and financial liabilities reported in the financial statements approximate their fair values.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.



**30.6 Capital management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to meet the financial commitments of the Company towards Banks, the Directors of the Company are making contributions to avail the waiver adjustment of Rs. 291.621 million as agreed upon with these banks through Settlement Agreement.

**31 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue as at 06th October, 2009 by the Board of Directors of the Company.

**32 NON- ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

Included in trade and other payables is an amount of Rs. 2.780 million (note 10.3) relates to employees' contribution towards 'employees provident fund', which was not paid to employees' provident fund trust due to lack of adequate funds, has been paid by the Company to the trust, after the balance sheet date, on July 20, 2009.

**33 GENERAL**

- Figures have been rounded off to the nearest Pak Rupee.
- Following re-arrangement has been made in the financial statements to reflect more appropriate presentation.

<b>Nature</b>	<b>Previous classification</b>	<b>Current classification</b>	<b>Rupees</b>
Deposits	Current assets	Non - current assets	294,482
Payable to related parties	Due to Directors	Due to Associated Company	35,682,088

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**CHAIRMAN / CHIEF EXECUTIVE**

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**DIRECTOR**

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7.03 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to provide a return to shareholders for shareholders and to provide for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to meet the financial commitments of the Company towards shareholders, the Director of the Company are taking conditions to give the waiver adjustment of 100.00 million as agreed upon with their banks through their respective agreements.

24 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 05th October 2007 by the Board of Directors of the Company.

25 NON-RECURRING EVENT AFTER THE BALANCE SHEET DATE

proposed a trade and other payable is an amount of Rs. 2,150 million (two 100) million employees' gratuity towards employees' gratuity fund, which was not paid to employees' gratuity fund due to lack of adequate funds. has been paid by the Company to the trust of the balance sheet date on July 30, 2008.

26 GENERAL

Figures have been rounded off to the nearest five figures.

Following reclassification has been made in the financial statements to reflect the appropriate presentation.

Amount	Previous classification	Current classification
30,000	Current assets	Non-current assets
30,000	Profit or retained income due to Director	Profit associated Company



# PROXY FORM

(54th Annual General Meeting)

I / We, \_\_\_\_\_ of \_\_\_\_\_

being member of (Colony) Sarhad Textile Mills Limited and holder of \_\_\_\_\_

\_\_\_\_\_ Ordinary shares as per Share Register Folio No. \_\_\_\_\_

\_\_\_\_\_ hereby appoint \_\_\_\_\_

\_\_\_\_\_ of \_\_\_\_\_ as my / our proxy to attend,

speak and vote for me/us and on my/our behalf of the Annual General Meeting of the company to be held on

Saturday October 31, 2009 and at any adjournment thereof.

As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_ 2009. Signed

by the said \_\_\_\_\_ in the

presence of \_\_\_\_\_

Signature on  
Rs 5/-  
Revenue Stamp

## Notes :

1. The proxy in order to be valid must be signed across Five Rupees Revenue Stamp and should be deposited with the Company not later than 48 hours before the time of holding the Meeting.
2. The Proxy must be member of the Company.
3. Signature should agree with specimen signature, registered with the company.



# PROXY VOTE

Date: \_\_\_\_\_

I, \_\_\_\_\_ of \_\_\_\_\_  
do hereby certify that \_\_\_\_\_  
is/are the true and correct owner(s) of \_\_\_\_\_  
shares of the common stock of \_\_\_\_\_  
and that the said \_\_\_\_\_  
is/are entitled to the right to vote at the \_\_\_\_\_  
meeting of the \_\_\_\_\_  
to be held on \_\_\_\_\_ at \_\_\_\_\_  
and that the said \_\_\_\_\_  
is/are entitled to the right to vote at the \_\_\_\_\_  
meeting of the \_\_\_\_\_  
to be held on \_\_\_\_\_ at \_\_\_\_\_

Signature of \_\_\_\_\_  
Name of \_\_\_\_\_  
Address of \_\_\_\_\_

I hereby certify that the above is a true and correct copy of the proxy vote of the \_\_\_\_\_  
and that the said \_\_\_\_\_ is/are entitled to the right to vote at the \_\_\_\_\_  
meeting of the \_\_\_\_\_ to be held on \_\_\_\_\_ at \_\_\_\_\_