1355
DSML

# DAR ES SALAAM
## TEXTILE MILLS LIMITED
## Annual Report
## 2009

DTM

**Dar Es Salaam Textile Mills Limited**

## CONTENTS


| | |
|---|---|
| Company Information | 2 |
| Notice of Annual General Meeting | 3 |
| Vision / Mission Statements | 4 |
| Directors' Report | 5 |
| Statement of Compliance with the Best Practices of Corporate Governance | 8 |
| Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance | 10 |
| Financial Highlights | 11 |
| Pattern of Holding of Shares | 12 |
| Auditors' Report | 15 |
| Balance Sheet | 16 |
| Profit and Loss Account | 17 |
| Cash Flow Statement | 18 |
| Statement of Changes in Equity | 19 |
| Notes to the Accounts | 20 |
| Form of Proxy | - |


**Annual Report**

# COMPANY INFORMATION

| | | |
|---|---|---|
| **Board of Directors** | Mrs. Nilofar Mukhtar | *Chairperson & Director* |
| | Mr. Faisal Mukhtar | *Chief Executive* |
| **Directors** | Mrs. Mahwesh Faisal Mukhtar | |
| | Ms. Abida Mukhtar | |
| | Sh. Parvez Ashraf | |
| | Mr. Zulfiqar Ahmad Malik | |
| | Mr. Firasat Ali | (N.I.T. Nominee) |
| **Audit Committee** | Sh. Parvez Ashraf (Chairman) | |
| | Mr. Zulfiqar Ahmed Malik (Member) | |
| | Ms. Abida Mukhtar (Member) | |
| **Chief Financial Officer & Company Secretary** | Mr. Shahid Amin | |
| **Auditors** | M/s UHY Hassan Naeem & Co.<br>Chartered Accountants | |
| **Legal Advisor** | Mr. Muhammad Ashraf | |
| **Bankers** | The Bank of Punjab<br>United Bank Limited<br>Standard Chartered Bank (Pakistan) Ltd.<br>Bank Alfalah Limited<br>Faysal Bank Limited<br>KASB Bank Limited | |
| **Share Registrars** | M/s Corplink (Pvt.) Ltd.<br>Wing Arcade,<br>1-K, Commercial, Model Town,<br>Lahore.<br>Tel: 35839182, 35869037 | |
| **Registered Office** | 63-B-I, Gulberg-III,<br>Lahore.<br>Tel: (042) 35878643-4 | |
| **Factory** | 10th Km Muridke-Sheikhupura Road,<br>Muridke. | |

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 20th Annual General Meeting of the Shareholders of Dar Es Salaam Textile Mills Limited will be held on Saturday the October 31, 2009 at 11:00 a.m. at the Registered Office of the Company, 63-B-I, Gulberg-III, Lahore, to transact the following business:

1. To confirm the minutes of the Extra Ordinary General Meeting held on 31-03-2009.
2. To receive, consider and adopt the Audited Financial Statement for the year ended June 30, 2009 and the Directors' and Auditors' Report thereon.
3. To appoint auditors and to fix their remuneration. The auditors of the Company Messrs UHY Hassan Naeem & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment for the financial year ending June 30, 2010.
4. To transact any other business with the permission of the chair.

BY ORDER OF THE BOARD

Place : Lahore
Dated : October 09, 2009

SHAHID AMIN
Company Secretary

**NOTES :**

1. The share transfer books of the Company will remain closed from 30-10-2009 to 06-11-2009 (both days inclusive).
2. A member entitled to vote at the meeting may appoint any other member as his/her proxy. Proxies in order to be effective must be received at the Registered Office of the Company duly stamped, signed and witnessed not later than 48 hours before the meeting.
3. Any individual Beneficial Owner of the Central Depository Company, entitled to vote at this meeting must bring his/her National Identity Card to prove identity, and in case of proxy must enclose an attested copy of his/her National Identity Card. Representatives of corporate members should bring the usual documents required for such purpose.
4. Shareholders are requested to notify the Company's share registrar of any change in their addresses.

## Vision Statement

To achieve the highest possible return on investment through a process of continuous improvement and while upholding the highest standards of integrity in all operations.

## Mission Statement

To be a result-oriented and profitable Company by consistently improving in terms of productivity, quality, technological expertise, diversity, presentation, reliability and customer acceptance.

To establish the Company as a growing concern while ensuring optimum return on investment for shareholders.

To be a responsible employer and create an environment where a professional, highly-motivated management team can prosper.

To be a good corporate citizen who supports charitable causes and follows environmental friendly policies.

# DIRECTORS' REPORT

The Directors are pleased to present the Annual Report of your Company and the Audited Financial Statements for the year ended June 30, 2009.

## CHANGE IN MANAGEMENT

During the year, one director resigned and the said casual vacancy was duly filled in by the Board within 30 days thereof. The directors were retired and re-elected on March 31, 2009.

## PERFORMANCE DURING THE YEAR

These financial statements have been prepared on the basis of going concern as the management is fully confident that the Company will be able to achieve satisfactory levels of profitability in the future.

Our sales for the year under review are Rs 850.027 million (last year Rs. 725.703 million). The increase is attributed to higher yarn prices. The operations resulted in a loss before taxation of Rs. 128.221 million as compared with loss before taxation of Rs. 104.767 million for the comparable year.

The loss for the year mainly attributed to higher input costs as well as financial charges and depressed yarn market conditions locally and worldwide.

Quantitative analysis shows that production declined by 3.69% as compared with annualized production of last period.

Distribution cost decreased by 58.35% mainly due to sharp decline in exports due to recession while Administrative Expenses were controlled to and increase depicts the inflation factor.

## PROSPECTS FOR THE YEAR

The textile industry is shadowed under world wide recession yielding continued decline in sale prices in the international & local markets and increase in raw material as well as input costs.

The worldwide effects of recession will continue however, the government has taken positive steps to give a boost by announcing much awaited Textile Policy which is under the process of implementation and hopefully would yield healthier results.

We are striving our best to increase the production and it would take a little time in the coming years to implement.

The management is of the view that operating results will improve in the coming years.

## SUMMARIZED FINANCIAL RESULTS

The Company has made a pre tax loss of Rs. 128,220,621 after charging costs, expenses and depreciation for the period.

| | (Rupees) |
|---|---|
| Loss before taxation | 128,220,621 |
| Taxation | (24,574,102) |
| Loss after taxation | 103,646,519 |
| Accumulated Loss Brought Forward | 129,134,888 |
| Transfer from Surplus on Revaluation of Fixed Assets | (19,776,060) |
| Accumulated Loss Carried Forward | 213,005,347 |

**EARNINGS PER SHARE**

Loss per share for the year is Rs. 12.96 as compared with last period's loss per share of Rs. 12.05.

**DIVIDEND**

Since the Company has accumulated losses, therefore, the directors have not recommended any dividend for the year.

**OUTSTANDING STATUTORY PAYMENTS**

All outstanding statutory payments are of normal and routine nature.

**CORPORATE GOVERNANCE**

The Board of Directors hereby declares that for the year ended June 30, 2009:

a) The financial statements, prepared by the Management of the Company, fairly present its state of affairs, the results of its operation, cash flow, and changes in equity.

b) The Company has maintained proper books of account.

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

d) International accounting standards, as applicable in Pakistan, have been followed in the preparation of financial statements.

e) The system of internal control is sound in design and has been effectively implemented and monitored.

f) There are no significant doubts upon the Company's ability to continue as a going concern.

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

h) Operating and financial data and key ratios of the last six years are annexed.

i) Value of investments based on the audited accounts of Provident Fund and Gratuity Fund for the year ended 30-06-2008 are Rs 2.331 million and Rs. 0.015 million respectively .

j) Following trade in shares of the Company was carried out by the directors, CEO, CFO, Company Secretary, their spouses and minor children during the year ended June 30, 2009:

| Name | No. of Shares Sale | Purchase |
|---|---|---|
| Mr. Faisal Mukhtar (Chief Executive) | 2,500 | Nil |
| Mrs. Mahwesh Faisal Mukhtar (Director) | Nil | 2,500 |

k) The pattern of shareholding as at June 30, 2009 is annexed to this report.

**AUDITORS**

The auditors of the Company, Messrs UHY Hassan Naeem & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment for the financial year 2009-2010. The audit committee has recommended re-appointment of the same auditors.

**BOARD MEETINGS**

During the year, Five (5) meetings of the Board of Directors were held. Attendance by each director is as follows:

| Name | Attendance |
|---|---|
| Mr. Faisal Mukhtar | 5 |
| Mrs. Nilofar Mukhtar | 3 |
| Mrs. Mahwesh Faisal Mukhtar (appointed on 13/12/2008) | 1 |
| Ms. Abida Mukhtar | 1 |
| Mr. Irfan Nasr (Resigned on 13/12/2008) | 3 |
| Mr. Parvez Ashraf | 4 |
| Mr. Zulfiqar Ahmad Malik | 5 |
| Mr. Firasat Ali (NIT nominee) | 2 |

Leave of absence was granted to directors who could not attend some of the Board meetings.

**CODE OF ETHICS AND BUSINESS PRACTICES**

Code of Ethics and Business Practices has been developed and is now being communicated and acknowledged by each director and employee of the Company.

**MANAGEMENT AND STAFF RELATIONS**

We gratefully acknowledge the dedication and positive spirit in which our staff and workers continue to operate. Staff-management relations remained extremely cordial throughout the year.

**For and on behalf of the Board**

**Place : Lahore**
**Date : October 09, 2009**

**FAISAL MUKHTAR**
**Chief Executive**

# STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CORPORATE GOVERNANCE

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

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on it's Board of Directors. At present the Board included one independent director representing financial Institution and 4 non-executive directors.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies including this Company.

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

4. Casual vacancies of directors occurred during the financial year 2008-2009 were duly filled within 30 days thereof.

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

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

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

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

9. No specific orientation course was held during the year. However, the management continue to be apprised with changes in law to discharge their duties and responsibilities.

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

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

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

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

15. The Board has formed an audit committee. It comprises of 3 (three) members. All are non-executive directors.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has set-up effective internal audit function.

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

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

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

**For and on behalf of the Board**

**Place : Lahore**
**Date : October 09, 2009.**

**FAISAL MUKHTAR**
**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 Dar Es Salaam Textile Mills Limited to comply with the Listing Regulation No. 37 (Chapter XI) and No. 43 (Chapter XIII) of the Karachi and Lahore Stock Exchanges respectively, where the Company is listed.

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

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

Based on our review, except the following:

The orientation courses which were not conducted as explained in point 9 of the "Statement of Compliance with the Code of Corporate Governance",

Dividend was not paid for five years from the date of declaration of last dividend or bonus as explained in regulation 30 of the listing regulations.

Nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2009.

**Place : Lahore**
**Date : October 09, 2009**

**UHY Hassan Naeem & CO.**
**Chartered Accountants**

# FINANCIAL HIGHLIGHTS OF THE LAST SIX YEARS

| PARTICULARS | | June 30 2009 | June 30 2008 (Restated) | June 30 2007 | June 30 2006 (Restated) | September 30 2005 | September 30 2004 |
|---|---|---|---|---|---|---|---|
| Sales | Rs. | 850,027,163 | 725,702,932 | 772,328,259 | 689,889,946 | 469,557,266 | 645,239,493 |
| Gross Profit | Rs. | 1,747,909 | 487,721 | 62,482,599 | 76,449,076 | 66,234,370 | 41,755,427 |
| Profit/(Loss) Before Tax | Rs. | (128,220,621) | (104,766,902) | (36,570,749) | (19,464,775) | 15,231,989 | (19,122,826) |
| Profit/(Loss) After Tax | Rs. | (103,646,519) | (93,433,357) | (35,246,187) | (16,377,287) | 9,917,760 | (28,887,408) |
| Share Capital | Rs. | 80,000,000 | 80,000,000 | 80,000,000 | 80,000,000 | 80,000,000 | 80,000,000 |
| Share Holders Equity | Rs. | 104,702,479 | 208,348,998 | 304,782,355 | 164,534,391 | 196,786,618 | 63,091,609 |
| Fixed Assets Net | Rs. | 562,339,280 | 612,993,745 | 656,178,232 | 475,956,408 | 490,882,431 | 272,155,313 |
| Total Assets | Rs. | 752,753,260 | 937,433,590 | 951,773,905 | 693,814,729 | 762,197,383 | 552,926,725 |
| Production | (Kgs) | 5,479,610 | 5,125,185 | 5,367,323 | 5,295,526 | 3,523,133 | 4,165,926 |
| Sales | (Kgs) | 5,110,542 | 5,185,292 | 5,531,962 | 5,110,542 | 3,686,725 | 4,235,220 |
| Dividend – Cash | | - | - | — | — | -- | — |
| **Ratios:** | | | | | | | |
| **Profitability** | | | | | | | |
| Gross Margin | | 0.21% | 0.07% | 8.09% | 11.08% | 14.11% | 6.47% |
| Profit/(Loss) Before Tax | | -15.08% | -14.44% | -4.74% | -2.82% | 3.24% | -2.96% |
| Profit/(Loss) After Tax | | -12.19% | -13.29% | -4.56% | -2.37% | 2.11% | -4.48% |
| **Return to Shareholders** | | | | | | | |
| Return on Equity (BT) | | 122.46% | -50.28% | -12.00% | -10.84% | 7.74% | -30.31% |
| Return on Equity (AT) | | -98.99% | -46.28% | -11.56% | -9.12% | 5.04% | -45.78% |
| Earning Per Share (BT) | Rs. | -16.03 | -13.10 | -4.57 | -2.43 | 1.90 | -2.39 |
| Earning Per Share (AT) | Rs. | -12.96 | -12.05 | -4.41 | -2.05 | 1.24 | -3.61 |
| **Activity** | | | | | | | |
| Sales to Total Assets (Times) | | 1.13 | 0.77 | 0.81 | 0.99 | 0.62 | 1.17 |
| Sales to Fixed Assets (Times) | | 1.51 | 1.18 | 1.18 | 1.45 | 0.96 | 2.37 |
| **Liquidity** | | | | | | | |
| Current Ratio (Times) | | 0.43 | 0.62 | 0.67 | 0.75 | 0.75 | 0.91 |
| Break up Value Per Share | Rs. | 13.09 | 26.04 | 38.10 | 22.45 | 24.60 | 7.89 |

# THE COMPANIES ORDINANCE 1984
## (Section 236(1) and 464)
## PATTERN OF SHAREHOLDING

1. Incorporation Number L-01895

2. Name of the Company **DAR ES SALAAM TEXTILE MILLS LTD.**

3. Pattern of holding of the shares held by the shareholders as at 30-06-2009.

| No. of Shareholders | Shareholdings From | Shareholdings To | Total Shares Held |
|---|---|---|---|
| 77 | 1 | 100 | 6,962 |
| 1063 | 101 | 500 | 517,777 |
| 87 | 501 | 1000 | 85,609 |
| 88 | 1001 | 5000 | 219,761 |
| 24 | 5001 | 10000 | 191,700 |
| 8 | 10001 | 15000 | 101,700 |
| 3 | 15001 | 20000 | 56,000 |
| 2 | 20001 | 25000 | 46,500 |
| 5 | 25001 | 30000 | 131,500 |
| 1 | 30001 | 35000 | 32,000 |
| 2 | 40001 | 45000 | 88,250 |
| 1 | 50001 | 55000 | 53,000 |
| 1 | 65001 | 70000 | 70,000 |
| 2 | 75001 | 80000 | 159,750 |
| 1 | 110001 | 115000 | 112,291 |
| 2 | 115001 | 120000 | 240,000 |
| 1 | 165001 | 170000 | 168,568 |
| 1 | 175001 | 180000 | 180,000 |
| 1 | 240001 | 245000 | 242,500 |
| 1 | 265001 | 270000 | 266,787 |
| 1 | 270001 | 275000 | 274,813 |
| 1 | 350001 | 355000 | 350,500 |
| 1 | 515001 | 520000 | 516,750 |
| 1 | 520001 | 525000 | 525,000 |
| 1 | 820001 | 825000 | 824,125 |
| 1 | 1245001 | 1250000 | 1,247,197 |
| 1 | 1290001 | 1295000 | 1,290,960 |
| 1378 | | | 8,000,000 |

| 5. | Categories of shareholders | Shares held | % age |
|---|---|---|---|
| 5.1 | Directors, Chief Executive Officers, and their spouse and minor children | 3,698,032 | 46.2254 |
| 5.2 | Associated Companies, undertakings and related parties | 0 | 0 |
| 5.3 | NIT and ICP | 545,800 | 6.8225 |
| 5.4 | Banks Development Financial Institutions, Non Banking Financial Institutions | 1,000 | 0.0125 |
| 5.5 | Insurance Companies | 0 | 0 |
| 5.6 | Modarabas and Mutual Funds | 0 | 0 |
| 5.7 | Share holders holding 10% | 3,513,032 | 43.9129 |
| 5.8 | General Public | | |
| | a. Local | 3,443,243 | 43.0405 |
| | b. Foreign | 0 | 0 |
| 5.9 | Others (to be specified) | | |
| | 1- Joint Stock Companies | 311,425 | 3.8928 |
| | 2- Other Companies | 500 | 0.0063 |

| | | |
|---|---|---|
| 6. | Signature of Company Secretary | |
| 7. | Name of Signatory | Shahid Amin |
| 8. | Designation | Company Secretary |
| 9. | NIC Number | 35201-9779438-9 |
| 10. | Date | 30 06 2009 |

# Categories of Share Holders as required under C.C.G. as on 30th June, 2009

| | | Holding | % age |
|---|---|---|---|
| **ASSOCIATED COMPANIES** | | | |
| **NIT & ICP:** | | | |
| 1. | National Bank of Pakistan, Trustee Deptt. (CDC) | 266,787 | 3.3348 |
| 2. | Trustee – NI(U)T (LOC) FUND (CDC) | 274,813 | 3.4352 |
| 3. | Investment Corp. of Pakistan | 4,200 | 0.0525 |
| | | 545,800 | 6.8225 |
| **DIRECTORS, CEO THEIR SPOUSES & MINOR CHILDREN** | | | |
| 1. | Mrs. Nelofar Mukhtar | 44,750 | 0.5594 |
| | Mrs. Nelofar Mukhtar (CDC) | 824,125 | 10.3016 |
| 2. | Ms. Abida Mukhtar | 26,250 | 0.3281 |
| | Ms. Abida Mukhtar (CDC) | 1,290,960 | 16.1370 |
| 3. | Sh. Parvez Ashraf | 2,500 | 0.0313 |
| 4. | Mr. Zulfiqar Ahmed | 180,000 | 2.2500 |
| 5. | Mr. Faisal Mukhtar | 79,750 | 0.9969 |
| | Mr. Faisal Mukhtar (CDC) | 1,247,197 | 15.5900 |
| 6. | Mrs. Mahwesh Faisal Mukhtar | 2,500 | 0.0313 |
| 7. | Mr. Firasat Ali (NIT Nominee) | – | – |
| | | 3,698,032 | 46.2254 |
| **PUBLIC SECTOR COMPANIES AND CORPORATIONS** | | | |
| 1. | 128 Securities (Pvt) Ltd. | 400 | 0.0050 |
| 2. | ACE Securities (Pvt) Ltd. | 242,500 | 3.0313 |
| 3. | Darson Securities (Pvt) Ltd. (CDC) | 1,500 | 0.0188 |
| 4. | Durvesh Securities (Pvt) Ltd. (CDC) | 7,500 | 0.0938 |
| 5. | Capital Vision Securities (Pvt) Ltd. (CDC) | 1,000 | 0.0125 |
| 6. | H.M. Investment (Pvt) Ltd. (CDC) | 100 | 0.0013 |
| 7. | M.R. Securities (SMC-Pvt) Ltd. (CDC) | 25 | 0.0003 |
| 8. | SAAO Capital (Pvt) Limited | 32,000 | 0.4000 |
| 9. | Saleem Sozer Securities (Pvt) Ltd. | 13,500 | 0.1688 |
| 10. | Time Securities (Pvt) Ltd. (CDC) | 500 | 0.0063 |
| 11. | Amin Textile Mills (Pvt) Ltd. | 9,000 | 0.1125 |
| 12. | S.H. Bukhari (Pvt) Ltd. | 2,900 | 0.0363 |
| 13. | Stock Street (Pvt) Limited (CDC) | 500 | 0.0063 |
| | | 311,425 | 3.8928 |
| **OTHER COMPANIES** | | | |
| 1. | Islamabad Stock Exchange (G) Limited | 500 | 0.0063 |
| **BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON BANKING FINANCE INSTITUTIONS** | | | |
| 1. | Bank Alfalah Limited | 500 | 0.0063 |
| 2. | Escorts Investment Bank Limited | 500 | 0.0063 |
| | | 1,000 | 0.0125 |
| **SHARES HELD BY THE GENERAL PUBLIC** | | 3,443,243 | 43.0405 |
| | | 8,000,000 | 100.0000 |
| **SHAREHOLDERS HOLDING 10% OR MORE OF TOTAL CAPITAL** | | | |
| 1. | Mrs. Nilofar Mukhtar | 868,875 | 10.8609 |
| 2. | Mr. Faisal Mukhtar | 1,326,947 | 16.5868 |
| 3. | Ms. Abida Mukhtar | 1,317,210 | 16.4651 |
| | | 3,513,032 | 43.9129 |

During the financial year the trading in shares of the Company by the Directors, CEO, CFO, Company Secretary and their spouses and minor children is as follows

| S.No. | Name | (No. of Shares) Purchase | Sale |
|---|---|---|---|
| 1. | Mr. Faisal Mukhtar | – | 2,500 |
| 2. | Mrs. Mahwesh Faisal Mukhtar | 2,500 | – |

# AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Dar Es Salaam 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 purpose of our audit.

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

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

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

(b) in our opinion:

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

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

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

(c) in our opinion and to the best of our information, and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 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 Usher Ordinance, 1980 (XVIII of 1980).

Without qualifying our opinion we draw attention to note 1.2 to the financial statements, which state that during the year ended June 30, 2009 the company suffered a loss of Rs. 103.647 million (2008: Rs. 96.433 million) resulting in accumulated losses of Rs. 213.005 million, also the current liabilities exceed current assets by Rs. 248.020 million (2008: Rs. 195.345 million). These conditions indicate the existence of the material uncertainty which may cast significant doubt about the company's ability to continue as going concern.

**Place : Lahore**
**Date : October 09, 2009**

**UHY Hassan Naeem & CO.**
**Chartered Accountants**
**Ibne Hassan FCA**

# BALANCE SHEET AS AT JUNE 30, 2009

| | Note | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|---|
| **NON CURRENT ASSETS** | | | |
| **Fixed Assets** | 5 | **562,339,280** | **613,433,745** |
| **Long Term Deposits** | 6 | **5,761,943** | **6,091,943** |
| **CURRENT ASSETS** | | | |
| Stores & Spares | 7 | 15,832,639 | 12,727,965 |
| Stock in Trade | 8 | 53,388,821 | 188,012,201 |
| Trade Debtors | 9 | 18,388,745 | 74,930,866 |
| Advances, Deposits, Prepayments & Other Receivables | 10 | 95,563,470 | 37,453,155 |
| Cash & Bank Balances | 11 | 1,478,363 | 4,783,715 |
| | | **184,652,038** | **317,907,902** |
| **CURRENT LIABILITIES** | | | |
| Short Term Finance-Secured | 12 | 285,667,235 | 399,576,184 |
| Current Portion of Long Term Loans | 17 | 37,761,416 | 25,065,932 |
| Current Portion of Liabilities Against Assets Subject to Finance Lease | 18 | 7,939,943 | 10,271,525 |
| Trade & Other Payables | 13 | 74,978,988 | 49,257,297 |
| Provision for Taxation | 14 | 1,454,364 | 12,076,612 |
| Mark up Payable | 15 | 24,870,483 | 17,005,706 |
| | | **432,672,429** | **513,253,256** |
| **Total Assets less Current Liabilities** | | **320,080,832** | **424,180,334** |
| **NON CURRENT LIABILITIES** | | | |
| Subordinated Sponsors' Loan | 16 | 80,240,000 | 24,640,000 |
| Long Term Loans-Secured | 17 | 111,482,035 | 136,847,851 |
| Liabilities Against Assets Subject to Finance Lease | 18 | 9,074,867 | 16,436,320 |
| Long Term Deposits | 19 | 1,500,000 | 1,500,000 |
| **Deferred Liabilities** | | | |
| Staff Retirement Gratuity | 20 | 3,339,798 | 637,047 |
| Deferred Tax Liability | 21 | 9,741,653 | 35,770,118 |
| | | **215,378,353** | **215,831,336** |
| **CONTINGENCIES & COMMITMENTS** | 22 | - | - |
| **NET WORTH** | | **104,702,479** | **208,348,998** |
| **REPRESENTED BY:** | | | |
| **SHARE CAPITAL AND RESERVES** | | | |
| Authorized share capital 15,000,000 Ordinary shares(2008:15,000,000 ordinary shares) of Rs 10/- each | | 150,000,000 | 150,000,000 |
| Share Capital | 23 | 80,000,000 | 80,000,000 |
| Accumulated Losses | | (213,005,347) | (129,134,888) |
| | | **(133,005,347)** | **(49,134,888)** |
| **SURPLUS ON REVALUATION OF FIXED ASSETS** | 24 | **237,707,826** | **257,483,886** |
| | | **104,702,479** | **208,348,998** |

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

| | | |
|---|---|---|
| **SHAHID AMIN** | **FAISAL MUKHTAR** | **SH. PARVEZ ASHRAF** |
| **Chief Financial Officer** | **Chief Executive** | **Director** |

# PROFIT & LOSS ACCOUNT
## FOR THE YEAR ENDED JUNE 30, 2009

| | Notes | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|---|
| **SALES** | **25** | 850,027,163 | 725,702,932 |
| **COST OF SALES** | **26** | 848,279,254 | 725,215,211 |
| **GROSS PROFIT** | | **1,747,909** | **487,721** |
| **OPERATING EXPENSES** | | | |
| Administrative Expenses | **27** | 33,039,378 | 29,711,007 |
| Distribution Cost | **28** | 6,756,800 | 10,699,365 |
| | | 39,796,178 | 40,410,372 |
| **OPERATING LOSS** | | **(38,048,269)** | **(39,922,651)** |
| **FINANCIAL CHARGES** | **29** | (79,489,281) | (66,871,211) |
| **OTHER INCOME** | **30** | 26,880 | 2,026,960 |
| **OTHER CHARGES** | **31** | (10,709,951) | - |
| **LOSS BEFORE TAXATION** | | **(128,220,621)** | **(104,766,902)** |
| **TAXATION** | **32** | 24,574,102 | 8,333,545 |
| **LOSS AFTER TAXATION** | | **(103,646,519)** | **(96,433,357)** |
| **EARNINGS PER SHARE** | **33** | **(12.96)** | **(12.05)** |

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

| | | |
|---|---|---|
| **SHAHID AMIN**<br>**Chief Financial Officer** | **FAISAL MUKHTAR**<br>**Chief Executive** | **SH. PARVEZ ASHRAF**<br>**Director** |

# CASH FLOW STATEMENT
## FOR THE YEAR ENDED JUNE 30, 2009

| | June 30, 2009 | June 30, 2008 |
|---|---|---|
| | <Rupees> | <Rupees> |
| **Cash Flow From Operating Activities** | | |
| Loss Before Taxation | **(128,220,621)** | **(104,766,902)** |
| **Adjustments For:** | | |
| Depreciation | 53,917,184 | 58,894,215 |
| Amortization | 88,000 | 110,000 |
| Financial Expenses | 79,489,281 | 66,871,211 |
| Profit on Sale of Fixed Assets | (274) | (1,491,373) |
| Profit on Sale & Lease Back | - | (172,996) |
| Provision for Gratuity | 2,702,751 | 200,758 |
| | **136,196,942** | **124,411,815** |
| **Operating Profit Before Working Capital Changes** | **7,976,321** | **19,644,913** |
| (Increase)/Decrease in Stores & Spares | (3,104,674) | (452,881) |
| (Increase)/Decrease in Stock in Trade | 134,623,380 | (72,480,398) |
| (Increase)/Decrease in Trade Debtors | 56,542,120 | 51,513,930 |
| (Increase)/Decrease in Advances, Deposits, Prepayments & Other Receivables | (66,465,519) | 368,984 |
| Increase/(Decrease) in Trade & Other Payables | 25,721,691 | 17,022,075 |
| | **147,316,998** | **(4,028,290)** |
| **Cash (Used In)/Generated From Operations** | **155,293,319** | **15,616,623** |
| Financial Expenses Paid | (71,624,505) | (65,067,100) |
| Dividend Paid | - | 1,351 |
| Taxes Paid | (4,076,907) | (4,422,487) |
| | **(75,701,411)** | **(69,488,236)** |
| **Net Cash Inflow/(Outflow) From Operating Activities** | **79,591,908** | **(53,871,613)** |
| **Cash Flow From Investing Activities** | | |
| Addition to Fixed Assets | (1,872,688) | (17,893,355) |
| Addition to Intangible Assets | - | (550,000) |
| (Increase)/Decrease in Capital Work in Progress | (1,285,341) | - |
| (Increase)/Decrease in Long Term Deposits | 685,500 | (1,318,758) |
| Sale Proceeds on Disposal of Fixed Assets | 247,585 | 3,675,000 |
| **Net Cash Out Flow From Investing Activities** | **(2,224,944)** | **(16,087,113)** |
| **Cash Flow From Financing Activities** | | |
| Increase in Sponsors' Loan | 55,600,000 | - |
| Increase/(Decrease) in Long Term Loans | (12,670,332) | (19,944,700) |
| Lease Payments | (9,693,035) | 2,210,437 |
| Increase/(Decrease) in Short Term Finance | (113,908,949) | 89,305,550 |
| **Net Cash Inflow/(Out flow) from Financing Activities** | **(80,672,316)** | **71,571,287** |
| **Net Increase/(Decrease) in Cash & Cash Equivalents** | (3,305,352) | 1,612,561 |
| **Cash & Cash Equivalents at Beginning of the Year** | 4,783,715 | 3,171,154 |
| **Cash & Cash Equivalents at the End of the Year** | **1,478,363** | **4,783,715** |

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

| | | |
|---|---|---|
| **SHAHID AMIN**<br>**Chief Financial Officer** | **FAISAL MUKHTAR**<br>**Chief Executive** | **SH. PARVEZ ASHRAF**<br>**Director** |

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

| Particulars | Issued, Subscribed & Paid up Capital | Accumulated Losses | Total |
|---|---|---|---|
| | <Rupees> | <Rupees> | <Rupees> |
| Balance as on July 01, 2007 | 80,000,000 | (50,334,566) | 29,665,434 |
| Loss for the Year | | (96,433,357) | (96,433,357) |
| Transfer from Surplus on Revaluation of Fixed Assets on Account of Incremental Depreciation-Net of Deferred Tax | | 17,633,035 | 17,633,035 |
| **Balance as on June 30, 2008** | **80,000,000** | **(129,134,888)** | **(49,134,888)** |
| Balance as on July 01, 2008 | 80,000,000 | (129,134,888) | (49,134,888) |
| Loss for the year | - | (103,646,519) | (103,646,519) |
| Transfer from Surplus on Revaluation of Fixed Assets on Account of Incremental Depreciation-Net of Deferred Tax | - | 19,776,060 | 19,776,060 |
| **Balance as on June 30, 2009** | **80,000,000** | **(213,005,347)** | **(133,005,347)** |

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

**SHAHID AMIN**
**Chief Financial Officer**

**FAISAL MUKHTAR**
**Chief Executive**

**SH. PARVEZ ASHRAF**
**Director**

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

## 1. COMPANY AND ITS OPERATIONS

1.1 Dar Es Salaam Textile Mills Limited is a public limited company incorporated in Pakistan on September 28, 1989 under the Companies Ordinance, 1984. The Company is listed on Karachi and Lahore Stock Exchanges. The registered office of the Company is situated at 63 B-I, Gulberg III, Lahore. The principal activity of the Company is to manufacture and sale of yarn.

1.2 During the year the Company incurred loss amounting to Rs. 103.647million (2008: Rs. 96.433 million) and has accumulated losses amounting to Rs. 213.005 million at the year end. In addition, the Company's current liabilities exceeded its current assets by Rs. 248.020 million ( 2008: Rs. 195.345 million) at the year end.

Continuation of the Company as a going concern is dependent on its ability to attain satisfactory levels of profitability in the future and continuous support of financial institutions by bringing its liabilities to serviceable levels and ability of adequate working capital through continued support from:

(a) the principal lenders of the Company; and

(b) the sponsors of the Company.

These financial statements have been prepared on going concern basis on the grounds that the Company will be able to achieve satisfactory levels of profitability in the future. The sponsors has shown their commitment to inject further capital in the company. Further the company has planed to install new machinery to increase production capacity and to improve the quality of products. Moreover the current economic conditions and Government policies are also supportive to the textile industry.

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

## 2. BASIS OF PREPARATION

### 2.1 STATEMENT OF COMPLIANCE

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

### 2.2 INITIAL APPLICATION OF A STANDARD OR AN INTERPRETATION

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 did not affect the Company's financial statements.

IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 01 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 did not affect 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) 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 application of IFRIC 14 did not affect the Company's financial statements.

### 2.3 FORTHCOMING REQUIREMENTS

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

| | | Effective for annual periods beginning on or after |
|---|---|---|
| Revised IAS 1 - | Presentation of financial statements | 1 January 2009. |
| Revised IAS 23 - | Borrowing costs | 1 January 2009. |
| Amendments to IAS 32 | Financial instruments: Presentation and IAS 1 Presentation of Financial Statements | 1 January 2009. |
| Amendments to IAS 39 | Financial Instruments: Recognition and Measurement – Eligible hedged Items | 1 July 2009. |
| Amendments to IAS 39 and IFRIC 9 - | Embedded derivatives | 1 January 2009. |
| Amendment to IFRS 2 | Share-based Payment – Vesting Conditions and Cancellations | 1 January 2009. |
| Amendment to IFRS 2 – | Share-based Payment – Group Cash-settled Share-based Payment Transactions | 1 January 2010. |
| Revised IFRS 3 | Business Combinations | 1 July 2009. |
| IFRS 4 - | Insurance Contracts | 1 January 2009. |

| | | Effective for annual periods beginning on or after |
|---|---|---|
| Amendment to IFRS 7 - | Improving disclosures about Financial Instruments | 1 January 2009. |
| IFRIC 15 | Agreement for the Construction of Real Estate | 1 October 2009. |
| IFRIC 16- | Hedge of Net Investment in a Foreign Operation | 1 October 2008. |
| IFRIC 17 | Distributions of Non-cash Assets to Owners | 1 July 2009. |
| IFRIC 18- | Transfers of Assets from Customers | 01 July 2009. |

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual and second annual improvements projects. The effective dates for these amendments vary by standard and most will be applicable to the Company's 2010 financial statements.

**3. BASIS OF MEASUREMENT**

These financial statements have been prepared under the historical cost convention except for recognition of certain staff retirement benefits at present value as stated in note 4.02 and revaluation of certain fixed assets referred to in 4.06.

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The area involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

a. Property, Plant & Equipment-(Note 5)
b. Taxation-(Note 32)
c. Defined Benefit Plan-(Note 20)

**4. PRINCIPAL ACCOUNTING POLICIES**

**4.01 Borrowings**

Loans and borrowings are recorded at the proceeds received. Financial charges are accounted for on an accrual basis and included in markup payable.

All markups, interest and other charges on long term and short term borrowings are charged to profit in the period in which they are incurred except as stated in note 4.12.

Exchange gain or loss arising in respect of foreign currency is covered under provision of SBP FE. Circular No. 25 dated 20th June 1998.

**4.02 Staff Retirement Benefits**

**4.02.1 Defined Contribution Plan**

The Company has an approved contributory Provident Fund Scheme for its employees. The Company and the employees both make monthly equal contribution as per Provident Fund Rules. The company implemented Funded Gratuity Scheme for all the employees in place of Provident Fund effective July 01, 2008 however, executives are continued to remain in contributory Provident Fund Scheme.

**4.02.2 Defined Benefit Plan**

The company also operates a funded gratuity scheme applicable to the executives and those employees not opting for provident fund scheme. Provision is made on the basis of actuarial valuation. The most recent actuarial valuation was carried out for the year ended June 30, 2009.

Actuarial gain and losses are recognized in accordance within the limit set by IAS-19.

**4.03 Trade and Other Payables**

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.

**4.04 Provisions**

Provision is recognized in the balance sheet when the company has a legal or constructive obligation as a result of past event, and it is probable that an outflow of resource embodying economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

**4.05 Contingencies & Commitments**

Contingencies and commitments are recognized only when they become due.

**4.06 Tangible Fixed Assets, Depreciation and impairment**

**4.06.1 Operating Fixed Assets**

Freehold Land and Buildings as on June 30, 2005 whereas Plant & Machinery as on June 30, 2007 were valued by an independent valuer as of that date and are shown at revalued figures. All other operating fixed assets have been stated at cost less accumulated depreciation and any identified impairment loss.
Increases in the carrying amount arising on revaluation of fixed assets are credited to surplus on revaluation of fixed assets. Decreases that offsets previous increases of the same assets are charged against this surplus, all other decreases are charged to income. Each year the difference between depreciation based on revalued carrying amount of the asset (the depreciation charged to the income) and depreciation based on the assets' original cost is transferred from surplus on revaluation of fixed assets to unappropriated profit. All transfers to/from surplus on revaluation of fixed assets are net of applicable deferred income taxes.

Cost of assets includes purchase price and other incidental expenses incurred up to the date of operation.

Depreciation is calculated on reducing balance method at the rates specified in Note 5 to the financial statements. Depreciation on additions is charged from the date when the asset is available for use and on deletions upto the date when the assets is derecognized.

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment / reversal of previous impairment. If such indication exists, the recoverable amount is estimated and loss / reversal of previous loss are recognized. Impairment loss or its reversal, if any, is charged to the income. Where an impairment loss is recognized the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Maintenance and normal repairs are charged to income as and when incurred while major repairs and improvements are capitalized. Gain or loss on disposal of assets is included in the current year income.

**4.06.2 Capital work in progress**

Capital work in progress is stated at cost less any identified impairment loss.

**4.06.3 Intangible Assets**

Intangible Assets are stated at cost and amortized over a period of useful life of the assets.

**4.07 Leases**

**4.07.1 Finance Lease**

Assets subject to finance lease are stated at fair value of the leased assets at inception of the lease or, if lower at the present value of minimum lease payments. Depreciation is charged at the rates and basis applicable to owned assets.

The outstanding obligations under finance lease less finance charges allocated to future periods are shown as liability. The finance charges are calculated at the rates implicit in the leases and were charged to profit and loss account for the year.

**4.07.2 Operating Lease**

Lease rentals under operating lease are recognized as an expense in the profit and loss account.

**4.08 Stores and Spares**

These are valued at lower of cost and net realizable value. The cost is calculated according to moving average method. Stores in transit are valued at invoice value including other charges, if any, incurred thereon.

**4.09 Stock in Trade**

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

| | |
|---|---|
| Raw Material | At weighted average cost |
| Work in Process & Finished Goods | On actual cost basis that includes cost of direct material and appropriate conversion cost |

Net realizable value signifies the estimated selling price in the ordinary course of the business as reduced by estimated cost of completion and estimated cost necessary to be incurred in order to make the sale.

**4.10 Receivables**

Receivables are carried at original invoiced amount less an estimated provision for doubtful receivables based on review of outstanding amount at the year-end. Known bad debts are written off against profit and loss account.

**4.11 Revenue Recognition**

Revenue is recognized on the dispatch of goods to the customers.

Return on deposits is accrued on a time basis by reference to the principal outstanding and the applicable rate of return.

#### 4.12 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset is capitalized. All other borrowing costs are charged against income as and when incurred.

#### 4.13 Taxation

#### 4.13.1 Current

The charge for the current taxation for the year is based on taxable income at the current rate of taxation after taking into account tax credits, tax rebates and other allowances available for set off, if any in accordance with the provisions of Income Tax Ordinance 2001.

#### 4.13.2 Deferred

Deferred tax is provided in full using the balance sheet liability method on all temporary differences arising at the balance sheet date, between the tax bases of the assets and liabilities and their carrying amounts

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized. Carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

#### 4.14 Foreign Currencies

Transactions in foreign currencies are translated into rupees at the rates of exchange approximating those prevailing at the dates of transactions. Assets and liabilities in foreign currencies are translated into rupees at the rates of exchange approximating those prevailing at the balance sheet date. Exchange gains and losses are included in profit and loss account currently.

#### 4.15 Cash and Cash Equivalent

These comprise of cash and bank balances.

#### 4.16 Financial Assets and Liabilities

Financial Assets and Liabilities are recognized when the Company becomes a part to the contractual provision of the instrument. The particular measurement methods adopted are disclosed in the individual policy statement associated with each item. Any gain or loss on subsequent measurement is charged to income.

#### 4.17 Off Setting

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

#### 4.18 Related Party Transactions

All transactions with related parties and associated undertakings are entered into arm's length prices determined in accordance with comparable uncontrolled pricing method as approved by the Board of Directors.

#### 4.19 Dividend and Reserves

Dividend is recognized as a liability in the period in which it is declared.

Similarly an appropriation to reserves is recognized in the period in which it is appropriated.

| | | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|---|
| **5. FIXED ASSETS** | | | |
| Property, plant and equipment | | | |
| Operating assets | (Note 5.1) | 560,701,939 | 612,993,745 |
| Capital Work in Progress | (Note 5.2) | 1,285,341 | - |
| | | 561,987,280 | 612,993,745 |
| Intangible Assets | (Note 5.3) | 352,000 | 440,000 |
| | | **562,339,280** | **613,433,745** |

5.1 Reconciliation of carrying amounts at the beginning and end of the year is as follows:

| CLASS OF ASSETS | COST | | | | % | DEPRECIATION | | | | W.D.V. / Revalued Amount As on June 30, 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cost as at July 01, 2008 | Additions | Deletions | Total as on June 30, 2009 | | Accumulated as at July 01, 2008 | Adjustments | For the year | Accumulated as on June 30, 2009 | |
| **Tangible** | | | | | | | | | | |
| Land (Freehold) | 25,330,000 | - | - | 25,330,000 | 0 | - | - | - | - | 25,330,000 |
| Factory Building (Freehold) | 128,736,024 | - | - | 128,736,024 | 5 | 38,391,251 | - | 4,517,239 | 42,908,490 | 85,827,534 |
| Colony Building (Freehold) | 41,036,755 | | - | 41,036,755 | 5 | 11,522,951 | - | 1,475,690 | 12,998,641 | 28,038,114 |
| Electrical Fittings | 11,480,433 | - | - | 11,480,433 | 10 | 5,996,820 | - | 548,361 | 6,545,181 | 4,935,252 |
| Elect. Fittings Colony | 2,071,049 | - | - | 2,071,049 | 10 | 1,111,728 | - | 95,932 | 1,207,660 | 863,389 |
| Plant & Machinery | 618,498,220 | 1,196,454 | | 619,694,674 | 10 | 252,092,835 | - | 36,682,613 | 288,775,449 | 330,919,225 |
| Equipment | 11,216,845 | 584,500 | (1,087,503) | 10,713,842 | 10 | 6,245,048 | (848,852) | 510,618 | 5,906,814 | 4,807,028 |
| Furniture & Fixture | 3,772,371 | - | - | 3,772,371 | 10 | 1,529,850 | - | 224,252 | 1,754,102 | 2,018,269 |
| Air Conditioning | 10,442,224 | - | - | 10,442,224 | 20 | 6,258,396 | - | 836,766 | 7,095,162 | 3,347,062 |
| Office Equipment | 839,973 | 55,400 | - | 895,373 | 20 | 508,201 | - | 68,547 | 576,748 | 318,625 |
| Household | 146,964 | - | - | 146,964 | 20 | 127,907 | - | 3,811 | 131,719 | 15,245 |
| Arms | 29,006 | - | - | 29,006 | 10 | 11,556 | - | 1,745 | 13,301 | 15,705 |
| Tarpaulins | 569,007 | - | - | 569,007 | 20 | 417,577 | | 30,286 | 447,863 | 121,144 |
| Sludge Pumps | 99,504 | - | - | 99,504 | 10 | 80,276 | - | 1,923 | 82,199 | 17,305 |
| Tube Well | 296,809 | - | - | 296,809 | 10 | 185,434 | - | 11,138 | 196,572 | 100,238 |
| Generator | 50,080,013 | - | - | 50,080,013 | 10 | 13,264,309 | - | 3,681,570 | 16,945,879 | 33,134,134 |
| Weighing Scales | 2,297,629 | - | - | 2,297,629 | 10 | 1,223,486 | - | 107,414 | 1,330,900 | 966,729 |
| Telephone/Intercom | 366,523 | - | - | 366,523 | 10 | 210,933 | | 15,559 | 226,492 | 140,031 |
| Computer | 3,554,925 | - | - | 3,554,925 | 10 | 1,772,487 | | 178,244 | 1,950,731 | 1,604,194 |
| Vehicles | 1,711,132 | 1,104,408 | (70,984) | 2,744,556 | 20 | 902,921 | (61,258) | 375,469 | 1,217,132 | 1,527,424 |
| **Sub total** | **912,575,406** | **2,940,762** | **(1,158,487)** | **914,357,681** | | **341,853,966** | **(910,110)** | **49,367,178** | **390,311,034** | **524,046,646** |
| **ASSETS SUBJECT TO FINANCE LEASE** | | | | | | | | | | |
| Plant & Machinery | 21,622,793 | - | - | 21,622,793 | 10 | 4,605,696 | | 1,701,710 | 6,307,406 | 15,315,387 |
| Generators | 13,270,984 | - | - | 13,270,984 | 10 | 3,596,437 | - | 967,455 | 4,563,892 | 8,707,092 |
| Equipment | 12,932,651 | - | - | 12,932,651 | 10 | 2,713,759 | - | 1,021,889 | 3,735,648 | 9,197,003 |
| Vehicles | 7,560,980 | - | (2,605,000) | 4,955,980 | 20 | 2,199,210 | (1,537,992) | 858,952 | 1,520,170 | 3,435,810 |
| **Sub total** | **55,387,408** | **-** | **(2,605,000)** | **52,782,408** | | **13,115,102** | **(1,537,992)** | **4,550,006** | **16,127,116** | **36,655,293** |
| **TOTAL RUPEES: 2009** | **967,962,814** | **2,940,762** | **(3,763,487)** | **967,140,089** | | **354,969,068** | **(2,448,102)** | **53,917,183** | **406,438,150** | **560,701,939** |
| **TOTAL RUPEES: 2008** | **956,196,960** | **18,158,392** | **(6,392,538)** | **967,962,814** | | **300,018,728** | **(3,943,874)** | **58,894,215** | **354,969,068** | **612,993,745** |

**5.1.1** Depreciation has been charged as under:

| | Note | 2009 (Rupees) | 2008 (Rupees) |
|---|---|---|---|
| Cost of Sales | 26 | 52,414,856 | 57,173,223 |
| Administrative Expenses | 27 | 1,502,328 | 1,720,992 |
| | | **53,917,183** | **58,894,215** |

**5.1.2** If the Freehold land and building were measured using the cost model, the carrying amount would be as follows.

| Particulars | 2009 Cost | 2009 Accumulated Depreciation | 2009 Net Book value | 2008 Cost | 2008 Accumulated Depreciation | 2008 Net Book value |
|---|---|---|---|---|---|---|
| Freehold Land | 2,346,030 | | 2,346,030 | 2,346,030 | - | 2,346,030 |
| Building | 45,073,299 | 32,449,176 | 12,624,123 | 45,073,299 | 31,784,748 | 13,288,551 |
| | **47,419,329** | **32,449,176** | **14,970,153** | **47,419,329** | **31,784,748** | **15,634,581** |

**5.1.2** Disposal of Fixed Assets

| Particulars | Cost | Accumulated Depreciation | Book Value | Profit/ (Loss) | Party Name | Mode of Disposal |
|---|---|---|---|---|---|---|
| Equipment | 1,087,503 | 849,918 | 237,585 | - | Olympia (Pvt.) Limited | Trade in for Machinery |
| Vehicles | 70,984 | 61,258 | 9,726 | 274 | Mohammad Malik | Employee |
| **Total** | **1,158,487** | **911,176** | **247,311** | **274** | | |

Above represents sale of assets not sold to Chief Executive, Directors, Other Executives and Shareholders holding not less than 10% of shares or associated undertakings.

**5.2 Capital Work in Progress**

| | 2009 (Rupees) | 2008 (Rupees) |
|---|---|---|
| Civil Works on freehold land | 987,589 | - |
| Plant & Machinery | 297,752 | - |
| | **1,285,341** | **-** |

**5.3 INTANGIBLE ASSETS**

| NAME OF ASSETS | COST: Cost as at July 01, 2008 | COST: Additions | COST: Deletions | COST: Total as on June 30, 2009 | % | AMORTIZATION: Accumulated as at July 01, 2008 | AMORTIZATION: Adjustments | AMORTIZATION: For the year | AMORTIZATION: Accumulated as on June 30, 2009 | W.D.V. As on June 30, 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Software | 550,000 | - | - | 550,000 | 20 | 110,000 | - | 88,000 | 198,000 | 352,000 |
| **TOTAL RUPEES: 2009** | **550,000** | **-** | **-** | **550,000** | | **110,000** | **-** | **88,000** | **198,000** | **352,000** |
| **TOTAL RUPEES: 2008** | **-** | **550,000** | **-** | **550,000** | | **-** | **-** | **110,000** | **110,000** | **440,000** |

**5.3.1** Amortization has been charged as under:

| | Note | 2009 (Rupees) | 2008 (Rupees) |
|---|---|---|---|
| Administrative Expenses | 27 | 88,000 | - |
| | | **88,000** | **-** |

| | | | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|---|---|
| **6.** | **LONG TERM DEPOSITS** | | | |
| | Security against Assets Subject to Finance Lease | | 5,193,358 | 5,878,858 |
| | Wapda & Others | | 898,585 | 898,585 |
| | | | 6,091,943 | 6,777,443 |
| | Less: Current Portion of Lease Security Deposits | (Note 10.1) | 330,000 | 685,500 |
| | | | **5,761,943** | **6,091,943** |
| **7.** | **STORES & SPARES** | | | |
| | Stores | (Note 7.2) | 954,664 | 1,117,634 |
| | Spares | | 13,999,809 | 10,262,826 |
| | Less: Provision for Obsolescence | | (210,000) | (210,000) |
| | | | 13,789,809 | 10,052,826 |
| | Packing Material | | 1,088,166 | 1,557,505 |
| | | | **15,832,639** | **12,727,965** |

**7.1** Store and spares are held for normal repair and maintenance. No Stores & Spares are held for capital expenditure.

**7.2** Stores include stores in transit of Rs.856,633 (2008: 707,534)

| | | | | |
|---|---|---|---|---|
| **8.** | **STOCK IN TRADE** | | | |
| | Raw Material | | 32,469,053 | 144,304,898 |
| | Work in Process | | 8,830,725 | 14,608,781 |
| | Finished Goods | | 12,089,043 | 29,098,522 |
| | | | **53,388,821** | **188,012,201** |

**8.1** Raw Material and Finished Goods are pledged as security against short term finances.

| | | | | |
|---|---|---|---|---|
| **9.** | **TRADE DEBTORS** | | | |
| | Export | (Note 9.1) | 2,886,187 | 41,805,197 |
| | Local | (Note 9.2) | 15,502,558 | 33,125,669 |
| | | | **18,388,745** | **74,930,866** |

**9.1** Export Debtors are secured against irrevocable letter of credit and considered good.

**9.2** Local Debtors are unsecured but considered good.

| | | | | |
|---|---|---|---|---|
| **10.** | **ADVANCES, DEPOSITS, PREPAYMENTS & OTHER RECEIVABLES** | | | |
| | Advances - Secured & Considered Good | | | |
| | Non executives | | 1,683,012 | 983,240 |
| | Advances Unsecured but Considered Good | | | |
| | Suppliers | | 7,715,371 | 6,943,142 |
| | Expenses | | 919,071 | 247,579 |
| | Security Deposits | (Note 10.1) | 330,000 | 685,500 |
| | Letters of Credit | | 63,608,285 | |
| | Prepayments | | 378,460 | 356,905 |
| | Due From The Government Agencies | | | |
| | Income Tax | (Note 10.2) | 17,539,747 | 25,539,452 |
| | Excise Duty | | 15,615 | 15,615 |
| | Sales Tax | | 1,636,117 | 1,452,751 |
| | Receivable From Provident Fund Trust | | 276,034 | 319,200 |
| | Others | | 1,461,759 | 909,771 |
| | | | **95,563,470** | **37,453,155** |

**10.1** This represents lease deposits relating to leases Rs. 330,000 to be matured in next twelve months.

| | | | | |
|---|---|---|---|---|
| **10.2** | **Income Tax** | | | |
| | Opening Balance | | 25,539,452 | 21,116,965 |
| | Add: Paid during the year | | 4,076,907 | 4,422,487 |
| | | | 29,616,359 | 25,539,452 |
| | Less: Adjustments | | 12,076,612 | |
| | | | **17,539,747** | **25,539,452** |

| | | | | |
|---|---|---|---|---|
| **11.** | **CASH & BANK BALANCES** | | | |
| | Cash in Hand | | 548,258 | 424,767 |
| | Balances with Banks -In Current Accounts | | 916,583 | 4,345,426 |
| | Balances with Banks -In Saving Accounts | | 13,522 | 13,522 |
| | | | **1,478,363** | **4,783,715** |

## 12. SHORT TERM FINANCES-SECURED

The facilities for short term finance, available from various banks amounted to Rs. 500 million (2008: Rs. 500 million) are payable within next 12 months. These are secured by pledge of raw material stock, hypothecation of yarn stock and lien on export L/Cs.

| | | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|---|
| **13. TRADE AND OTHER PAYABLES** | | | |
| **Due to Others** | | | |
| Creditors for Goods Supplied | | 49,152,714 | 20,444,513 |
| Advances from Customers | | 526,843 | 2,546,352 |
| Accrued Expenses | | 20,979,382 | 13,116,352 |
| Due to Government Agencies | | | |
| Income Tax | | 19,727 | 49,967 |
| Unclaimed Dividend | | 1,160,139 | 1,160,139 |
| Others | | 3,140,183 | 11,939,974 |
| | | **74,978,988** | **49,257,297** |

| | | June 30, | June 30, |
|---|---|---|---|
| **14. PROVISION FOR TAXATION** | | | |
| Opening Balance | | 12,076,612 | 8,402,080 |
| Add: Provision for the year | (Note 32) | 1,454,364 | 3,674,532 |
| | | 13,530,976 | 12,076,612 |
| Less: Refunds / Adjustments | | 12,076,612 | - |
| | | **1,454,364** | **12,076,612** |
| **15. MARK UP PAYABLE** | | | |
| Mark up on Short Term Finance | | 12,257,325 | 10,660,273 |
| Mark up on Long Term Finance | | 12,372,446 | 6,345,044 |
| Mark up on [illegible] | | 240,712 | 389 |
| | | **24,870,483** | **17,005,706** |

## 16. SUBORDINATED SPONSORS' LOAN

This represents interest free unsecured loan from Sponsor Directors of the Company. It is not repayable in next twelve months.

## 17. LONG TERM LOANS - SECURED

| | | | |
|---|---|---|---|
| Demand Finance (NIDF-I) | (Note 17.1) | 21,052,130 | 24,062,502 |
| Demand Finance (NIDF-III) | (Note 17.2) | 50,000,000 | 50,000,000 |
| Demand Finance (NIDF IV) | (Note 17.3) | 5,500,000 | - |
| Demand Finance BOP | (Note 17.4) | 60,000,000 | 60,000,000 |
| LTF EOP SBP | (Note 17.5) | 12,691,321 | 27,851,281 |
| | | **149,243,451** | **161,913,783** |
| Less: Current Maturity | | | |
| Demand Finance (NIDF-I) | | 6,014,824 | 3,007,812 |
| Demand Finance (NIDF-III) | | 14,285,712 | - |
| Demand Finance BOP | | 9,000,000 | 6,000,000 |
| LTF-EOP SBP | | 8,460,880 | 16,058,120 |
| | | **37,761,416** | **25,065,932** |
| | | **111,482,035** | **136,847,851** |

**17.1** This represents demand finance (NIDF-I) of Rs. 80.00 million sanctioned by United Bank Limited for balancing, modernization and replacement (BMR) requirements. The balance outstanding of Rs. 24.062 million is rescheduled by the bank on December 17, 2007. As per rescheduled terms the loan carries mark up at the rate of 6 Month KIBOR plus 175 basis points with no floor and cap. The loan is repayable with in 4 years including 1 year grace period starting from October 01, 2007 in 16 equal installments of Rs. 1.504 million each.

**17.2** This represents demand finance (NIDF-III) of Rs. 50.00 million sanctioned by United Bank Limited for balancing, modernization and replacement (BMR) requirements. The loan is rescheduled by the bank on December 17, 2007. As per rescheduled terms it carries mark up at the rate of 6 Month KIBOR plus 150 basis points with no floor and cap. The loan is repayable within 4 years including 18 months grace period from November 07, 2007 in 14 equal quarterly installments of Rs. 3.571million each.

**17.3** This represents demand finance (NIDF-IV) of Rs. 45.00 million sanctioned by United Bank Limited for restructuring financial requirements. The loan is sanctioned by the bank on February 17, 2009. As per terms it carries mark up at the rate of 6 Month KIBOR plus 150 basis points with no floor and cap. The loan is repayable within 5 years from the date of disbursement with 12 months grace period from the date of disbursement in 16 equal quarterly installments.

17.4 This represents Demand Finance of Rs. 60.00 million sanctioned by Bank of Punjab for Swaping of Demand Finance from United Bank Limited. It carries mark up at the rate of 6 Month KIBOR plus 350 basis points with floor rate of 12%. The loan is repayable in 6 years including 1 year grace period from November 07, 2009 in 20 equal quarterly installments of Rs. 3.000 million each.

17.5 This represents loan being undertaken by State Bank of Pakistan under LTF Scheme for export oriented projects.

17.6 The above loans are secured against 1st exclusive charge on fixed assets for Rs 200.0 million and Joint Parri Passu Charge on Fixed Assets for Rs. 80.000 Million.

| | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|
| **18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE** | | |
| 18.1 The amount of future payments and periods during which they fall due are: | | |
| **Year Ending June 30,** | | |
| 2009 | - | 12,078,732 |
| 2010 | 8,977,409 | 8,260,486 |
| 2011 | 7,653,050 | 7,633,865 |
| 2012 | 1,178,764 | 1,169,440 |
| 2013 | 633,576 | 633,579 |
| | **18,442,799** | **29,776,102** |
| **Less:** | | |
| Financial charges allocated to future period | 1,427,989 | 3,068,257 |
| **Present value of minimum lease payments** | **17,014,810** | **26,707,845** |
| **Less:** | | |
| Current Portion | 7,939,943 | 10,271,525 |
| | **9,074,867** | **16,436,320** |

18.2 Present value of minimum lease payments have been discounted at interest rates, ranging from 7.51% to 15.00%, which approximately equates the rate implicit in the lease agreement. In case of default of any payment, additional charges at varying rates are payable on overdue amounts. If any lease is terminated, the lessee shall pay for assets the entire amount of rentals for unexpired period of the lease agreements. The liability is partly secured by deposits of Rs. 5,193,385 (2008 : Rs. 5,878,885) , the residual value of leased assets is Rs. 5,193,385 (2008 : Rs. 5,878,885). The purchase option is available to the Company on payment / surrender of deposit along with last installment. There is no financial restriction in the lease agreements.

18.3 Reconciliation of minimum lease payments and their present values is given below:

| | Minimum Lease payments | | Present Value of MLP | |
|---|---|---|---|---|
| | 2009 <Rupees> | 2008 <Rupees> | 2009 <Rupees> | 2008 <Rupees> |
| Due within one year | 8,977,409 | 12,078,732 | 7,939,943 | 10,271,525 |
| Due after one year but not later than 5 years | 9,465,390 | 17,697,370 | 9,074,867 | 16,436,320 |
| Due after 5 years | - | - | - | - |
| | **18,442,799** | **29,776,102** | **17,014,810** | **26,707,845** |
| Financial Charges | 1,427,989 | 3,068,257 | - | - |
| | **17,014,810** | **26,707,845** | **17,014,810** | **26,707,845** |

## 19. LONG TERM DEPOSITS

19.1 These deposits are against the sale of cotton waste. The contractors have given company right to utilize these deposits in normal course of business.

## 20. STAFF RETIREMENT GRATUITY

The future contribution of these schemes include allowances for deficit and surplus.

| | 2009 | 2008 |
|---|---|---|
| 20.1 Discount Rate | 12% p.a. | 12% p.a. |
| Expected Rate of increase in salary level | 11% p.a. | 11% p.a. |
| Expected Rate of return | 12% p.a. | 9% p.a. |
| Average remaining working life | 7 years | 7 years |

| | | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|---|
| 20.2 Movement in net liability recognised | | | |
| Opening Liability | | 637,047 | 436,289 |
| Charge for the period | (Note 20.4) | 2,702,751 | 200,758 |
| | | **3,339,798** | **637,047** |

| | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|
| **20.3** The amount recognised in the balance sheet are as follows: | | |
| Present value of benefit obligation | 3,473,645 | 757,373 |
| Fair value of plan assets | (51,058) | (51,350) |
| Unrecognised actuarial gain / (loss) | (82,789) | (68,976) |
| Liability as on June 30. | 3,339,798 | 637,047 |
| **20.4** Charged to profit & loss account for the period | | |
| Current service cost | 2,618,028 | 163,989 |
| Interest cost | 90,885 | 42,307 |
| Expected Return on Plan Assets | (6,162) | (5,538) |
| | 2,702,751 | 200,758 |
| **20.5** Actual Return on Plan Assets | | |
| Expected Return on Plan Assets | 6,162 | 5,538 |
| Actuarial Gain/(Loss) on Plan Assets | (6,454) | (9,565) |
| | (292) | (4,027) |

**21. DEFERRED TAX LIABILITY**

| | | |
|---|---|---|
| This is comprised of the following: | | |
| Accelerated tax depreciation | 40,577,037 | 34,644,100 |
| Unused tax losses and tax credits | (72,047,251) | (45,553,309) |
| Surplus on revaluation of property, Plant and equipment | 41,211,868 | 46,679,328 |
| Net Liability/(Assets) as on Balance sheet date | 9,741,653 | 35,770,118 |

**22. CONTINGENCIES & COMMITMENTS**

**22.1 Contingencies**

Appeal in respect of income year 1999-2000(assessmentyear 2001-2002) was finalized by the Commissioner of Income Tax (Appeals) in favour of the company. The tax liability originally assessed by the Deputy Commissioner of Income Tax was Rs. 10.929 million which was subsequently restricted to Rs. 2.906 million by the Commissioner of Income Tax (Appeals) whereas the provision accounted for in the financial statements amounts to Rs. 9.433 million. Corresponding adjustments have been made in the financial statements but the Income Tax Department has filed an appeal against the said order of Commissioner of Income Tax (Appeals) before the Income Tax Appellate Tribunal. It is expected that, on the basis of tax advisor's opinion, the appeal will be finalized in favour of the Company.

**22.2 Commitments**

Letter of Guarantee issued in favour of SNGPL Rs. 10.921 million (2008: Rs. 10.921 millions).

**23. SHARE CAPITAL**

| | | |
|---|---|---|
| **Issued , Subscribed and Paid -up:** | | |
| 8,000,000 Ordinary Shares (2008: 8,000,000 Ordinary Shares) of Rs. 10/- each, issued for consideration in cash. | **80,000,000** | **80,000,000** |

**24. SURPLUS ON REVALUATION OF FIXED ASSETS**

| | | |
|---|---|---|
| Opening Balance as on July 01. | **257,483,886** | **275,116,921** |
| **Less:** | | |
| Transferred to Accumulated Losses on account of Incremental Depreciation | **(19,776,060)** | **(17,633,035)** |
| **Closing Balance** | **237,707,826** | **257,483,886** |

**24.1** Land and Buildings was revalued by independent valuer M/s. BFA (Pvt.) Limited as on June 30, 2005 and Plant & Machinery was revalued on June 30, 2007 by BFA (Pvt) Limited . The replacement cost method was used to determine fair market value of the above assets.

| | Opening Balance | Rate | Depreciation Net of Tax |
|---|---|---|---|
| Land | 22,983,970 | 0% | - |
| Factory Building | 50,461,198 | 5% | 2,523,060 |
| Colony Building | 23,017,431 | 5% | 1,150,872 |
| Plant & Machinery Owned | 160,081,224 | 10% | 16,008,122 |
| Plant & Machinery Leased | 940,063 | 10% | 94,006 |
| | 257,483,886 | | 19,776,060 |

| | | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|---|
| **25. SALES** | | | |
| Sales Local | | 711,548,395 | 454,269,425 |
| - Export | | 142,859,462 | 276,426,464 |
| | | 854,407,857 | 730,695,889 |
| Less: Commission | | 4,380,695 | 4,992,957 |
| | | **850,027,163** | **725,702,932** |
| **26. COST OF SALES** | | | |
| Raw Material Consumed | (Note 26.1) | 600,517,762 | 550,470,249 |
| Packing Material | | 13,915,544 | 11,862,994 |
| Stores & Spares | | 12,425,917 | 11,676,306 |
| Salaries, Wages & Other Benefits | (Note 26.2) | 60,582,792 | 45,472,547 |
| Fuel & Power | | 79,118,436 | 59,768,734 |
| Repair & Maintenance | | 3,130,808 | 3,606,154 |
| Insurance | | 3,385,604 | 3,099,482 |
| Depreciation | (Note 5.1.1) | 52,414,856 | 57,173,223 |
| | | 825,491,719 | 743,129,689 |
| Add: Opening Work in Process | | 14,608,781 | 7,446,163 |
| | | 840,100,500 | 750,575,852 |
| Less: Closing Work in Process | | 8,830,725 | 14,608,781 |
| **Cost of goods manufactured** | | 831,269,775 | 735,967,071 |
| Add: Opening Stock of Finished Goods | | 29,098,522 | 18,346,662 |
| | | 860,368,297 | 754,313,733 |
| Less: Closing Stock of Finished Goods | | 12,089,043 | 29,098,522 |
| | | **848,279,254** | **725,215,211** |
| **26.1 Raw Material Consumed** | | | |
| Opening Stock | | 144,304,898 | 89,738,979 |
| Add : Purchases | | 488,681,917 | 605,036,169 |
| Less : Closing Stock | | 32,469,053 | 144,304,898 |
| | | **600,517,762** | **550,470,249** |

**26.2** Salaries, Wages & Other Benefits include Rs. 2.290 million (2008: Rs. 1.204 million) in respect of retirement benefit.

| | | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|---|
| **27. ADMINISTRATIVE EXPENSES** | | | |
| Office Staff Salaries & Benefits | (Note 27.1) | 12,342,718 | 13,566,237 |
| Travelling & Conveyance | | 830,591 | 703,069 |
| Printing & Stationery | | 611,956 | 615,297 |
| Postage, Telephone & Telegram | | 1,366,190 | 1,114,891 |
| Rents, Rates & Taxes | | 3,077,089 | 2,851,975 |
| Insurance | | 95,728 | 184,546 |
| Vehicle Running & Maintenance | | 2,322,490 | 2,676,975 |
| Fees & Subscription | | 505,592 | 369,831 |
| Electricity | | 1,444,583 | 932,606 |
| Entertainment | | 565,769 | 427,974 |
| Medical Expenses | | 1,190,447 | 358,467 |
| Registrar Service Charges | | 120,000 | 120,000 |
| Repair & Maintenance | | 312,425 | 353,294 |
| Legal & Professional Charges | | 3,073,000 | 1,363,960 |
| Auditors Remuneration | ( Note 27.2) | 430,000 | 340,000 |
| Directors' Meeting Fee | | | 500 |
| School Expenses | | 349,422 | 227,259 |
| Depreciation | (Note 5.1.1) | 1,502,328 | 1,720,992 |
| Amortization | (Note 5.3.1) | 88,000 | 110,000 |
| Miscellaneous Expenses | | 2,811,051 | 1,673,134 |
| | | **33,039,378** | **29,711,007** |

**27.1** Office Staff Salaries & Benefits include Rs. 0.876 million (2008: Rs 0.737 million) in respect of retirement benefit.

| | | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|---|
| **27.2 Auditors' Remuneration** | | | |
| Annual Audit Fee | | 200,000 | 150,000 |
| Half Yearly Review | | 50,000 | 50,000 |
| Certification & Review | | - | 20,000 |
| Tax Consultancy | | 180,000 | 120,000 |
| | | **430,000** | **340,000** |

| | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|
| **28. DISTRIBUTION COST** | | |
| Advertisement | 111,900 | 41,446 |
| Samples | 24,000 | 34,500 |
| Yarn Loading | 124,526 | 117,444 |
| Export Expenses | 4,270,774 | 7,789,470 |
| Freight & Octroi | 658,450 | 808,730 |
| Travelling & Conveyance | 1,075,251 | 1,790,475 |
| Courier Charges | 166,943 | 91,459 |
| Claim on Local sales | 203,819 | |
| Others | 121,137 | 25,841 |
| | **6,756,800** | **10,699,365** |
| **29. FINANCIAL CHARGES** | | |
| Markup on Long Term Loans | 22,411,545 | 19,519,606 |
| Markup on Short Term Loans | 50,044,090 | 37,953,115 |
| Commission & Bank Charges | 4,547,774 | 6,804,256 |
| Finance Charges on Leased Assets | 2,485,872 | 2,594,234 |
| | **79,489,281** | **66,871,211** |
| **30. OTHER INCOME** | | |
| Profit on disposal of fixed assets | 274 | 1,491,373 |
| Profit on Sale & Lease Back | - | 172,995 |
| Other Income | 26,606 | 362,592 |
| | **26,880** | **2,026,960** |
| **31. OTHER CHARGES** | | |
| Exchange Loss | 10,709,951 | - |
| | **10,709,951** | **-** |

The loss is on account of short term borrowings in foreign currency.

| | | |
|---|---|---|
| **32. TAXATION** | | |
| Current Year | 1,454,364 | 3,674,533 |
| Deferred tax | (26,028,466) | (12,008,078) |
| | **(24,574,102)** | **(8,333,545)** |

**32.1** The assessments have been completed up to the income year 2007-2008 (Tax year 2008).

**32.2** Numeric reconciliation between the average effective tax rate and applicable tax rate is not given because the company falls in the ambit of presumptive tax regime.

| | | |
|---|---|---|
| **33. EARNINGS PER SHARE** | | |
| Profit/(Loss) after Tax - Rupees | (103,646,519) | (96,433,357) |
| Weighted average number of Ordinary Shares outstanding during the year | 8,000,000 | 8,000,000 |
| **Basic Earning Per Share** | **(12.96)** | **(12.05)** |

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

**34. RELATED PARTY TRANSACTIONS**

The related parties comprise directors and executives of the Company. During the year no related party transaction was incurred other than salaries and benefits to Chief Executive and Executives as per terms of their employment:

## 35. FINANCIAL ASSETS & LIABILITIES

Amount in Rupees

| Particulars | Effective Yield / Mark Up Rate | Interest Bearing: Maturity upto one year | Interest Bearing: Maturity after One Year up to five year | Interest Bearing: Maturity after five year | Interest Bearing: Sub Total | Non-Interest Bearing: Maturity upto one year | Non-Interest Bearing: Maturity after One Year up to five year | Non-Interest Bearing: Maturity after five year | Non-Interest Bearing: Sub Total | Grand Total 2009 | Grand Total 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | | | | | |
| Long Term Deposits | | - | - | - | - | 330,000 | 5,431,943 | - | 5,431,943 | **5,761,943** | **6,091,943** |
| Trade Debts | | - | - | - | - | 18,388,745 | - | - | 18,388,745 | **18,388,745** | **74,930,865** |
| Advances, Deposits, Prepayments & Other Receivables | | - | - | - | - | 66,595,148 | - | - | 66,595,148 | **66,595,148** | **2,162,050** |
| Cash & Bank Balance | 1.25% | 13,522 | - | - | 13,522 | 1,464,841 | - | - | 1,464,841 | **1,478,363** | **4,783,715** |
| | | 13,522 | - | | 13,522 | 86,778,734 | 5,431,943 | | 91,880,677 | 92,224,199 | 87,968,573 |
| **Financial Liabilities** | | | | | | | | | | | |
| **On balance sheet Items** | | | | | | | | | | | |
| Long Term Loan | 6.85% to 15.30% | 37,761,416 | 111,482,035 | - | 149,243,451 | - | - | - | - | **149,243,451** | **161,913,783** |
| Liabilities against assets subject to finance lease | 7.51 % To 15.00% | 7,939,943 | 9,074,867 | - | 17,014,810 | - | - | | - | **17,014,810** | **26,707,845** |
| Staff Retirement Gratuity | 12.00% | - | - | 3,339,798 | 3,339,798 | - | - | - | - | **3,339,798** | **637,047** |
| Short Term Finances | 9.21% To 15.68% | 285,667,235 | - | - | 285,667,235 | - | - | | - | **285,667,235** | **399,576,184** |
| Trade and Other Payable | | - | - | - | - | 74,432,418 | - | - | 74,432,418 | **74,432,418** | **46,660,978** |
| | | 331,368,594 | 120,556,902 | 3,339,798 | 455,265,294 | 74,432,418 | - | - | 74,432,418 | 529,697,713 | 635,495,837 |
| **Off balance sheets Items** | | | | | | | | | | | |
| Letter of Guarantee | | - | - | | - | 10,921,300 | - | - | 10,921,300 | **10,921,300** | **11,025,000** |
| | | 331,368,594 | 120,556,902 | 3,339,798 | 455,265,294 | 85,353,718 | - | - | 85,353,718 | 540,619,013 | 646,520,837 |

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

Credit risk

Liquidity risk

Market risk

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

**Credit risk and concentration of credit risk**

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

Credit risk from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institution, as well as credit exposures to customers, including trade receivables and committed transactions. Out of total financial assets of Rs. 92.554 million (2008: Rs. 88.654 million), the financial assets that are subject to credit risk amounted to Rs. 91.075 million (2008: Rs.83.870 million).

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

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

The carrying amount of the financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date is:

| | | June 30, 2009 | June 30, 2008 |
|---|---|---|---|
| | | <Rupees> | <Rupees> |
| Trade Debtors | | 18,388,745 | 74,930,866 |
| Advances, Deposits, Prepayments & Other Receivables | | 95,563,470 | 37,453,155 |
| Cash & Bank Balances | | 1,478,363 | 4,783,715 |
| | | 115,430,578 | 117,167,736 |
| The breakup of amount due from customers other than | | | |
| Due from foreign customers | | 2,886,187 | 41,805,196 |
| Due from local customers | | 15,502,558 | 33,125,669 |
| | | 18,388,745 | 74,930,865 |
| The aging of trade debts at the reporting date is : | | | |
| Past due | 0- 30 days | 14,793,838 | 13,545,710 |
| Past due | 31- 60 days | 600 | 36,376,340 |
| Past due | 61 90 days | 41,993 | 48,749 |
| Past due | 91- 120 days | 95,780 | - |
| Past due | 121 days or more | 3,456,534 | 24,960,075 |
| | | 18,388,745 | 74,930,874 |

No provision for doubtful debt has been made during the year for local and foreign customers.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure as far as possible to always have sufficient liquidity to meet its liabilities when due. The Company is not materially exposed to liquidity risk as substantially all obligations / commitments of the Company are short term in nature and are restricted to the extent of available liquidity. In addition, the Company has obtained running finance facilities from various commercial banks to meet any deficit, if required to meet the short term liquidity commitments.

Significant balances of financial assets and liabilities shall mature within twelve months as evident from the information presented above.

**Market risk**

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will effect the Company's income or the value of its holdings of financial instruments.

**Currency risk**

The Company is exposed to currency risk on export of goods mainly denominated in US dollars. The Company's exposure to foreign currency risk for US Dollars is as follows:

| | June 30, 2009 | June 30, 2008 |
|---|---|---|
| | <Rupees> | <Rupees> |
| Foreign debtors | 2,886,187 | 41,805,196 |
| Gross balance sheet exposure | **2,886,187** | **41,805,196** |
| Letters of credit | 63,608,285 | - |
| Net exposure | 66,494,472 | 41,805,196 |

The following significant exchange rate has been applied:

| | Average rate | | Reporting date rate | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| USD to PKR | 75.55 | 64.20 | 81.10 | 68.00 |

**Sensitivity analysis**

At reporting date, if the PKR had strengthened by 10% against the US Dollar with all other variables held constant, post-tax loss / profit for the year would have been lower by the amount shown below, mainly as a result of net foreign exchange gain on translation of foreign currency bank account and foreign creditors.

| | 2009 | 2008 |
|---|---|---|
| **Effect on profit or loss** | (6,649,447) | (4,180,520) |

The weakening of the PKR against US Dollar would have had an equal but opposite impact on the post tax loss / profits.

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

**Interest rate risk**

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

| | 2009 | 2008 | 2009 | 2008 |
|---|---|---|---|---|
| | Effective rate in percentage | | Carrying amount **Rupees** | |
| **Financial liabilities** | | | | |
| **Variable rate instruments** | | | | |
| Long term loans | 6.85% to 15.30% | 6.85% to 15.30% | 149,243,451 | 161,913,783 |
| Lease Liabilities | 7.51 % To 15.00% | 7.51 % To 15.00% | 17,014,810 | 26,707,845 |
| Short term borrowings | 9.21% To 15.68% | 9.21% To 15.68% | 285,667,235 | 399,576,184 |

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have decreased / (increased) loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

| | Profit and loss 100 bp | |
|---|---|---|
| | Increase | decrease |
| **As at 30 June 2009** | | |
| Cash flow sensitivity-Variable rate financial liabilities | 749,415 | (749,415) |
| **As at 30 June 2008** | | |
| Cash flow sensitivity-Variable rate financial liabilities | 600,670 | (600,670) |

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

**Fair value of financial instruments**

The carrying values of the financial assets and financial liabilities 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.

36. **DIRECTORS' & EXECUTIVES' REMUNERATION**

| Particulars | Year Ended June 30, 2009 | | | Year Ended June 30, 2008 | | |
|---|---|---|---|---|---|---|
| | Director | Chief Executive | Executives | Director | Chief Executive | Executives |
| Managerial Remuneration | - | 1,642,857 | 4,075,790 | 375,000 | 2,357,143 | 3,571,777 |
| Retirement Benefit | - | - | - | - | - | - |
| House Rent | - | 657,143 | 1,418,733 | 150,000 | 942,857 | 1,459,205 |
| Utilities | - | - | 411,167 | | - | 94,092 |
| **Total Rupees** | - | 2,300,000 | 5,905,690 | 525,000 | 3,300,000 | 5,125,074 |
| **No. of Persons** | - | 1 | 8 | - | 1 | 8 |

**36.1** In addition to the above, company maintained cars are provided to the chief executive and executives.

**36.2** Aggregate amount charged in these financial statements for the year for fee to 1 non-executive director was Rs Nil (2008:Rs. 500 )

## 37. NUMBER OF EMPLOYEES

Total number of employees at year end was **681** (2008: 724 ).

## 38. PLANT CAPACITY & PRODUCTION

| | June 30, 2009 <Rupees> | June 30, 2008 <Rupees> |
|---|---|---|
| Number of Spindles Installed | 21,600 | 21,600 |
| Installed Capacity Converted into 20's Count ( Million Kgs.) | 7.824 | 7.824 |
| Actual Production Converted into 20's Count ( Million Kgs.) | 6.966 | 7.223 |
| Number of Shifts Worked | 1,092 | 1,089 |
| Days Worked | 364 | 363 |

**38.1** The variance of actual production from capacity is on account of product mix.

## 39. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 09, 2009 by the Board of Directors of the Company.

## 40. GENERAL

**40.1** Figures have been rounded off to the nearest rupee.

| | | |
|---|---|---|
| **SHAHID AMIN** | **FAISAL MUKHTAR** | **SH. PARVEZ ASHRAF** |
| **Chief Financial Officer** | **Chief Executive** | **Director** |

# Form of Proxy

| | |
|---|---|
| L/F NO. | |
| NO. OF SHARES | |

I/We ____________________________________________

of ____________________________________________

being a member of DAR ES SALAAM TEXTILE MILLS LIMITED, hereby appoint ____________

____________________________________________
(NAME)

of ____________________________________________

(another member of the Company) failing him

____________________________________________
(NAME)

of ____________________________________________

(another member of the Company) to attend, act and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Saturday the October 31, 2009 at 11:00 a.m. at the Registered Office of the Company, 63-B-I, Gulberg-III, Lahore and at any adjournment thereof.

As witness my hand this ______________ day of ____________________ 2009.

Signature on Revenue Stamp

(Signature should agree with the specimen signature registered with the Company)

Date : ________________

Note : Proxies must be received at the Registered Office of the Company not later than 48 hours before time of holding the meeting duly stamped, signed and witnessed.