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## Vision Statement

Hala Enterprises Limited strive to continue is path of market growth, consolidation and improvement in international market of very high value products. Our Vision is to establish a strong market presence, focused on customer loyalty and satisfaction on a Long Term Basis.

## Mission Statement

The Company should secure and provide a rewarding return on investment to its shareholders, and investors, quality products to its customers, a secured and friendly environment at place of work to its employees, and present itself a reliable partner to all business associates.

# COMPANY INFORMATION

| | | |
|---|---|---|
| **BOARD OF DIRECTORS** | Mr. Tahir Jahangir<br>Mr. Jillani Jahangir<br>Miss Munizae Jahangir<br>Miss Sulema Jahangir<br>Mr. Arshad Javed<br>Sh. Ijaz Ahmad<br>Mr. Abdul Munaf | Chairman/Managing Director/Chief Executive<br>Director<br>Director<br>Director<br>Director<br>Director<br>Director |
| **AUDIT COMMITTEE** | Mr. Jillani Jahangir<br>Miss Sulema Jahangir<br>Sh. Ijaz Ahmad | Chairman/Member<br>Member<br>Member |
| **CHIEF FINANCIAL OFFICER** | Mr. Abdul Munaf | |
| **COMPANY SECRETARY** | Rana Shakeel Shaukat | |
| **AUDITORS** | M/s HorwathHussain Chaudhury & Co.<br>Chartered Accountants | |
| **BANKERS** | Faysal Bank Limited<br>NIB Bank<br>Askari Bank Limited | |
| **REGISTERED OFFICE** | 120-E/1, Gulberg-III, Lahore<br>Tel: 042-35761585-86<br>Fax: 042-35710235<br>E-Mail hala@halaenterprises.com | |
| **SHARE REGISTRAR OFFICE** | M/s Corplink ( Private) Limited<br>Wings Arcade, I-K, Commercial Model Town,<br>Lahore Ph. 042-35916714, 35916719 Fax: 042-35869037 | |

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 39th Annual General Meeting of the Shareholders of HALA ENTERPRISES LIMITED will be held on Monday, October 31, 2011 at 11:00 A.M. at 120-E/1, Gulberg-III, Lahore the Registered Office of the Company, to transact the following business.

**ORDINARY BUSINESS**

1. To confirm minutes of the Extra-Ordinary General Meeting held on April 12, 2011.

2. To receive and adopt the Annual Audited Accounts of the Company for the year ended June 30, 2011 alongwith Directors and Auditors Reports thereon.

3. To appoint Auditors of the Company for the year ending June 30, 2012 and to fix their remuneration.

**SPECIAL BUSINESS**

4. To consider and approve the remuneration of Director of the Company.

5. Any other business with the permission of the Chair.

A Statement under Section 160(i)(b) of the Companies Ordinance, 1984 in respect of special business alongwith proposed resolution is being sent to the shareholders with this notice.

By order of the Board

Lahore: October 08, 2011

(Rana Shakeel Shaukat)
Company Secretary

**NOTES:**

1. The Share Transfer Books of the Company will be closed from October 24, 2011 to October 31, 2011 (both days inclusive).

2. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote for him/her. Proxies in order to be effective, must be received at the Registered Office of the Company not later than 48 hours before the time of holding the meeting and must be duly stamped, signed and witnessed.

3. CDC shareholders desiring to attend the meeting are requested to bring their computerized original National Identity Card, Account and participant's ID numbers, for identification purpose and in case of proxy, to enclose an attested copy of his/her National Identity Card as per guide lines laid down in Circular No. 1 dated January 26, 2000 issued by SECP.

4. Members are requested to notify the Company of any change in their addresses, if any.

**STATEMENT OF MATERIAL FACTS UNDER SECTION 160(i)(b) OF THE COMPANIES ORDINANCE, 1984.**

This statement set out the material facts concerning the "Special Business" to be transacted at the 39th Annual General Meeting of the Company to be held on October 31, 2011.

The approval of the members will be sought for:

**Item No. 4 of the Agenda.**

**As required by Section 218 of the Companies Ordinance, 1984, the remuneration of Executive Directors.**

The Board of Directors of Hala Enterprises Limited in their meeting held on October 28, 2010 appointed Mr. Arshad Javed as Executive Director in place of Mr. Andrew McMullen out going Executive Director. Mr. Arshad Javed is already serving as General Manager Factory since August, 2008.

Shareholders are informed that the remuneration of Mr. Arshad Javed will be the same as drawing in the capacity of General Manager Factory of the Company.

The members are accordingly requested to pass with or without modification, the following resolution as a Special Resolution:

**"RESOLVED THAT** approval be and is hereby given to pay monthly remuneration as sum of Rs. 120,000/- along with other benefits as company policy payable to Mr. Arshad Javed, Executive Director with effect from November 01, 2010, while other terms and conditions of the service will remain unchanged.

FURTHER RESOLVED that no change in remuneration of other Directors including Chief Executive of the Company".

The information under section 218 of the Companies Ordinance, 1984 is annexed herewith this report as **Annexure "A".**

# DIRECTORS' REPORT

The Board of Directors of Hala Enterprises Limited are pleased to present the 39th Annual Report with the audited financial statements of the company, together with the Auditors' Report thereon for the financial year ended October 08, 2011.

Volatile cotton prices were the story of the financial year 2010-2011 for the Textile Weaving Sector. Cotton prices moved along an upward trend reaching their peak in early March 2011 - with the NY Cotton index reaching a level of US$ 2.27/lb and then nose-diving to US$ 1.15/lb towards the end of June 2011. This sharp rise and fall in prices caused a substantial disturbance in the international textile market and disrupted the regular buying trends of the common importers. In addition to this phenomenon, the energy crisis coupled with higher costs of production and a decline in the exchange parity of the Rupee to the Euro also impacted profitability adversely. Profitability was also affected due to lower turnovers in production levels; which in turn was caused by diminished demand as a result of the hike in cotton prices.

Due to these unfavorable circumstances, sales revenue for the year decreased from approximately Rs. 585 to Rs. 330 million - a net decrease of 43.50 percent. At the same time, the company also managed to decrease its net cost of sales by approximately 38.35 percent - a significant decrease despite the circumstances. This overall position resulted in reducing the gross profit by Rs. 66 million. Therefore a net loss of approximately Rs. 35 million occurred compared to the previous financial year's net profit result.

As the cost of raw materials soared, the working capital needed for smooth operational flow plummeted. Hence, in lieu of these difficult circumstances, calculated measures were taken by the management to overcome the temporary slump. Therefore during the financial year, the company increased its equity by approximately 80 percent, which was a direct result of fresh capital injection by the management. This helped the company to survive a difficult and volatile period; while also aiding in re-building its export volumes. With the cotton crop now stabilized, the company is focused on re-building its export sales and increasing its profitability through the achievement of higher sales prices and lower costs of production.

As cotton production in Pakistan is expected to be at significantly higher levels than last year, we hope to see stability in the international cotton market during the upcoming financial year. In addition, it is also expected that Pakistan will gain duty-free access for the export of towels to the European Union, thereby making the export prices far more competitive than India, China or Bangladesh – the major players and competitors in the region. At the moment, Pakistan is one of the most competitive countries in terms of terry towel prices. We are confident that such an edge should not only result in a competitive, but also a financial advantage!

We would like to take this opportunity to thank our staff members, customers, suppliers, bankers and all others involved in the company's growth for their utmost support and continued cooperation.

## Financial and operating results

| | 2011<br>Rupees | 2010<br>Rupees |
|---|---|---|
| **Operating (Loss)/Profit** | (18,134,243) | 21,656,864 |
| Finance Cost | (17,069,078) | (16,761,966) |
| Other operating expenses | (496,725) | (5,904,869) |
| Other operating income | 3,995,591 | 8,259,676 |
| **(Loss)/Profit before Taxation** | (31,704,455) | 7,249,705 |
| Taxation | (3,220,357) | (5,676,900) |
| (Loss)/Profit after Taxation | (34,924,812) | 1,572,805 |
| Earnings Per Share-Basic | (8.67) | 0.42 |

## Statement of Ethics and Business Practices

The Board has adopted the statement of Ethics and Business Practices. All employees have been informed of this statement and are required to observe these rules of conduct in relation to customers, suppliers and regulations.

## Earnings per Share

Earning per share for the year under review is Rs. (8.67) (2010: Rs.0.42)

## Staff Retirement Benefits

The company operates an un-funded gratuity scheme covering all employees whose period of services with the company is more than one year. Provision is made annually to cover the liability under the scheme. The company pays a lump-sum gratuity to members on leaving the company after completion of one year of continuous service.

## Otherwise than Right Shares

The Company issued 3,024,000 Ordinary Shares through otherwise than right against conversion of Loan into equity with the approval of shareholders and Securities and Exchange Commission of Pakistan vide their approval letter No. EMD/233/254/2002-757 dated May 27, 2011.

## Transaction with Related Parties

The Board of Directors has approved the policy for transaction / contract between Company and its related parties on an arm's length basis and relevant rates are to be determined as per the "comparable un-controlled price method". The company has fully complied with the best practices on transfer pricing as contained in the listing regulations of Stock Exchanges in Pakistan

## Operating and Financial Data

The key operating and financial data for six years is annexed herewith this report.

## CORPORATE GOVERNANCE- STATEMENT OF DIRECTORS' RESPONSIBILITES

In compliance of the Code of Corporate Governance, we give below the statements on Corporate and Financial Reporting Framework:

1 The Financial statement prepared by the management of the Company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.

2 Proper books of account of the Company have been maintained.

3 Appropriate accounting polices have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.

4 The System of Internal Control is sound in design and has been effectively implemented and monitored.

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

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

7 The key operating and financial data for six years is annexed herewith this report.

8 The Company operates an un-funded gratuity scheme covering all its permanent employees who attained the minimum qualification period.

### Audit Committee

The Board of Directors of the Company in compliance with the Code of Corporate Governance has been established and Audit Committee. The name of its members is as under:

| | | |
|---|---|---|
| 1) | Mr. Jillani Jahangir | Chairman/Member |
| 2) | Miss Sulema Jahangir | Member |
| 3) | Sh. Ijaz Ahmad | Member |

### Board of Director's Meeting

Meetings of the Board of Directors are held regularly to take notice of the results in corporate operations and their management and to make decisions concerning company's business activities. Meetings also take place to consider business trends and operational plans of the Company.

During the year under review, Board of Directors held five (5) meetings. Attendance by each Director during these meetings was as follows:

| Sr. # | Name of Director | Number of Meetings attended |
|---|---|---|
| 1. | Mr. Tahir Jahangir | 5 |
| 2. | Mr. Jillani Jahangir | 5 |
| 3. | Miss Munizae Jahangir | 5 |
| 4. | Miss Sulema Jahangir | 5 |
| 5. | Sh. Ijaz Ahmed | 5 |
| 6. | Mr. Abdul Munaf | 5 |
| 7. | Mr. Andrew McMullen | - (Resigned on 28-10-2010) |
| 8. | Mr. Arshad Javed | 4 (Appointed on 28-10-2010) |

We wish to place on record our appreciation for the valuable contribution made by Mr. Andrew McMullen the out going Director during the tenure of his directorship.

**Pattern of Shareholding and information under clause XIX(i) and (j) of the Code of Corporate Governance**

The statement of pattern of shareholding alongwith categories of shareholders of the company as at June 30, 2011, as required under Section 236 of the Companies Ordinance,1984 and Code of Corporate Governance is annexed with this report.

**Auditors and their Report**

The External Auditors of the Company, M/s M/s Horwath Hussain Chaudhury & Co. Chartered Accountants, Lahore, shall retire and being eligible, has offered them for re-appointment. As suggested by the Audit Committee, the Board of Directors has recommended their appointment as Auditors of the Company for the year ending June 30, 2012 on the same remuneration.

For & on behalf of the Board

(Jillani Jahangir)
Director Operations

Place: Lahore
Dated: October 08, 2011

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011

This statement is being presented to comply with the Code of Corporate Governance as contained in Listing Regulations of Karachi, Lahore & Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Board comprises Seven Directors including the CEO. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board of Directors includes three independent 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. Causal vacancy occurred in the Board during the year AND was filled up within stipulated time.

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

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

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

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

9. The Board arranged orientation course for its directors during the year to apprise them of 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 it fully describes the salient maters 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 three Members, of whom two Members are Non-Executive Directors including the Chairman of Audit Committee.

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

17. The Board has set-up an effective internal audit function comprising of qualified and experienced persons who are conversant with the policies and procedures of the Company and are involved in the Internal Audit function on a full time basis.

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

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

20. The management of the Company is committed to good corporate governance, and appropriate steps are taken to comply with the best practices.

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

(Jillani Jahangir)
Director Operations

Lahore: October 08, 2011

# PATTERN OF SHAREHOLDING AS AT 30-06-2011

| Shareholding From | | Shareholding To | Number of Shareholders | Total Shares held |
|---|---|---|---|---|
| 1 | - | 100 | 95 | 7,275 |
| 101 | - | 500 | 180 | 43,379 |
| 501 | - | 1,000 | 228 | 156,037 |
| 1,001 | - | 5,000 | 84 | 207,115 |
| 5,001 | - | 10,000 | 16 | 116,081 |
| 10,001 | - | 15,000 | 6 | 66,315 |
| 15,001 | - | 20,000 | 2 | 39,100 |
| 20,001 | - | 25,000 | 2 | 41,395 |
| 25,001 | - | 30,000 | 2 | 53,600 |
| 30,001 | - | 35,000 | 2 | 60,400 |
| 35,001 | - | 40,000 | 1 | 40,000 |
| 50,001 | - | 55,000 | 1 | 53,000 |
| 60,001 | - | 65,000 | 2 | 120,800 |
| 145,001 | - | 150,000 | 1 | 145,600 |
| 165,001 | - | 170,000 | 1 | 168,885 |
| 195,001 | - | 200,000 | 2 | 395,159 |
| 390,001 | - | 395,000 | 1 | 394,144 |
| 1,365,001 | - | 1,370,000 | 1 | 1,368,822 |
| 3,325,001 | - | 3,330,000 | 1 | 3,326,893 |
| | | | 628 | 6,804,000 |

**Classification of Ordinary Shares by Categories as at June 30, 2011**

| Categories of Shareholders | Number | Shares held | Percentage |
|---|---|---|---|
| Individuals | 622 | 3,411,002 | 50.13 |
| Financial Institutions | 2 | 4,710 | 0.07 |
| Associated Companies | 2 | 3,366,893 | 49.48 |
| Joint-stock Companies | - | - | - |
| Investment Companies | 1 | 20,395 | 0.30 |
| Modaraba Companies | 1 | 1,000 | 0.01 |
| | 628 | 6,804,000 | 100.00 |

**Information under clause xix(i) of the Code of Corporate Governance as on June 30, 2011**

| Category No. | Category of Shareholders | | Number of Shares held | Percentage % |
|---|---|---|---|---|
| **1** | **Associated Companies, undertakings and related parties** | | | |
| | 1 Teejay Corporation (Private) Limited | | 3,326,893 | 48.90 |
| | 2 Premier Garments Limited | | 40,000 | 0.59 |
| **2** | **NIT/ICP** | | | |
| | I. Investment Corporation of Pakistan & IDBP | | 20,395 | 0.30 |
| **3** | **Chief Executive, Directors, their Spouse and minor children** | | | |
| | 1 Mr. Tahir Jahangir | Chairman/Managing Director | 1,368,822 | 20.12 |
| | 2 Jillani Jahangir | Director | 394,144 | 5.79 |
| | 3 Miss Munizae Jahangir | Director | 197,441 | 2.90 |
| | 4 Miss Sulema Jahangir | Director | 197,718 | 2.91 |
| | 5 Mr. Arshad Javed | Director | 500 | 0.01 |
| | 6 Sh. Ijaz Ahmad | Director | 500 | 0.01 |
| | 7 Abdul Munaf | Director | 500 | 0.01 |
| **4** | **Executives** | | - | - |
| **5** | **Public Sector Companies & Corporations** | | - | - |
| **6** | **Banks, DFIs, NBFIs, Insurance Companies, Modarbas and Mutual Funds** | | | |
| | Insurance Companies | | - | - |
| | Financial Instutions | | 4,710 | 0.07 |
| | Mutual Funds | | 1,000 | 0.01 |
| **7** | **Shareholders holding ten percent or more voting interest in the Listed Company** | | - | - |
| | 1. Teejay Corporation (Private) Limited | | | |
| | 2. Mr. Tahir Jahangir | | | |
| **8** | **Others** | | 1,251,377 | 18.39 |

**Information under clause xix(j) of the Code of Corporate Governance**

## Key Financial Data Last Six Year

| Particulars | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| **Issued subscribed and paid up capital** | 37,800,000 | 37,800,000 | 37,800,000 | 37,800,000 | 37,800,000 | 68,040,000 |
| **Capital reserve** | 9,972,665 | 9,542,504 | 9,992,155 | 10,595,733 | 10,162,528 | 10,858,493 |
| **Long term loan-secured** | 24,350,000 | 12,300,000 | 19,353,333 | 9,377,499 | 5,401,665 | 6,867,500 |
| **Deferred liabilities** | 30,902,149 | 35,157,977 | 37,894,022 | 41,010,924 | 44,442,153 | 48,102,691 |
| **Current liabilities** | 204,272,326 | 189,981,984 | 186,749,305 | 182,925,007 | 188,979,583 | 181,118,224 |
| **Operating fixed assets** | 113,965,714 | 114,444,366 | 115,264,587 | 109,261,441 | 114,144,295 | 107,807,590 |
| **Current assets** | 212,818,339 | 190,641,831 | 187,214,979 | 189,327,013 | 189,803,565 | 187,080,531 |
| **Sales** | 391,344,833 | 461,827,048 | 429,153,364 | 454,602,014 | 584,907,715 | 330,123,306 |
| **Gross profit** | 95,783,289 | 99,863,657 | 71,151,489 | 106,421,221 | 92,690,922 | 26,676,341 |
| **Operating (Loss) / Profit** | 22,398,315 | 32,812,827 | 5,257,943 | 35,732,609 | 21,656,864 | (18,134,243) |
| **(Loss) / Profit befor taxation** | 12,039,987 | 8,687,609 | (8,408,183) | 13,588,205 | 7,249,705 | (31,704,455) |
| **(Loss) / Profit after taxation** | 8,318,923 | 4,268,994 | (12,522,095) | 9,196,775 | 1,572,805 | (34,924,812) |

# 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 **HALA ENTERPRISES LIMITED**, to comply with the Listing Regulations of the Karachi Stock Exchange, the Lahore Stock Exchange and the Islamabad Stock Exchange, 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.

Further, Sub-Regulation (xiii) of Listing Regulations 37 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Company to place before the board of directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arms length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2011.

Horwath Hussain Ch & Co.

Lahore
Dated: October 08, 2011

**HORWATH HUSSAIN CHAUDHURY & CO.**
Chartered Accountants

(Engagement Partner: Muhammad Nasir Muneer)

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of HALA ENTERPRISES LIMITED as at June 30, 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

b) in our opinion

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

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

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

c)in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2011 and of the loss, comprehensive 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).

Horwath Hussain Ch & Co.

Lahore

Dated: October 08, 2011

**HORWATH HUSSAIN CHAUDHURY & CO.**

Chartered Accountants

(Engagement Partner: Muhammad Nasir Muneer)

# BALANCE SHEET AS AT

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **CAPITAL AND LIABILITIES** | | | |
| **Share Capital and Reserves** | | | |
| Authorized capital | | | |
| 8,000,000 (2010: 4,000,000) ordinary shares of Rs. 10 each | | 80,000,000 | 40,000,000 |
| Issued, subscribed and paid up capital | 6 | 68,040,000 | 37,800,000 |
| Reserves | 7 | 10,858,493 | 10,162,528 |
| Accumulated loss | | (70,323,760) | (36,490,222) |
| | | 8,574,733 | 11,472,306 |
| **Surplus on Revaluation of Property, Plant and Equipment** | 8 | 56,444,952 | 57,536,226 |
| **Non Current Liabilities** | | | |
| Long term financing | 9 | 6,867,500 | 5,401,665 |
| Liabilities against assets subject to finance lease | 10 | 255,578 | 1,991,889 |
| Deferred liabilities | 11 | 48,102,691 | 44,442,153 |
| | | 55,225,769 | 51,835,707 |
| **Current Liabilities** | | | |
| Trade and other payables | 12 | 65,687,595 | 78,847,995 |
| Accrued mark up | 13 | 5,010,513 | 3,930,905 |
| Short term borrowings | 14 | 83,910,000 | 83,910,000 |
| Due to associated undertakings | 15 | 17,149,024 | 8,979,151 |
| Current and overdue portion of non current liabilities | 16 | 6,140,735 | 7,634,632 |
| Provision for taxation | 17 | 3,220,357 | 5,676,900 |
| | | 181,118,224 | 188,979,583 |
| **Contingencies and Commitments** | 18 | - | - |
| | | 301,363,678 | 309,823,822 |

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

**DIRECTOR**

## JUNE 30, 2011

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **ASSETS** | | | |
| **Non Current Assets** | | | |
| Property, plant and equipment | 19 | 107,807,590 | 114,144,295 |
| Long term investments | 20 | 2,767,840 | 1,761,825 |
| Long term deposits | 21 | 3,707,717 | 4,114,137 |
| | | 114,283,147 | 120,020,257 |
| **Current Assets** | | | |
| Stores and spares | 22 | 11,300,681 | 12,533,331 |
| Stock in trade | 23 | 85,896,146 | 79,561,019 |
| Trade debts | 24 | 30,071,740 | 38,230,428 |
| Advances, deposits, prepayments and other receivables | 25 | 46,209,073 | 39,402,066 |
| Sales tax refundable | | 2,526,659 | 5,819,106 |
| Due from associated undertakings | 26 | 8,267,688 | 11,607,349 |
| Cash and bank balances | 27 | 2,808,544 | 2,650,266 |
| | | 187,080,531 | 189,803,565 |
| | | 301,363,678 | 309,823,822 |

Abdul Munaf

**DIRECTOR**

# PROFIT AND LOSS ACCOUNT
# FOR THE YEAR ENDED JUNE 30, 2011

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Sales | 28 | 330,123,306 | 584,907,715 |
| Cost of sales | 29 | (303,446,965) | (492,216,793) |
| **Gross Profit** | | 26,676,341 | 92,690,922 |
| Operating expenses: | | | |
| - Selling and distribution costs | 30 | 20,963,386 | 42,798,820 |
| - Administrative expenses | 31 | 23,847,198 | 28,235,238 |
| | | (44,810,584) | (71,034,058) |
| **Operating (Loss) / Profit** | | (18,134,243) | 21,656,864 |
| Finance cost | 32 | (17,069,078) | (16,761,966) |
| Other operating expenses | 33 | (496,725) | (5,904,869) |
| Other operating income | 34 | 3,995,591 | 8,259,676 |
| **(Loss) / Profit before Taxation** | | (31,704,455) | 7,249,705 |
| Taxation | 17 | (3,220,357) | (5,676,900) |
| **(Loss) / Profit after Taxation** | | (34,924,812) | 1,572,805 |
| **Earnings Per Share - Basic** | 35 | (8.67) | 0.42 |

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

**DIRECTOR** **DIRECTOR**

# STATEMENT OF COMPREHENSIVE INCOME
# FOR THE YEAR ENDED JUNE 30, 2011

| | 2011<br>Rupees | 2010<br>Rupees |
|---|---|---|
| **(Loss) / Profit after Taxation** | (34,924,812) | 1,572,805 |
| **Other comprehensive income** | | |
| Surplus / (Deficit) on remeasurement of investment available for sale | 695,965 | (433,205) |
| Transfer from surplus on revaluation of property, plant and equipment in respect of incremental depreciation charged in current year | 1,091,274 | 1,538,788 |
| Other comprehensive income for the year | 1,787,239 | 1,105,583 |
| **Total Comprehensive (Loss) / Income for the Year** | (33,137,573) | 2,678,388 |

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

**DIRECTOR** **DIRECTOR**

# CASH FLOW STATEMENT
# FOR THE YEAR ENDED JUNE 30, 2011

| | 2011<br>Rupees | 2010<br>Rupees |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| (Loss) / Profit before taxation | (31,704,455) | 7,249,705 |
| - Depreciation | 6,442,029 | 7,161,566 |
| - Provision for gratuity | 7,017,992 | 6,958,262 |
| - Dividend income | (102,615) | (44,295) |
| - Interest charged to associates - net | 801,272 | (759,010) |
| - Receivables written off | 246,725 | 524,000 |
| - Waiver of loan from banking companies | - | (5,023,783) |
| - Excess liabilities written back | (191,706) | (1,804,309) |
| - Exchange (gain) / loss | (1,658,590) | 5,041,850 |
| - Gain on disposal of property, plant and equipment | (375,324) | (490,274) |
| - Workers' (profit) participation fund | 11,472 | 89,019 |
| - Finance cost | 17,057,606 | 16,623,961 |
| | 29,248,861 | 28,276,987 |
| **Operating (loss) / profit before working capital changes** | (2,455,594) | 35,526,692 |
| (Increase) / decrease in current assets | | |
| - Stores and spares | 1,232,650 | (99,413) |
| - Stock in trade | (6,335,127) | 11,201,661 |
| - Trade debts | 9,817,278 | (674,560) |
| - Advances, deposits, prepayments and other receivables | (8,735,836) | (8,320,206) |
| - Sales tax refundable | 3,292,447 | (160,008) |
| - Balances due to / from associated undertakings - net | 36,781,600 | 3,199,858 |
| Increase in current liabilities | | |
| - Trade and other payables | (12,871,305) | 24,928,397 |
| | 23,181,707 | 30,075,729 |
| **Cash generated from operations** | 20,726,113 | 65,602,421 |
| Income tax paid | (3,611,376) | (6,038,714) |
| Finance cost paid | (15,977,998) | (23,176,862) |
| Workers' (profit) participation fund paid | (100,491) | (702,835) |
| Gratuity paid | (3,357,454) | (1,887,509) |
| **Net Cash (used in) / from Operating Activities** | (2,321,206) | 33,796,501 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | (170,000) | (13,229,146) |
| Proceeds from disposal of property, plant and equipment | 440,000 | 1,675,000 |
| Dividend income | 102,615 | 44,295 |
| Long term investment | (310,050) | - |
| Long term deposits | 23,000 | 641,700 |
| **Net Cash from / (used in) Investing Activities** | 85,565 | (10,868,151) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Long term financing | 4,166,663 | (15,348,885) |
| Short term borrowings | - | (233,087) |
| Dividends paid | (8,370) | (1,639,524) |
| Liabilities against assets subject to finance lease | (1,764,374) | (4,501,854) |
| **Net Cash from / (used in) Financing Activities** | 2,393,919 | (21,723,350) |
| **Net Increase in Cash and Cash Equivalents** | 158,278 | 1,205,000 |
| Cash and cash equivalents at the beginning of the year | 2,650,266 | 1,445,266 |
| **Cash and Cash Equivalents at the End of the Year** | 2,808,544 | 2,650,266 |

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

**DIRECTOR** **DIRECTOR**

# STATEMENT OF CHANGES IN EQUITY
# FOR THE YEAR ENDED JUNE 30, 2011

| | Share Capital | Reserves | | | Accumulated Loss | Total |
|---|---|---|---|---|---|---|
| | | Capital reserve | Investment revaluation reserve | Revenue reserve | | |
| | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees |
| **Balance as at June 30, 2009** | 37,800,000 | 2,274,287 | 1,321,446 | 7,000,000 | (39,601,815) | 8,793,918 |
| Total comprehensive income for the year | - | - | (433,205) | - | 3,111,593 | 2,678,388 |
| **Balance as at June 30, 2010** | 37,800,000 | 2,274,287 | 888,241 | 7,000,000 | (36,490,222) | 11,472,306 |
| Total comprehensive income for the year | 30,240,000 | - | 695,965 | - | (33,833,538) | (2,897,573) |
| **Balance as at June 30, 2011** | 68,040,000 | 2,274,287 | 1,584,206 | 7,000,000 | (70,323,760) | 8,574,733 |

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

DIRECTOR

DIRECTOR

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Note 1
**The Company and its Operations**

The Company was incorporated in Pakistan as a Private Limited Company and was subsequently converted into a public limited company. The registered office of the Company is located at 120 - E / 1, Gulberg III, Lahore. Its shares are listed on Karachi, Islamabad and Lahore Stock Exchanges. The Company is primarily engaged in manufacturing and sale of terry towels, kitchen towels and terry cloth.

Note 2
**Significant Accounting Policies**

**2.1 Statement of compliance**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

**2.2 Basis of measurement**

These financial statements have been prepared under the historical cost convention except to the extent of followings:

| | | |
|---|---|---|
| Employee retirement benefits (Gratuity) | Note 11.2 | Present value |
| Certain property plant and equipment | Note 19 | Revalued / Fair value |
| Investment in quoted companies | Note 20 | Fair value |

**2.3 Functional and presentation currency**

These financial statements are prepared and presented in Pak Rupees which is the Company's functional and presentation currency. All financial information presented in Pak Rupees has been rounded off to the nearest rupee, unless otherwise stated.

Note 3
**Use of Estimates and Judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and related assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and related assumptions are reviewed on an ongoing basis. Accounting estimates are revised in the period in which such revisions are made.

Significant management estimates in these financial statements relate to the useful life and residual values of property, plant and equipment, provisions for doubtful receivables, provisions for defined benefit plans, slow moving inventory, obsolescence of inventory, export claims and taxation. However, the management believes that the change in outcome of estimates would not have a material effect on amounts disclosed in the financial statements.

Note 4

**Amendments to Existing Standards and Forthcoming New Standards and Interpretations**

International Accounting Standard Board (IASB) has made amendments into certain standards and further introduced new standards during the year. These standards are applicable to the financial statements of the Company covering annual period, beginning on or after the following dates:

**4.1** Amendments to published standards effective in current year and applicable to the Company

There are certain new approved accounting standards, amendments to approved accounting standards and interpretations that are mandatory for accounting periods beginning on or before January 1, 2010 but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

**4.2** Amendments to published standards effective in current year but not applicable to the Company

| | |
|---|---|
| IFRS 3 – Business Combinations | Annual periods beginning on or after July 1, 2010 |

**4.3** Amendments to published standards applicable to the Company but not yet effective

| | Annual periods beginning on or after |
|---|---|
| - IAS 1 – Presentation of Financial Statements | July 1, 2012 |
| - IAS 12 – Income Taxes | January 1, 2012 |
| - IAS 19 – Employee Benefits | January 1, 2013 |
| - IAS 24 – Related Party Disclosures | January 1, 2011 |
| - IAS 28 – Investments in Associates and Joint Ventures | January 1, 2013 |
| - IAS 34 – Interim Financial Reporting | January 1, 2011 |
| - IFRS 1 – First-time Adoption of International Financial Reporting Standards | July 1, 2011 |
| - IFRS 7 – Financial Instruments: Disclosures | July 1, 2011 |
| - IFRS 9 – Financial Instruments | July 1, 2013 |
| - IFRS 12 – Disclosures of Interest in Other Entities | January 1, 2013 |
| - IFRS 13 – Fair Value Measurement | January 1, 2013 |

**4.4** Amendments to published standards not applicable to the Company and not yet effective

| | |
|---|---|
| - IAS 27 – Separate Financial Statements | January 1, 2013 |
| - IFRS 10 – Consolidated Financial Statements | July 1, 2013 |
| - IFRS 11 – Joint Arrangements | January 1, 2013 |

Note 5
**Significant Accounting Policies**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years otherwise stated.

**5.1 Provisions**

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and of which a reliable estimate can be made.

**5.2 Staff retirement benefits**

Defined benefit plan

The Company operates an unfunded gratuity scheme covering its permanent employees. Employees are eligible for benefits under this scheme after completion of one year of continuous service. The benefit is calculated basing upon the number of completed years of service and last drawn gross salary.

**5.3 Taxation**

Current

Charge for taxation for the year on taxable profit is based on applicable tax rates after taking into account all tax credits and rebates available, if any.

**5.4 Trade and other payables**

Liabilities for trade and other amounts payable 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.

**5.5 Property, plant and equipment**

Owned

Property, plant and equipment are stated at cost less accumulated depreciation except freehold land that is stated at revalued amount. Buildings, plant and machinery and fittings and installations are stated at revalued amounts less accumulated depreciation.

The management reviews the market value of revalued assets at each balance sheet date to ascertain whether the fair value of revalued assets have differed materially from the carrying value of such assets, thus necessitating further revaluation.

Depreciation on property, plant and equipment has been provided for using the reducing balance method at the rates specified in Note 19. Depreciation on additions is charged from the month in which the asset was available for use upto the month in which the asset was disposed off.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. Gain or loss on disposal of property, plant and equipment, if any, is shown in the profit and loss account.

**Leased**

The Company accounts for assets acquired under finance lease by recording assets and related liabilities. Principal values are determined on the basis of discounted value of total minimum lease payments to be paid by the Company. Finance costs are allocated to the accounting period in a manner so as to provide a constant periodic rate of charge on the outstanding liabilities. Depreciation is charged using the reducing balance method at the rates specified in Note 19 to write off the cost of assets over their estimated useful life.

**Capital work-in-progress**

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

**5.6 Impairment**

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

**5.7 Investments**

In associated undertakings

Investments in associates are accounted for using the equity method. This method is applied from the date when significant influence is established until the date when that significant influence ceases.

Investments in associates other than those described above are classified as "Available for Sale".

**Other investments**

Investments are initially recognized at cost, comprising the consideration paid and cost of transaction except in the case of investment at fair value through profit or loss where transaction costs are charged to the profit and loss account when incurred. For listed securities, closing quotations of stock exchanges on last working day of the accounting year are considered for determining the fair value, while for unquoted securities, cost is considered as fair value of securities.

The classification is made on the basis of intended purpose for holding such investments. These are measured at the balance sheet date as under:

**Available for sale**

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

**At fair value through profit or loss**

These are securities which are acquired for the purpose of generating profit from short-term fluctuations in market price or dealer's margin, securities in a portfolio in which a pattern of short term profit taking exists or derivatives other than those held as hedging instruments.

**Held to maturity**

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

**5.8 Stores and spares**

These are valued at lower of moving average cost and net realizable value, except for items in transit that are valued at cost comprising the invoice value plus incidental charges paid thereon.

**5.9 Stock in trade**

These are valued at lower of cost and net realizable value and cost is determined by using the following basis:

| | | |
|---|---|---|
| Raw materials | - | At average cost |
| Raw materials in transit | - | At cost comprising the invoice value plus other charges incurred thereon |
| Work in process | - | At estimated average manufacturing cost |
| Finished goods | - | Average manufacturing cost |

Manufacturing cost in relation to work-in-process and finished goods comprises cost of materials, labour and appropriate manufacturing overheads.

Net realizable value signifies the estimated selling price at which goods in stock could be currently sold less any further costs that would be incurred to complete the sale.

**5.10 Trade debts**

All outstanding receivables are reviewed at the balance sheet date. The Company recognizes and carries these receivables at original invoice amount less an allowance for uncollectible amounts, if any. Bad debts are written off as incurred and provision is made against debts considered doubtful when the collection of the full amount is no longer probable.

**5.11 Cash and cash equivalents**

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

**5.12 Financial instruments**

Financial instruments are recognized when the Company becomes a party to the contractual provisions of an instrument. It ceases to recognize financial assets when it loses control of contractual rights and in case of financial liability when the liability is extinguished. Any gain or loss on subsequent remeasurement / derecognition is charged to income.

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

### 5.13 Foreign currency translation

Assets and liabilities in foreign currency are stated in Pak Rupees at the rates of exchange ruling on the balance sheet date or rate of exchange fixed under contractual agreements. Transactions in foreign currency are translated at the exchange rate prevailing at the date of transaction. All exchange differences are included in the profit and loss account.

### 5.14 Related party transactions

Transactions with related parties are based on the transfer pricing policy that all transactions between the Company and its related parties or between two or more segments of the Company are at arm's length prices using the comparable uncontrolled price method except in circumstances where it is not the interest of the Company to do so.

### 5.15 Revenue recognition

- Local sales are recorded on dispatch of goods to customers.

- Export sales are recorded at the time of receipt of bill of lading.

- Dividend on equity investments is recognized as income when the Company's right to receive the dividend is established.

### 5.16 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. Segment results, assets and liabilities include items directly attributable to a segment. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets.

### 5.17 Borrowing costs

Borrowing costs are charged to income as and when incurred except those costs that are directly attributable to acquisition, construction or production of qualifying assets and are capitalized as part of the cost of assets.

### 5.18 Dividends

Dividends are recognized as a liability in the period in which these are declared.

Note 6
**Issued, Subscribed and Paid up Capital**

| 2011 Number | 2010 Number | | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| 2,336,920 | 2,336,920 | Ordinary shares of Rs. 10 each fully paid in cash | 23,369,200 | 23,369,200 |
| 1,443,080 | 1,443,080 | Ordinary shares of Rs. 10 each issued as bonus shares | 14,430,800 | 14,430,800 |
| 3,024,000 | - | Ordinary shares of Rs. 10 each issued otherwise than right issue | 30,240,000 | - |
| 6,804,000 | 3,780,000 | | 68,040,000 | 37,800,000 |

**6.1** 3,326,893 (2010: 1,032,893) ordinary shares of the Company are held by TeeJay Corporation (Pvt.) Limited and 40,000 (2010: 40,000) ordinary shares are held by Premier Garments Limited, associated companies, as at the balance sheet date.

**6.2 Reconciliation of the number of shares outstanding:**

| | | |
|---|---|---|
| Opening balance | 3,780,000 | 3,780,000 |
| Issued during the year | 3,024,000 | - |
| Closing balance | 6,804,000 | 3,780,000 |

**6.3** There are no rights, preferences and restrictions attached to any class of shares including restrictions on the distribution of dividends and the repayment of capital.

**6.4** There are no shares reserved for issue under options and contracts for the sale of shares.

Note 7
**Reserves**

| | | |
|---|---|---|
| Capital reserve | 2,274,287 | 2,274,287 |
| Investment revaluation reserve | 1,584,206 | 888,241 |
| Revenue reserve | 7,000,000 | 7,000,000 |
| | 10,858,493 | 10,162,528 |

Note 8

**Surplus on Revaluation of Property, Plant and Equipment**

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| Land - freehold | 42,936,960 | 42,936,960 |
| Building | 7,373,049 | 7,761,104 |
| Plant and machinery | 7,175,337 | 8,320,418 |
| Fittings and installations | 50,880 | 56,532 |
| | 57,536,226 | 59,075,014 |
| Disposal of plant and machinery during the year | - | (347,820) |
| Incremental depreciation charged on revalued property, plant and equipment during the year transferred to retained earnings | (1,091,274) | (1,190,968) |
| | 56,444,952 | 57,536,226 |

**8.1** Revaluation of building, plant and machinery and fittings and installations was carried out by an independent valuer as at June 30, 1996 on the basis of depreciated replacement values and duly certified by an independent firm of Chartered Accountants that resulted in revaluation surplus of Rs. 54.410 million.

**8.2** Latest revaluation of land was carried out by an independent valuer on April 15, 2006, that resulted in revaluation surplus of Rs. 47.387 million. Market value basis were used for revaluation of land.

Note 9

**Long Term Financing**

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Loan from related parties** | | | |
| Directors | 9.1 | 11,245,000 | 6,245,000 |
| Associated undertakings | 9.2 | - | 4,999,999 |
| | | 11,245,000 | 11,244,999 |
| Less: Current and overdue portion | 16 | (4,377,500) | (5,843,334) |
| | | 6,867,500 | 5,401,665 |

**9.1 Loan from directors**

| | | | |
|---|---|---|---|
| Opening balance | 9.1.1 | 6,245,000 | 6,245,000 |
| Addition during the year | 9.1.2 | 5,000,000 | - |
| | | 11,245,000 | 6,245,000 |
| Less: Current portion | | (4,377,500) | (2,510,000) |
| | | 6,867,500 | 3,735,000 |

**9.1.1** This represents unsecured loan obtained from director to meet the working capital requirements of the Company. It carries mark up @ 10% (2010: 10%) per annum. This loan shall be repaid in 16 equal quarterly installments commencing from July 01, 2009.

**9.1.2** This represents unsecured loan obtained from director to meet the working capital requirements of the Company. It shall carry mark up @ 15.50% (2010: Nil) per annum starting from July 01, 2011. The loan shall be repaid in 12 equal quarterly installments starting from September 30, 2012.

| | 2011<br>Rupees | 2010<br>Rupees |
|---|---|---|
| **9.2 Loan from associated undertakings** | | |
| Opening balance | 4,999,999 | 9,583,333 |
| Payment made during the year | (4,999,999) | (4,583,334) |
| | - | 4,999,999 |
| Less: Current portion | - | (3,333,334) |
| | - | 1,666,665 |

This represents loan from TeeJay Corporation (Pvt.) Limited, an associated company. This loan has been partly repaid and partly settled against issuance of shares during the year.

Note 10
**Liabilities Against Assets Subject to Finance Lease**

The amount of future payments and the periods in which these payments shall become due are:

| | 2011 | 2010 |
|---|---|---|
| - Overdue | 26,895 | 67,927 |
| - 2010 - 2011 | - | 2,081,947 |
| - 2011 - 2012 | 1,806,249 | 1,806,249 |
| - 2012 - 2013 | 284,188 | 284,188 |
| | 2,117,332 | 4,240,311 |
| Financial charges not currently due | (98,519) | (457,124) |
| Present value of minimum lease payments | 2,018,813 | 3,783,187 |
| Current and overdue portion | (1,763,235) | (1,791,298) |
| | 255,578 | 1,991,889 |

Reconciliation between total of minimum lease payments and their present values is as under:

| | 2011 | 2010 |
|---|---|---|
| Gross minimum lease payments: | | |
| - Due not later than one year | 1,833,144 | 2,149,874 |
| - Due later than one year but not later than five years | 284,188 | 2,090,437 |
| | 2,117,332 | 4,240,311 |
| Present value of minimum lease payments: | | |
| - Due not later than one year | 1,763,235 | 1,791,298 |
| - Due later than one year but not later than five years | 255,578 | 1,991,889 |
| | 2,018,813 | 3,783,187 |

**10.1** The Company has entered into lease arrangements with various leasing companies. Minimum lease payments have been discounted at implicit interest rates ranging from 13.5% to 17.5% per annum, approximately, to arrive at their present values. The Company has the option to purchase assets at the end of their respective lease periods. There are no financial restrictions in lease agreements. These leases are secured against cash deposits, demand promissory notes and personal guarantees of some of the directors.

Note 11
**Deferred Liabilities**

| | Note | 2011<br>Rupees | 2010<br>Rupees |
|---|---|---|---|
| Dividend payable to directors and others | 11.1 | 541,012 | 541,012 |
| Gratuity payable | 11.2 | 47,561,679 | 43,901,141 |
| | | 48,102,691 | 44,442,153 |

**11.1** This represents dividend payable to directors and associated undertakings of the Company. Keeping in view the liquidity position of the Company, the directors have deferred the repayment of dividends.

**11.2 Gratuity payable**

Latest actuarial valuation was carried out as at June 30, 2011 using the following significant assumptions:

| | | |
|---|---|---|
| Discount rate | 14% | 12% |
| Expected rate of salary increased in future years | 13% | 11% |
| Average expected remaining working life time of employees | 9 years | 9 years |
| Actuarial valuation method | Projected Unit Credit Method | |

The amounts recognized in the balance sheet are as follows:

| | | |
|---|---|---|
| Opening balance | 43,901,141 | 38,830,388 |
| Cost recognized during the year | 7,017,992 | 6,958,262 |
| | 50,919,133 | 45,788,650 |
| Benefits paid during the year | (3,357,454) | (1,887,509) |
| Closing balance | 47,561,679 | 43,901,141 |

**Balance sheet reconciliation**

| | | |
|---|---|---|
| Present value of defined benefit obligation | 46,259,003 | 42,831,677 |
| Unrecognized actuarial gains | 1,302,676 | 1,069,464 |
| Closing balance | 47,561,679 | 43,901,141 |

**Cost for the year**

| | | |
|---|---|---|
| Current service cost | 3,086,895 | 3,463,907 |
| Interest cost | 3,931,097 | 3,494,355 |
| Charge to the profit and loss account | 7,017,992 | 6,958,262 |

**11.3** The Company does not have any plan assets covering its post-employment benefits payable. The comparative statement of present value of defined benefit obligations is as under:

| | Present Value of Defined benefit obligation<br>Rupees | Plan assets<br>Rupees | Deficit<br>Rupees |
|---|---|---|---|
| 2007 | 32,977,441 | - | 32,977,441 |
| 2008 | 35,713,486 | - | 35,713,486 |
| 2009 | 38,830,388 | - | 38,830,388 |
| 2010 | 43,901,141 | - | 43,901,141 |
| 2011 | 47,561,679 | - | 47,561,679 |

Note 12
**Trade and Other Payables**

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Creditors for: | | | |
| - Goods | | 24,164,928 | 36,502,731 |
| - Services | 12.1 | 16,217,785 | 18,028,179 |
| Accrued liabilities | | 12,297,187 | 16,505,129 |
| Advances from customers | | 12,030,566 | 6,769,410 |
| Unclaimed dividend | | 892,493 | 900,863 |
| Staff / suppliers income tax | | 84,636 | 52,664 |
| Workers' (profit) participation fund | | - | 89,019 |
| | | 65,687,595 | 78,847,995 |

**12.1** This includes an amount of Rs. 12 million, payable on account of machinery purchased in the previous year from a commercial vendor. The outstanding amount is subject to interest @ KIBOR + 2.50%. The amount was repayable in 12 monthly installments, however, further repayment terms have yet to be mutually agreed.

Note 13
**Accrued Mark up**

| | | |
|---|---|---|
| Long term financing | 1,914,828 | 1,663,540 |
| Liabilities against assets subject to finance lease | 13,395 | 29,843 |
| Short term borrowing | 3,082,290 | 2,237,522 |
| | 5,010,513 | 3,930,905 |

Note 14
**Short Term Borrowings**

| | Sanctioned limit | | | |
|---|---|---|---|---|
| **From banking companies - Secured** | | | | |
| Faysal Bank Limited | 84 Million | 14.1 | 83,910,000 | 83,910,000 |

**14.1** This represents aggregate facilities obtained from Faysal Bank Limited for purchase of raw materials and post shipment finance. These facilities shall expire on December 31, 2011. Mark up on these facilities is charged ar SBP cost of funds plus 1% per annum. These facilities are secured against equitable and registered mortgage over property of the Company and its associates, lien over export documents drawn under letter of credits and / or contract, ranking charge over fixed and current assets of the Company for Rs. 134 million and personal guarantees of all the sponsoring directors.

Note 15
**Due to Related Parties - Unsecured**

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| TeeJay Corporation (Pvt) Limited (associated company) | 15.1 | 6,226,510 | 8,784,685 |
| Due to directors | 15.2 | 10,922,514 | 194,466 |
| | | 17,149,024 | 8,979,151 |

**15.1** Amount payable to TeeJay Corporation (Pvt) Limited is subject to mark up at 16% (2010: 16%) per annum. This balance has been partly settled through issuance of shares during the year.

**15.2** Amounts payable to directors are subject to mark up at 15.5% per annum. This balance has been partly settled through issuance of shares during the year.

Note 16
**Current and Overdue Portion of Non Current Liabilities**

| | 2011 | 2010 |
|---|---|---|
| Long term financing | 4,377,500 | 5,843,334 |
| Liabilities against assets subject to finance lease | 1,763,235 | 1,791,298 |
| | 6,140,735 | 7,634,632 |

Note 17
**Provision for Taxation**

| | 2011 | 2010 |
|---|---|---|
| Opening balance | 5,676,900 | 4,391,430 |
| Provision for the current year | 3,220,357 | 5,676,900 |
| | 8,897,257 | 10,068,330 |
| Payments / adjustments during the year | (5,676,900) | (4,391,430) |
| | 3,220,357 | 5,676,900 |

Income tax assessments have been finalized upto the Assessment Year 2002-2003 (accounting year ending June 30, 2003) and assessments for Tax Years 2003 onwards are deemed finalized under the self assessment scheme. Income tax charge for the year has been calculated according to Section 154 of the Income Tax Ordinance, 2001.

Note 18
**Contingencies and Commitments**

**18.1 Contingencies**

The Company's investment in Premier Garments Limited is pledged as security against loan raised by Premier Garments Limited from Investment Corporation of Pakistan Limited. In case of default by borrowers to repay the loan, the Company may be liable to the Investment Corporation of Pakistan Limited to the extent of the value of shares so pledged. Provision for contingent loan has not been recorded as directors have agreed to reimburse any probable loss to the Company.

**18.2 Commitments**

There are no material commitments outstanding as at the balance sheet date (2010: Rs. Nil).

Note 19

**Property, Plant and Equipment**

| Particulars | Cost / Revalued Amount | | | | | Depreciation | | | | Written Down |
|---|---|---|---|---|---|---|---|---|---|---|
| | As at June 30, 2010 | Additions | Transfer / (Disposal) | Total as at June 30, 2011 | Rate | As at June 30, 2010 | Transfer / (Disposal) | For the year | Total as at June 30, 2011 | Value as at June 30, 2011 |
| | Rupees | Rupees | Rupees | Rupees | % | Rupees | Rupees | Rupees | Rupees | Rupees |
| **Year ended June 30, 2011** | | | | | | | | | | |
| **Owned** | | | | | | | | | | |
| Land - freehold | 44,519,875 | - | - | 44,519,875 | - | - | - | - | - | 44,519,875 |
| Building on freehold land | 36,169,943 | - | - | 36,169,943 | 5 | 19,948,114 | - | 811,091 | 20,759,205 | 15,410,738 |
| Plant and machinery | 112,547,233 | 170,000 | - | 112,717,233 | 10 | 68,574,065 | - | 4,412,567 | 72,986,632 | 39,730,601 |
| Furniture and fittings | 5,286,757 | - | - | 5,286,757 | 10 | 3,180,177 | - | 210,658 | 3,390,835 | 1,895,922 |
| Fittings and installations | 919,975 | - | - | 919,975 | 10 | 709,415 | - | 21,056 | 730,471 | 189,504 |
| Vehicles | 5,185,920 | - | (480,860) | 4,705,060 | 20 | 3,570,553 | (416,184) | 313,001 | 3,467,370 | 1,237,690 |
| Other assets | 527,160 | - | - | 527,160 | 10 | 315,574 | - | 21,159 | 336,733 | 190,427 |
| Sub-total | 205,156,863 | 170,000 | (480,860) | 204,846,003 | | 96,297,898 | (416,184) | 5,789,532 | 101,671,246 | 103,174,757 |
| **Leased** | | | | | | | | | | |
| Plant and machinery | 5,549,646 | - | - | 5,549,646 | 10 | 1,503,954 | - | 404,569 | 1,908,523 | 3,641,123 |
| Vehicles | 2,702,710 | - | - | 2,702,710 | 20 | 1,463,072 | - | 247,928 | 1,711,000 | 991,710 |
| Sub-total | 8,252,356 | - | - | 8,252,356 | | 2,967,026 | - | 652,497 | 3,619,523 | 4,632,833 |
| **Total 2011** | 213,409,219 | 170,000 | (480,860) | 213,098,359 | | 99,264,924 | (416,184) | 6,442,029 | 105,290,769 | 107,807,590 |

| Particulars | Cost / Revalued Amount | | | | Depreciation | | | | | Written Down |
|---|---|---|---|---|---|---|---|---|---|---|
| | As at June 30, 2009 | Additions | Transfer / (Disposal) | Total as at June 30, 2010 | Rate | As at June 30, 2009 | Transfer / (Disposal) | For the year | Total as at June 30, 2010 | Value as at June 30, 2010 |
| | Rupees | Rupees | Rupees | Rupees | % | Rupees | Rupees | Rupees | Rupees | Rupees |
| **Year ended June 30, 2010** | | | | | | | | | | |
| **Owned** | | | | | | | | | | |
| Land - freehold | 44,519,875 | - | - | 44,519,875 | - | - | - | - | - | 44,519,875 |
| Building on freehold land | 36,169,943 | - | - | 36,169,943 | 5 | 19,094,333 | - | 853,781 | 19,948,114 | 16,221,829 |
| Plant and machinery | 94,327,903 | 13,048,546 | 8,130,000 | 112,547,233 | 10 | 59,294,108 | 6,826,065 | 4,881,690 | 68,574,065 | 43,973,168 |
| | | | (2,959,216) | | | | (2,427,798) | | | |
| Furniture and fittings | 5,106,157 | 180,600 | - | 5,286,757 | 10 | 2,946,113 | - | 234,064 | 3,180,177 | 2,106,580 |
| Fittings and installations | 919,975 | - | - | 919,975 | 10 | 686,019 | - | 23,396 | 709,415 | 210,560 |
| Vehicles | 5,232,754 | - | 1,197,846 | 5,185,920 | 20 | 3,032,324 | 743,907 | 385,694 | 3,570,553 | 1,615,367 |
| | | | (1,244,680) | | | | (591,372) | | | |
| Other assets | 527,160 | - | - | 527,160 | 10 | 292,064 | - | 23,510 | 315,574 | 211,586 |
| Sub-total | 186,803,767 | 13,229,146 | 5,123,950 | 205,156,863 | | 85,344,961 | 4,550,802 | 6,402,135 | 96,297,898 | 108,858,965 |
| **Leased** | | | | | | | | | | |
| Plant and machinery | 13,679,646 | - | (8,130,000) | 5,549,646 | 10 | 7,880,498 | (6,826,065) | 449,521 | 1,503,954 | 4,045,692 |
| Vehicles | 3,900,556 | - | (1,197,846) | 2,702,710 | 20 | 1,897,069 | (743,907) | 309,910 | 1,463,072 | 1,239,638 |
| Sub-total | 17,580,202 | - | (9,327,846) | 8,252,356 | | 9,777,567 | (7,569,972) | 759,431 | 2,967,026 | 5,285,330 |
| **Total 2010** | 204,383,969 | 13,229,146 | (4,203,896) | 213,409,219 | | 95,122,528 | (3,019,170) | 7,161,566 | 99,264,924 | 114,144,295 |

**19.1** Depreciation has been allocated as under:

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | Rupees | Rupees |
| Cost of sales | 29 | 5,670,442 | 6,231,898 |
| Administrative expenses | 31 | 771,587 | 929,668 |
| | | 6,442,029 | 7,161,566 |

**19.2** The revaluation of property, plant and equipment was carried out by an independent valuer as described in Note 8. Had there been no revaluation, cost, accumulated depreciation and book values of revalued assets would have been as follows:

| | As on June 30, 2011 | | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Book value |
| | Rupees | Rupees | Rupees |
| Land | 1,582,915 | - | 1,582,915 |
| Building | 21,051,167 | 12,644,830 | 8,406,337 |
| Plant and machinery | 81,835,731 | 48,562,930 | 33,272,801 |
| Fittings and installation | 697,570 | 553,857 | 143,713 |
| | 105,167,383 | 61,761,617 | 43,405,766 |

**19.3 Disposal of property, plant and equipment**

| Particulars | Cost | Accumulated depreciation | Written down value | Sale proceeds | Gain on disposal | Mode of disposal | Particulars of purchasers |
|---|---|---|---|---|---|---|---|
| | Rupees | Rupees | Rupees | Rupees | Rupees | | |
| Toyota Hilux | 329,160 | (275,777) | 53,383 | 380,000 | 326,617 | Negotiation | Ghulam Moeen-ud-Din Chishti - Lahore |
| Suzuki Pick up | 151,700 | (140,407) | 11,293 | 60,000 | 48,707 | Negotiation | Mian Muhammad Ashraf - Lahore |
| **Total 2011** | 480,860 | (416,184) | 64,676 | 440,000 | 375,324 | | |
| **Total 2010** | 4,203,896 | (2,908,623) | 1,295,273 | 1,675,000 | 379,727 | | |

Note 20
**Long Term Investments**

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| **Investment in associated undertakings - Available for sale** | | |
| **Quoted** | | |
| Punjab Oil Mills Limited | 2,078,840 | 1,072,825 |
| 51,971 (2010: 29,530) fully paid ordinary shares of Rs. 10 each | | |
| Market value per share is Rs. 40.00 (2010: Rs. 36.33) | | |
| Cost Rs. 494,598 (2010: Rs. 184,584) | | |
| Percentage of equity held 0.96% (2010: 0.01%) | | |
| **Unquoted** | | |
| Premier Garments Limited | 95,000 | 95,000 |
| 950 (2010: 950) ordinary shares of Rs. 100 each | | |
| Percentage of equity held 1.36% (2010: 1.36%) | | |
| TeeJay Corporation (Pvt) Limited | 594,000 | 594,000 |
| 59,400 (2010: 59,400) ordinary shares of Rs.10 each | | |
| Percentage of equity held 5.94% (2010: 5.94%) | | |
| | 2,767,840 | 1,761,825 |

**20.1** Investments available for sale are measured at fair values in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). Quoted market value in an active market is considered as the fair value of the investment and the resulting difference between cost and the fair value is shown as a separate component of equity. Investments that do not have a quoted market price in an active market and whose fair value cannot be measured reliably are stated at cost.

Note 21
**Long Term Deposits**

| | | |
|---|---|---|
| Lease margin deposit | 259,000 | 642,420 |
| Deposits against utilities | 3,448,717 | 3,471,717 |
| | 3,707,717 | 4,114,137 |

Note 22
**Stores and Spares**

| | | |
|---|---|---|
| Dyes and chemicals | 3,083,619 | 3,622,429 |
| Packing materials | 1,193,294 | 1,532,510 |
| Loom stores | 4,245,389 | 4,640,260 |
| Other stores | 2,778,379 | 2,738,132 |
| | 11,300,681 | 12,533,331 |

**22.1** No specific stores and spares are held for capital expenditures as at June 30, 2011 (2010: Nil).

Note 23
**Stock in Trade**

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| Raw materials | 17,639,860 | 18,558,735 |
| Work in process | 28,581,649 | 26,362,784 |
| Finished goods | 39,674,637 | 34,639,500 |
| | 85,896,146 | 79,561,019 |

Note 24
**Trade Debts**

| | | |
|---|---|---|
| Local debts (unsecured - considered good) | 334,446 | 632,600 |
| Foreign debts (secured against irrevocable letters of credit - considered good) | 29,737,294 | 37,597,828 |
| | 30,071,740 | 38,230,428 |

Note 25
**Advances, Deposits, Prepayments and Other Receivables**

| | Note | | |
|---|---|---|---|
| Advances - considered good: | | | |
| - Employees against salaries | 25.1 | 2,143,652 | 1,696,362 |
| - Employees for purchases | | 152,242 | 174,567 |
| - Suppliers | | 24,463,663 | 18,376,970 |
| Income tax deducted at source | | 6,237,798 | 8,303,322 |
| Trade deposits: | | | |
| - Margin against export L/c | | 1,478,740 | 2,795,917 |
| - Leased assets | | 873,880 | 490,460 |
| - Others | | 240,073 | 240,073 |
| Prepayments | | 413,480 | 418,159 |
| Custom rebate receivable | | 8,053,694 | 3,452,714 |
| Duty draw back receivables | | 1,589,415 | 3,453,522 |
| Others (Mark up subsidy receivable) | | 562,436 | - |
| | | 46,209,073 | 39,402,066 |

**25.1** This includes an amount of Rs. Nil (2010: Nil) due from directors.

Note 26
**Due from Associated Undertakings - Unsecured**

| | | |
|---|---|---|
| Premier Garments Limited | 7,450,501 | 11,607,349 |
| Punjab Oil Mills Limited | 817,187 | - |
| | 8,267,688 | 11,607,349 |

**26.1** Balances due from associated companies carry mark up @ 16% (2010: 16%) per annum.

Note 27
**Cash and Bank Balances**

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| Cash in hand | 750,027 | 887,145 |
| With banks in: | | |
| - Current accounts | 2,051,132 | 1,755,736 |
| - Deposit account | 7,385 | 7,385 |
| | 2,808,544 | 2,650,266 |

Note 28
**Sales**

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| Export | 306,208,357 | 549,993,634 |
| Local | 14,742,822 | 23,806,041 |
| | 320,951,179 | 573,799,675 |
| Duty draw back | 6,875,564 | 7,170,007 |
| Export rebates | 2,296,563 | 3,938,033 |
| | 330,123,306 | 584,907,715 |

Note 29
**Cost of Sales**

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Raw materials consumed | | 187,412,738 | 259,832,145 |
| Salaries, wages and benefits | 29.1 | 44,278,485 | 65,554,817 |
| Fuel and power | | 39,444,466 | 62,810,114 |
| Stores, spares and chemicals consumed | | 16,489,274 | 41,508,820 |
| Repairs and maintenance | | 197,915 | 1,714,220 |
| Processing charges | | 2,574,837 | 4,094,004 |
| Lease charges | | 4,800,000 | 4,800,000 |
| Packing materials | | 9,361,068 | 23,117,150 |
| Insurance | | 471,742 | 480,145 |
| Depreciation | 19.1 | 5,670,442 | 6,231,898 |
| | | 310,700,967 | 470,143,313 |
| Work in process inventory: | | | |
| - Opening | | 26,362,784 | 27,067,504 |
| - Closing | | (28,581,649) | (26,362,784) |
| | | (2,218,865) | 704,720 |
| Cost of goods manufactured | | 308,482,102 | 470,848,033 |
| Finished goods inventory: | | | |
| - Opening | | 34,639,500 | 56,008,260 |
| - Closing | | (39,674,637) | (34,639,500) |
| | | (5,035,137) | 21,368,760 |
| | | 303,446,965 | 492,216,793 |

**29.1** This includes Rs. 6.162 million (2010: Rs. 6.019) in respect of staff retirement benefits.

Note 30

**Selling and Distribution Costs**

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| Commission on sales | 8,087,643 | 17,217,760 |
| Sea freight | 2,001,496 | 3,879,107 |
| Air freight | 389,361 | 420,055 |
| Freight, octroi and cartage | 3,369,723 | 5,873,821 |
| Clearing charges | 3,620,246 | 6,421,018 |
| Travelling and conveyance | 1,465,865 | 2,681,055 |
| Postage, telephone and telex | 578,458 | 1,726,945 |
| Insurance | 21,664 | 30,380 |
| Research and development | 499,622 | 2,038,373 |
| Samples | 686,108 | 899,067 |
| Discount on sales | 208,356 | 1,503,088 |
| Commission on rebate | 34,844 | 108,151 |
| | 20,963,386 | 42,798,820 |

Note 31

**Administrative Expenses**

| | Note | | |
|---|---|---|---|
| Directors' remuneration | | 4,812,132 | 6,357,638 |
| Salaries, wages and benefits | 31.1 | 9,871,466 | 9,521,325 |
| Travelling and conveyance | | 943,118 | 1,445,738 |
| Postage, telephone and telex | | 1,144,701 | 2,017,484 |
| Vehicles running expenses | | 1,199,714 | 2,428,174 |
| Advertisement | | 90,298 | 71,580 |
| Fuel and power | | 1,661,427 | 1,612,812 |
| Printing and stationery | | 485,372 | 713,807 |
| Rent, rates and taxes | | 926,711 | 560,899 |
| Repairs and maintenance | | 593,764 | 1,016,322 |
| Legal and professional charges | | 553,467 | 634,000 |
| Gardening expenses | | 60,515 | 80,528 |
| Insurance | | 165,593 | 228,734 |
| Books and periodicals | | 30,403 | 50,763 |
| Entertainment | | 536,930 | 565,766 |
| Depreciation | 19.1 | 771,587 | 929,668 |
| | | 23,847,198 | 28,235,238 |

**31.1** This includes Rs. 0.856 (2010: Rs. 0.940) in respect of staff retirement benefits.

Note 32
**Finance Cost**

| | 2011<br>Rupees | 2010<br>Rupees |
|---|---|---|
| Interest / mark-up on: | | |
| - Long term loans | 845,562 | 2,256,571 |
| - Finance lease | 378,362 | 651,145 |
| - Short term finances | 10,427,064 | 7,609,602 |
| | 11,650,988 | 10,517,318 |
| Bank charges | 3,297,990 | 6,060,787 |
| Interest on funds of workers' (profit) participation fund | 11,472 | 45,856 |
| Interest charged by related parties | 2,108,628 | 138,005 |
| | 17,069,078 | 16,761,966 |

Note 33
**Other Operating Expenses**

| | | |
|---|---|---|
| Auditors' remuneration: | | |
| - Audit fee | 187,500 | 187,500 |
| - Other attestation services | 62,500 | 62,500 |
| | 250,000 | 250,000 |
| Exchange loss | - | 5,041,850 |
| Workers' (profit) participation fund | - | 89,019 |
| Receivables written off | 246,725 | 524,000 |
| | 496,725 | 5,904,869 |

Note 34
**Other Operating Income**

| | | |
|---|---|---|
| Waiver of loan from banking companies | - | 5,023,783 |
| Excess liabilities written back - net | 191,706 | 1,804,309 |
| Gain on disposal of property, plant and equipment | 375,324 | 490,274 |
| Interest charged to related parties | 1,307,356 | 897,015 |
| Dividend income | 102,615 | 44,295 |
| Exchange gain | 1,658,590 | - |
| Lease rentals | 360,000 | - |
| | 3,995,591 | 8,259,676 |

Note 35

**Earnings per Share - Basic**

| | 2011 | 2010 |
|---|---|---|
| Profit after tax (Loss / Profit after Tax) | (34,924,812) | 1,572,805 |
| Weighted average number of shares | 4,028,548 | 3,780,000 |
| Earnings per share - basic | (8.67) | 0.42 |

**Diluted earnings per share**

There is no dilution effect on the basic earnings per share of the Company as the Company has no such commitment that would result in dilution of earnings of the Company.

Note 36

**Remuneration of Chief Executive, Directors and Executives**

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Chief Executive | Directors | Executive | Chief Executive | Directors | Executive |
| | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees |
| Managerial remuneration | 397,440 | 1,503,484 | 308,900 | 397,440 | 1,425,300 | 926,700 |
| House rent and utilities | 178,560 | 826,916 | 169,900 | 178,560 | 783,900 | 509,700 |
| Conveyance | - | 9,600 | 1,200 | - | 10,800 | - |
| Entertainment | 38,943 | 30,334 | - | 64,960 | 6,000 | 3,600 |
| Travelling | 269,400 | 1,077,455 | - | 671,158 | 1,379,520 | - |
| | 884,343 | 3,447,789 | 480,000 | 1,312,118 | 3,605,520 | 1,440,000 |
| **Number of persons** | 1 | 3 | 1 | 1 | 3 | 1 |

**36.1** An executive is defined as an employee with basic salary of Rs. 500,000 or more.

**36.2** The chief executive is provided with Company maintained car and residential telephone facility which is reimbursed to him.

Note 37
**Transactions with Related Parties**

Related parties and associated undertaking comprise associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings, other than remuneration and benefits to key management personnel under the term of their employment, are as follows:

| | 2011 | 2010 |
|---|---|---|
| | Rupees in Million | |
| **Associates** | | |
| Loan repaid | (5.000) | (4.583) |
| Due to / from related parties - net | 6.542 | 3.200 |
| Services purchased | 1.758 | 1.607 |
| Goods sold / services provided | 9.410 | 10.885 |
| Payments of lease rentals | 4.800 | 4.800 |
| Shares issued | 30.240 | - |
| Interest charged by related parties | 2.109 | 0.138 |
| Interest charged to related parties | 1.307 | 0.897 |
| Lease rentals | 0.360 | - |

There were no transactions with key management personnel other than those undertaken as per terms of their employment that have been disclosed in Note 36.

Note 38
**Capacity and Production**

| | 2011 | 2010 |
|---|---|---|
| No. of looms installed and worked (including taken on lease) | 197 | 197 |
| Standard production of looms worked (Kilograms) | 1,559,400 | 1,559,400 |
| Actual production (Kilograms) | 495,989 | 1,092,302 |

**Reasons for shortfall**

Reasons attributable to under-utilization of optimal production capacity are mainly the shortage of labour, gas and power as well as change in design and quality resulting in an increase in weaving time etc.

Note 39

**Financial Risk Management**

### 39.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management policies focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board). The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk and liquidity risk.

**(a) Market risk**

**(i) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD). Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable from foreign entities. The Company uses export bill discounting to hedge its foreign currency risk, when considered appropriate. The Company's exposure to currency risk during the year has been as under:

| | **2011** | **2010** |
|---|---|---|
| | Rupees in thousands | |
| Trade debts | 29,737 | 37,598 |
| Gross balance sheet exposure | 29,737 | 37,598 |
| Outstanding letters of credit | - | - |
| Net exposure | 29,737 | 37,598 |

The following significant exchange rates were applied during the year:

**Rupees per US Dollar**

| | | |
|---|---|---|
| Average rate | 86.24 | 84.25 |
| Reporting date rate | 86.05 | 85.40 |

**Sensitivity analysis**

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD with all other variables held constant, the impact on profit before taxation for the year would have been Rs. 1.487 million (2010: Rs. 1.880 million) respectively higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

**(ii) Other price risk**

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Company is not exposed to commodity price risk.

**(iii) Interest rate risk**

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant long-term interest-bearing assets. The Company's interest rate risk arises from long term financing, lease liabilities and short term borrowings. As the borrowings are obtained at variable rates. These expose the Company to cash flow interest rate risk.

At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was:

| | 2011 | 2010 |
|---|---|---|
| | Rupees in thousands | |
| **Floating rate instruments** | | |
| **Financial liabilities** | | |
| Long term financing | 11,245 | 11,245 |
| Liabilities against assets subject to finance lease | 2,019 | 3,783 |
| Short term borrowings | 83,910 | 83,910 |
| **Financial assets** | | |
| Bank balances - saving accounts | 7 | 7 |

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

If interest rates at the balance sheet date, fluctuate by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rs. 0.972 million (2010: Rs. 0.931 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of liabilities outstanding at balance sheet dates were outstanding for the whole year.

**(b) Credit risk**

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Carrying amounts of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

| | | |
|---|---|---|
| | Rupees in thousands | |
| Long term investments | 2,768 | 1,762 |
| Long term deposits | 3,708 | 4,114 |
| Trade debts | 30,072 | 38,230 |
| Advances, deposits and other receivables | 11,924 | 9,942 |
| Cash and bank balances | 2,059 | 1,763 |

**(c) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through committed credit facilities. Following are the contractual maturities of financial liabilities, including interest payments.

Contractual maturities of financial liabilities as at June 30, 2011:

| | Carrying Amount | Contractual cash flows | Within 1 Year | Within 2-5 Years | Above 5 Years |
|---|---|---|---|---|---|
| | Rupees'000 | Rupees'000 | Rupees'000 | Rupees'000 | Rupees'000 |
| Long-term finances | 11,245 | 12,892 | 5,907 | 6,985 | - |
| Liabilities against leased assets | 2,019 | 2,090 | 1,806 | 284 | - |
| Trade and other payables | 53,572 | 53,191 | 53,191 | - | - |
| Accrued interest | 5,011 | 5,011 | 5,011 | - | - |
| Short term finances | 83,910 | 93,140 | 93,140 | - | - |
| | 155,757 | 166,324 | 159,055 | 7,269 | - |

Contractual maturities of financial liabilities as at June 30, 2010:

| | Carrying Amount | Contractual cash flows | Within 1 Year | Within 2-5 Years | Above 5 Years |
|---|---|---|---|---|---|
| | Rupees'000 | Rupees'000 | Rupees'000 | Rupees'000 | Rupees'000 |
| Long-term finances | 11,245 | 12,370 | 6,427 | 5,943 | - |
| Liabilities against leased assets | 3,783 | 8,412 | 4,240 | 4,172 | - |
| Trade and other payables | 71,937 | 71,937 | 71,937 | - | - |
| Accrued interest | 3,931 | 3,931 | 3,931 | - | - |
| Short term finances | 83,910 | 91,042 | 91,042 | - | - |
| | 174,806 | 187,692 | 177,577 | 10,115 | - |

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / mark up rates effective as at 30 June. The rates of interest / mark up have been disclosed in Note 9, Note 10 and Note 14 to these financial statements.

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

Carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values.

Note 40

**Capital Risk Management**

While managing capital, the objectives of the Company are to ensure that it continues to meet the going concern assumption, enhance shareholders' wealth and meets stakeholders' expectations. The Company ensures its sustainable growth viz. maintaining optimal capital structure, keeping its finance cost low, exercising the option of issuing right shares or repurchase shares, if possible, selling surplus property, plant and equipment without affecting the optimal production and operating level and regulating its dividend payout thus maintaining smooth capital management.

In line with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non current) less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus net debt.

As on the balance sheet date, the gearing ratio of the Company was as under:

| | 2011 | 2010 |
|---|---|---|
| | Rupees in thousands | |
| Total borrowings | 95,155 | 95,155 |
| Cash and bank balances | (2,809) | (2,650) |
| **Net Debt** | 92,346 | 92,505 |
| **Equity** | 8,575 | 11,472 |
| **Total Capital** | 100,921 | 103,977 |
| **Gearing Ratio** | 91.50% | 88.97% |

Note 41
**Segment Information**

For management purposes, the activities of the Company are recognized into one operating segments, i.e. manufacturing and sales of towel. The Company operates in the said reportable operating segment based on the nature of the product, risk and return, organizational and management structure and internal financial reporting systems. Accordingly, the figures reported in these financial statements relate to the Company's reportable segment. Entity-wide disclosures regarding reportable segment are as follows:

| | Percentage | Percentage |
|---|---|---|
| Information about products: | | |
| - Terry towel | 96.90% | 96.06% |
| Major customers: | | |
| 4 customers (2010: 2 customers) | 48.53% | 53.74% |
| Revenue from external customers attributed to foreign countries | 95.41% | 94.03% |

- All non-current assets of the Company are located in Pakistan as at the reporting date.

Note 42
**Authorization of Financial Statements**

These financial statements have been authorized for issue by the Board of Directors of the Company on October 08, 2011.

Note 43
**General**

Comparative figures have been re-arranged / reclassified, wherever necessary, to facilitate comparison. No material rearrangements have been made in these financial statements except for the following:

| **From** | **Amount** (Rupees) | **To** | **Amount** (Rupees) |
|---|---|---|---|
| Interest charged to associates - net (Note 34) | (759,010) | Interest charged by associates (Note 32) | 138,005 |
| | | Interest charged to associates (Note 34) | (897,015) |

**DIRECTOR** **DIRECTOR**

## ANNEXURE "A"

October 08, 2011

**TO ALL SHAREHOLDERS OF THE COMPANY**

Dear Shareholders,

**INFORMATION UNDER SECTION 218**
**OF THE COMPANIES ORDINANCE, 1984.**

In pursuance of Section 218 of the Companies Ordinance, 1984, you are hereby informed that the remuneration of the Chief Executive and Directors of your Company is as follows:-

| Name & Designation | Last Drawing | Increase | Current Salary | Yearly |
|---|---|---|---|---|
| Mr. Tahir Jahangir<br>Chief Executive | Rs. 48,000/ - | NIL | Rs. 48,000/- | Rs. 576,000/- |
| Mr. Jillani Jahangir<br>Director | Rs. 70,000/- | NIL | Rs. 70,000/- | Rs. 840,000/- |
| Mr. Arshad Javed<br>Director | Rs. 120,000/- | NIL | Rs. 120,000/- | Rs. 1,440,000/- |
| Mr. Abdul Munaf<br>Director | Rs. 45,000/- | NIL | Rs. 45,000/- | Rs. 540,000/- |

The above remuneration shall be subject to such adjustments, bonuses and other entitlements as may be granted at any time and from time to time by the Board of Directors of the Company and/or in accordance with the policies and the service rules of the Company for the time being in force.

Thanking you,

Yours faithfully,
for **HALA ENTERPRISES LIMITED**

(Rana Shakeel Shaukat)
Company Secretary

# FORM OF PROXY

LEDGER FOLIO ____________ SHARES HELD ____________

I/WE ______________________________________________________________
of________________________________________________________________

appoint Mr.__________________________________________________________

of________________________________________________________________

(or failing him Mr.____________________________________________________

of________________________________________________________________

(being a member of the Company) as my / our proxy to attend and vote for me / us and my /our behalf at Annual General Meeting of the Company to be held on Monday, October 31, 2011, at 11:00 A.M. and at every adjournment thereof, if any.

Signature by the said

____________________

**REVENUE STAMP FOR Rs. 5/-**

Witnesses:

1) Name ____________________________ (2) Name ____________________________

NIC No.___________________________ NIC No.___________________________

Address___________________________ Address___________________________

NOTE:

A member entitled to attend and vote at this meeting may appoint another member as proxy. Proxies in order to be effective, must be received at 120-E/1, Gulberg III, Lahore, the Registered Office of the Company not later than forty-eight hours before the time for holding the meeting and must be duly stamped, signed and witnessed.