

RESHAM TEXTILE INDUSTRIES LIMITED

ANNUAL REPORT 2004

CHIEF EXECUTIVE DIRECTORS	Ch. Mohammad Khurshid Ch. Rahman Bakhsh Dr. Abdul Aziz Mrs. Kalsoom Kausar Mrs. Salma Aziz Mr. Azhar Khurshid Chaudhry Mr. Kamran Ilyas	
COMPANY SECRETARY	Muhammad Asif Qureshi	
AUDITORS	Avais Hyder Zaman Rizwani Chartered Accountants Lahore.	
AUDIT COMMITTEE	Mr. Kamran Ilyas Mr. Azhar Khurshid Chaudhry Mrs. Salma Aziz	Chairman Member Member
BANKERS	National Bank of Pakistan Habib Bank Limited Prime Commercial Bank Limited Faysal Bank Limited Standard Chartered Bank Al Baraka Islamic Bank	
LEGAL ADVISOR	Mr. Shaukat Haroon (Advocate)	
REGISTERED OFFICE	314-Upper Mall, Lahore.	
MILLS	1.5 Kilometer Habibabad, Chunian Road, Tehsil Chunian, District Kasur.	
Website	www.reshamtextile.com	

DIRECTORS' REPORT

It is my pleasure to present the Directors Report and the audited accounts for the year ended September 30, 2004 along with the Auditors' report.

FINANIAL RESULTS AND PERFORMANCE REVIEW

During the period under review, the Company did fairly well and made substantial achievements. Settlement of long term debt of the Company, Equity injection of Rs. 68.956 million and launching of a major expansion/BMR project are the salient features. A perusal of financial results and the balance sheet will indicate a substantial improvement in all areas. Encouraged by the operating results for the first half year, investment climate in the Country, very favourable debt-equity ratio (23:77) and current ratio (1.20), the Company decided to go ahead for expansion/BMR project envisaging increase from 17,280 spindles to 38,448 spindles with latest accessories, for high quality and value addition and production of 12,000 kgs yarn of fine counts. M/s Natiortal Bank of Pakistan sanctioned a Term Finance facility of Rs.152.000 million for this purpose. Most Letter of credits have already been established and the machinery is expected to reach at site by the end of March 05. Building work is nearing completion. The Directors are confident that these efforts would take the Company forward in production, quality, value addition and profitability.

The year under review was a difficult year from cotton point of view and during the cotton season world cotton prices peaked to eleven years high and later plunged to 9 years low towards the end of the financial year, which caused major losses to the companies holding substantial stocks. By the Grace of Allah, the Company managed to absorb the shock and also generate sizeable pretax profit of Rs. 182.546 million against the pretax loss of Rs. 2.945 million (S.P.L.Y.).

The financial results in summarized form are giverv below:

	2004	2003
	(Rupees in' Million)	
Sales-Net	821.098	714.396
Cost'of Sales	779.401	697.087
Gross Profit	41.697	17.309
Trading Profit	3.597	4.738
	45.294	22.047
Admin & Selling Expenses	14.445	15.538
Operating Profit	30.849	6.509
Other Income	1.183	1.815
	32.032	8.324
Financial Charges	11.579	11.269
	20.453	2.945
Extraordinary item	162.093,	-
Net Profit/(Loss) before Taxation	182.546	2.945
Provision for Taxation	15.769	3.887

Profit/(Loss) after Taxation	166.777	6.832
Transferred from Revaluation of Fixed Assets	8.483	9.389
Net Profit after adjustment of Revaluation surplus	175.26	2.557
EPS (Rupees)	11.61	0.59
Current Ratio-	1.17	1.25

FUTURE PROSPECTS

The current year is witnessing a global bumper cotton crop with abnormal impact on cotton and yarn prices, which have dampened significantly. Left to market forces, the industry would have done well this year but for the induction of TCP, which has already procured a record 2.2 million bales so far and procurement continues. This has hurt the industry as the yarn rates abroad and in the domestic market are being determined on the global parameters though the net effect of this is too early to predict. The Company is however, confident that this year would be an year of reasonable profitability which would have been much higher if TCP had not been inducted. The expansion and more than doubling of the production facilities would strengthen the operations of the Company and the Directors are optimistic that the Company would make substantial progress during the year and thereafter. It may, however, be mentioned that Government support would continue to be vital element in view of rising rates of markup and policy with regard to export or otherwise of cotton procured by the TCP. If the entire cotton procured by the TCP is exported to our competitors at the cost of local industry which is forced to import cotton, the effects would be adverse for the exports and profitability in the Industry with obvious consequences for the balance of payments, increase in trade deficit, pressure on foreign exchange and finally on the macro stability achieved during the last few years.

We are, however, hopeful that the Government is aware of these implications and appropriate policies would be adopted.

CHANGE OF FINANCIAL YEAR

The next financial year will close on June 30, 2005 in view of circular 29/04 issued by SECP.

CORPORATE AND FINANCIAL REPORTING FRAME WORK

As required by code of corporate governance, Directors are pleased to report that:

- The financial statements, prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- The system of internal control, which is in place, is being continuously reviewed by internal audit. The process of review will continue and any weakness in control will be removed.
- There are no doubts about Company's ability to continue as a going concern.
- There has been no departure from the best practices of Corporate Governance as detailed in the Listing Regulations.
- During the last financial year five meetings of the Board of Directors were held, which were attended by all the directors.
- Key operations and Financial data for last 7 years is annexed.
- No trade in the shares of the Company was carried out by the Directors, CEO, CFO, Company Secretary, Executives, their spouses and minor children.

PATTERN OF SHAREHOLDING

The statement reflecting the pattern of shareholding is attached to the Annual Report.

ACKNOWLEDGEMENTS

The Directors take this opportunity to thank the Company's Bankers, particularly National Bank of Pakistan and financial institutions for their valuable support. The Directors feel pleasure in expressing appreciation for the continued interest and support of all the shareholders of the Company. The Directors would like to particularly mention the dedication and devotion displayed by the employees while performing the duties during the period and hope that the same spirit will prevail in future as well.

Financial Summary

2004 2003 2002 2001 2000 1999 1998

BALANCE SHEET

(Rupees in thousand)

Paid up Share Capital	183.883	114.927	114.927	114.927	114.927	114.927	114.927
Unappropriated							
Profit/(Loss)	(50,811)	(226,071)	(300,491)	(318,612)	(336,119)	(379,528)	(362,022)
Revaluation Surplus	199.785	83.163	174.538	177.244	177.244	177.244	177.244
Total Equity	332.857	(27,981)	(11,026)	(26,441)	(43,948)	(87,357)	(69,851)
Long term Liabilities	53.653	300.001	343.547	387.093	424.731	460.664	503.934
Deferred Liabilities	45.582	14.944	6.186	4.798	19.441	2.83	2.877
Long Term Advances	152	125	123	113	53	122	351
Current Liabilities	137.526	72.012	94.439	374.412	249.658	288.152	165.166
	569.77	359.101	433.269	739.975	649.935	664.511	602.477
Represented by:							
Fixed Assets	407.111	267.593	290.413	300.961	329.663	364.599	404.009
Other Assets	1.469	1.367	2.198	5.529	1.813	1.545	1.605
Current Assets	161.19	89.941	140.658	433.485	318.459	298.367	196.863
	569.77	359.101	433.269	739.975	649.935	664.511	602.477
PROFIT AND LOSS							
Sales-net	821.098	714.391	742.081	812.408	680.174	734.253	703.312
Cost of Sales	779.401	697.087	650.604	742.696	559.959	664.952	665.646
Gross Profit	41.697	17,304	91.477	69.712	120.215	69.301	37.666
Operating Profit	30.85	6.51	53.22	29.668	89.952	42.989	6.601
Profit / (Loss) Before Taxation	182.546	(2,945)	26.007	11.172	82.789	(12,075)	(55,659)
Profit / (Loss) After Taxation	166.777	(6,832)	18.12	17.508	59.025	(17,506)	(60,798)
EPS	11.61	(0.59)	1.58	1.52	5.28	(1.52)	(5.29)
Dividend %	-	—	—	—	15	-	-
PERCENTAGE TO SALES							
Gross Profit % age	5.08	2.42	12.33	8.58	17.67	9.44	5.36
Profit Before Taxation % age	22.23	(0.41)	3.5	1.38	12.17	(1.64)	(7.91)
Net Profit After Taxation % age	20.31	(0.96)	2.44	2.16	8.68	(2.38)	(8.64)
Admin & Selling Expenses % age	1.76	2.17	5.16	4.93	4.45	3.58	4.42

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply With the Code of Corporate Governance contained in the Regulation No. 37 of Listing Regulation of Karachi Stock Exchange and Clause 49 (Chapter VIII) of the Listing Regulation of Lahore Stock Exchange for the purpose of establishing a framework Of good governance,whereby a listed, company is managed in. compliance with the best practices of corporate governance.

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

1. The company encourages representation of independent non-executive directors. At present the Board includes five (5) 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 any banking company, a DFI or an NBF1 or, being a member of a stock exchange, has been declared as defaulter by that stock exchange.
4. The board has developed a 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 is being maintained.
5. All the powers of the Board have been duly exercised and decisions on material transactions, - including appointment, determination of remuneration arid terms and conditions of employment of the CEO and other executive directors have been taken by the Board.
6. The meetings of the Board were presided over by the" Chairman and the Board met at least once every quarter. Written notices of the Board meetings alongwith agenda were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
7. The Directors report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
8. The CEO and CFO duly endorsed the financial statements of the Company before approval of the Board.

9. The Company has complied with all the corporate and financial reporting requirements of the Code.
10. The Board has formed an audit committee comprising three members, of whom all are non executive directors including the Chairman of the committee.
11. 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.
12. The Board has setup an effective internal audit function. The staff is considered to be suitably qualified and experienced for the purpose and is fully conversant with the policies and procedures of the Company.
13. 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.
14. The statutory auditors or the persons associated with them have not been appointed to provide the other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
15. We confirm that all other material principles contained in the Code have been complied with.

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 Resham Textile Industries Limited to comply with the relevant Listing Regulations of the Karachi Stock Exchange and Lahore 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.

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 September 30, 2004.

AUDITORS¹ REPORT TO THE MEMBERS

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

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

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

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

b) in our opinion:

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

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

and

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984,- in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at September 30, 2004 and of the **profit** and its cash flows for the year then ended; and

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

BALANCE SHEET AS AT

	Note	2004 Rupees	2003 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
SHARE CAPITAL	5	183,883,200	114,927,000
ACCUMULATED (LOSS)		(50,811,088)	(226,071,039)
		133,072,112	(111,144,039)
SURPLUS ON REVALUATION OF FIXED ASSETS	6	199,785,384	83,163,497
NON-CURRENT LIABILITIES			
Long term loan - Secured	7	53,653,099	300,001,569
Deferred liabilities	8	45,582,363	14,943,973
Long term deposits	9	151,588	124,638
CURRENT LIABILITIES			
Current portion of long term liabilities	7	21,349,901	43,545,600
Short term running finance	10	48,213,012	-
Creditors, advances, accrued and other			-
Liabilities	11	67,891,742	28,390,130
Unclaimed dividend		73,922	76,57
		137,525,577	72,012,300
CONTINGENCIES AND COMMITMENTS			
	12	'—	—
		569,770,123	359,101,938

SEPTEMBER 30, 2004

	Note	2004 Rupees	2003 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	0.13	398,291,615	267,593,304
Capital work in progress	14	8,819,632	
Long term advances	15	60	108,606
Long term deposits	16	1,408,559	1,458,559
CURRENT ASSETS			
Stores and spares	17	6,497,434	7,013,666
Stocks in trade	18	98,558,011	56,705,966
Trade debts	0.19	6,911,796	5,926,614
Advances, deposits, prepayments and other receivables	20	24,083,310	8,878,344
Cash and bank balances	21	25,139,766	11,416,879
		161,190,317	89,941,469

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED SEPTEMBER 30, 2004

Note	2004 Rupees	2003 Rupees
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SALES - net	22	821,098,254	714,396,472
COST OF GOODS SOLD	23	779,401,464	697,086,863
GROSS PROFIT/(LOSS)		41,696,790 -	17,309,609
TRADING PROFIT	24	3,596,759	4,737,726
		45,293,549	22,047,335
OPERATING EXPENSES			
Administrative and general	25	7,663,585	6,824,435
Selling	26 -	6,780,357	8,713,362
		14,443,942	15,537,797
OPERATING PROFIT		30,849,607	6,509,538
OTHER INCOME	27	J, 182,630'	1,814,772
		32,032,237	8,324,310
FINANCIAL AND OTHER CHARGES	28	11,578,774	11,269,426
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES		20,453,463	(2,945,116)
EXTRA ORDINARY ITEMS-LIABILITY WRITTEN BACK	7.1	162,092,769	—
PROFIT/(LOSS) BEFORE TAXATION		182,546,232	(2,945,116)
TAXATION	29	15,769,556	3,887,324
PROFIT/(LOSS) AFTER TAXATION		166,776,676	(6,832,440)
ACCUMULATED LOSS BROUGHT FORWARD		(226,071,039)	(228,628,478)
		(59,294,363)	(235,460,918)
TRANSFERRED FROM SURPLUS ON REVALUATION OF FIXED ASSETS		6,925,868	8,371,077
RELATED DEFERRED TAX		1,557,407	1,018,802
		8,483,275	9,389,879
ACCUMULATED PROFIT/(LOSS) CARRIED FORWARD		(50,811,088)	(226,071,039)
EARNINGS PER SHARE - Basic	30	11.61	(0.59)

CASH FLOW STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Note	2004 Rupees	2003 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	31	57,767,024	44,640,240
Financial charges paid		(10,469,758)	(11,269,426)
Tax paid		(22,918,451)	(5,228,978)
Long term deposits		26.95	649
Gratuity paid		(1,449,177)	(3,041,764)
Net cash flow from operating activities		22,956,588	25,100,721
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(11,522,233)	(6,195,881)
Capital work in progress		(8,819,632)	-
Proceeds from disposal of fixed assets		346	655,277
Long term deposits		50	(71,539)
Net cash used in investing activities		(19,945,865)	(5,612,143)
CASH FLOW FROM FINANCING ACTIVITIES			
Share capital		68,956,200	-
Repayment of long term loan		(106,454,400)	(43,545,600)
Short term bank borrowings		48,213,012	-
Dividend paid		(2,648)	—
Net cash used in financing activities		10,712,164	(43,545,600)
Net increase/(decrease) in cash and cash equivalents		13,722,887	(24,057,022)
Cash and cash equivalents at the beginning of the year		11,416,879	35,473,901
Cash and cash equivalents at the end of the year	21	25,139,766	11,416,879

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Share capital	Accumulated (Loss) Rupees	Total
Balance as at September 30, 2002	114,927,000	(239,230,851)	(124,303,851)
Effect of change in accounting policy (Note 4.3)	-	9,452,016	9,452,016
Deferred tax on incremental depreciation	-	1,150,357	1,150,357
Balance as at September 30, 2002 as restated	114,927,000	(228,628,478)	(113,701,478)
Profit for the year	-	(6,832,440)	(6,832,440)
Transferred from Surplus on revaluation of			

fixed assets net of tax	-	8,371,077	8,371,077
Deferred tax on incremental depreciation	-	1,018,802	1,018,802
Balance as at September 30, 2003	114,927,000	(226,071,039)	(111,144,039)
Increase in share capital	68,956,200		68,956,200
Profit for the year	-	166,776,676	166,776,676
Transferred from surplus on revaluation of fixed assets		6,925,868	6,925,868
Deferred tax on incremental depreciation	-	1,557,407	1,557,407
Balance as at September 30, 2004	183,883,200	(50,811,088)	133,072,112

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2004

1. LEGAL STATUS AND NATURE OF BUSINESS

The Company is a Public Limited Company incorporated in Pakistan under the Companies Ordinance, 1984 and is quoted on Lahore and Karachi Stock Exchanges. The registered office of the Company is situated at 314-Upper Mall, Lahore. The Company is engaged in the business of manufacturing and selling of yarn.

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention, except certain fixed assets that are measured at revalued amounts.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Employee benefits

The Company's retirement plan comprises an unfunded gratuity scheme covering all its permanent employees. Gratuity scheme is a defined benefit scheme. Actuarial valuation of defined benefit scheme was conducted this year, to calculate the actuarial present value of gratuity obligation as at September 30, 2004. Projected unit credit method, with the following significant assumptions is used for valuation of this scheme:

Expected rate of increase in salary level is 7% and discount rate is 8%

4.2 Taxation

Current taxation

The charge for current taxation is based on taxable income at the current rates of taxation after taking into account applicable tax credits and tax rebates realizable, if any.

Deferred taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are, recognized for all deductible temporary differences to the extent it is probable that taxable profits will be available against

which the deductible temporary differences can be utilized. Deferred tax asset is recognized for the carry forward of unused tax losses and unused tax credits to the extent it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized.

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

4.3 Property, Plant and Equipment and depreciation

Operating fixed assets other than land, building, plant and machinery are stated at cost less accumulated depreciation. Whereas building, plant and machinery are stated at revalued amount less accumulated depreciation, while land is stated at revalued amount.

Depreciation on fixed assets is charged to profit and loss account on reducing balance method so as to write off the carrying amount of an asset over its estimated, remaining

useful life at the rates given in Note 13.

The full annual rate of depreciation is applied on cost of additions, while no depreciation is charged on assets deleted during the year.

Repairs and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalized. Gains and losses on deletion of assets are taken to profit and loss account.

Surplus on revaluation of property, plant and equipment

This represents the surplus arisen on revaluation tangible fixed asset of the company. This surplus is not free for setting-off or reducing any deficit of the company. However it can only be utilized:

- to the extent actually realized on disposal of the assets which are revalued;
- to the extent of incremental depreciation arising out of revaluation of fixed assets; or

setting-off or in diminution of any deficit arising from the revaluation of any other fixed assets of the company.

4.4 Stores and spares

These are valued principally at moving average cost. Items in transit are valued at cost comprising invoice value plus other charges paid thereon. Provision is made for slow moving items.

4.5 Stocks in trade

These are valued at lower of cost and net realizable value:

Stock of raw material, except for raw material in transit, work in process and finished goods are valued principally at the lower of annual average cost and net realizable value.. Cost of work in process and finished goods comprised cost of direct material, labour and appropriate manufacturing overheads.

Raw materials in transit are stated at cost comprising invoice value plus other charges paid thereon.

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

Waste material is valued at net realizable value.

4.6 Trade debts

Receivable are carried at original invoice amount less an estimate for doubtful receivable balances based on review of outstanding amounts at the year end. Bad debts are written off when identified.

4.7 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, cheques in hand and deposits with banks, net of short term finances maturing within one year from the date of acquisition, if any.

4.8 Revenue recognition

Revenue from sales of goods is recognized on dispatch of goods to the customers. Export goods are considered dispatched when shipped on board.

Profit on bank deposits is recognized on accrual basis.

4.9 Borrowing cost

Borrowing cost is charged to profit and loss account when incurred.

4.10 Provisions

Provisions are recognized when the company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

4.11 Foreign currencies

Transactions in foreign currencies are translated into rupees at the rates of exchange approximating those prevailing on the date of transaction. Monetary assets and liabilities in

foreign currencies are translated using exchange rate that are prevailing, at the balance sheet date. Exchange differences are included in profit and loss currently.

4.13 Offsetting of financial assets and liabilities

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

4.14 Pricing for related party transactions

Transactions with related parties are priced at comparable uncontrolled market price. Parties are said to be related if they are able to influence the operating and financial decisions of the company and vice versa.

	2004 Rupees	2003 Rupees
5. SHARE CAPITAL		
Authorized	220,000,000	220,000,000
22,000,000 (2003 :22,000,000)		
Ordinary shares of Rs. 10 each		
Issued, subscribed and paid up		
18,388,320(2003:11,492,700)	183,883,200	114,927,000
Ordinary shares of Rs. 10 each		
Fully paid in cash		
6. SURPLUS ON REVALUATION OF FIXED ASSETS	93,284,910	102,674,789
Surplus on revaluation of fixed assets	146,246,123	
- Opening balance		
- Addition during the year		
Surplus relating to incremental depreciation	(8,483,275)	(9,389,879)
charge on related assets - transferred to		
retained earnings	231,047,758	93,284,910
Surplus on revaluation of fixed assets		
as at September 30	(10,121,413)	(11,140,215)
Less: Related deferred tax liability on:	(22,698,368)	—
- Revaluation as at October 01	1,557,407	1,018,802
- Addition during the year	(31,262,374)	(10,121,413)
- Incremental depreciation	199,785,384	83,163,497
7. LONG TERM LOAN - Secured		
Rescheduled Demand Finance - Opening	(7.1) 343,547,169	387,092,769
balance	(7.2) 43,545,600	—
Amount deposited before 30 September 2003	387,092,769	387,092,769
	150,000,000	43,545,600
Less Paid during the year	162,092,769	-
Written back as per settlement	312,092,769	43,545,600
	75,000,000	343,547,169
Balance HBL liability		
Less: Current maturity shown under current	21,346,901	43,545,600
liabilities	53,653,099	300,001,569

7.1 This represents interest free loan from Habib Bank Limited created as a result of rescheduling of their liabilities. During the year under review the Company entered into a settlement agreement with HBL, according to which the bank has reduced its liability to Rs. 225 million in view of the accelerated ¹ payment by the Company. This has resulted in writing back Rs. 162.092 million liability.

As per the settlement agreement, the Company arranged the Bank guarantee in favour of HBL from the Prime Commercial Bank Limited for the payment of Rs. 75 million and subsequently the National Bank of Pakistan sanctioned Rs. 75 million for payment to HBL before 31st December 2004. The entire liability of HBL stands paid on disbursement of the amount of Rs. 75 million by NBP and consequently the L/G issued by PCB released/discharged.

Security

The liability of NBP is secured by way of first charge over the fixed assets of the Company and personal guarantees of the directors.

Repayment and mark up

The liability is payable in 10 quarterly installments with markup. The markup is chargeable,

at 6 months KIBOR + 3% with floor of 6% p.a. with no cap.

7.2 During the last year the Company paid Rs. 43,545,600 against the loan liability, which was adjusted by the bank during the current year upon finalization of settlement.

		2004 Rupees	2003 Rupees
8. DEFERRED LIABILITIES			
Deferred income tax	(8.1)	39,731,723	8,979,902
Gratuity	(8.2)	5,850,640	5,964,071
		45,582,363	14,943,973
8.1 Deferred Income Tax			
<i>Taxable timing¹ differences</i>			
Surplus on revaluation of fixed assets		31,262,374	10,121,413
Accelerated tax depreciation		9,902,755	13,921,948
		41,165,130	24,043,361
<i>Deductible timing differences</i>			
Unapproved Gratuity		(1,433,407)	(317,070)
Unused tax losses		-	(14,746,389)
		(1,433,407)	(15,063,459)
		39,731,723	8,979,902
8.2 Gratuity			
Present value of defined benefit obligation		4,874,301	6,577,280
Unrecognized actuarial Gain/(Losses)		976,339	(613,209)
Liability recognized in the balance sheet		5,850,640	5,964,071
Current service cost		526,182	2,071,613
Interest cost		809,564	747,944
Expense recognized in profit and loss account		1,335,746	2,819,557

		2004 Rupees	2003 Rupees
Movement in the net liability recognised in the balance sheet is as follows:			
Liability at the beginning of the year		5,964,071	6,186,278
Interest cost of the year		526,182	747,944
Current service cost for the year		809,564	2,071,613
Payments made during the year		(1,449,177)	(3,041,764)
Liability at the end of the year		5,850,640	5,964,071
		151,588	124,638

9. LONG TERM DEPOSITS

10. Short Term Running Finance	(10.1)	23,508,943
Morabaha finance facility	(10.2)	24,704,069
Cash finance		48,213,012

11. CREDITORS, ADVANCES, ACCRUED AND OTHER LIABILITIES

Creditors		55,982,658	16,919,238
Advances from customers		17,104	1,330,765
Accrued expenses		10,528,212	9,003,722
Sales tax payable		-	881,653
Workers' Profit Participation Fund	11.1	1,076,498	-
Markup payable on running finance facilities		32,518	-
Unclaimed Workers' Profit Participation Fund		134,752	134,752
Others		120	- 120,000
		67,891,742	28,390,130

		2004 Rupees	2003 Rupees
11.1 Workers' Profit Participation Fund			
Balance as at October 01			1,368,829
Interest on fund utilized during the year		-	49,127
Provision for the year		1,076,498	
		1,076,498	1,417,956
Less:			
Paid to employees		1,076,498	1,417,956

12. CONTINGENCIES AND COMMITMENTS

The Bank guarantees aggregating to Rs. 75.601 million (September 30, 2003: 0.601 million) issued on behalf of the Company were outstanding on the balance sheet date.

Subsequently the guarantee for Rs. 75 million has been released/discharged.
 Claim of damages lodged by a creditor M/s. Friends Cotton and Oil Industries (Private) Limited amounting to Rs. 987,298 (2003: Rs. 987,298) against violation of contract has not been acknowledged by the Company. The Company has also filed a counter suit for the recovery of claims, compensation and damages amounting to Rs. 3,721,012 for violating the contract by the party. The suits are pending for adjudication.
 Income tax authorities have finalized tax assessments of the company upto tax year 2003.

The assessment for the assessment years 2000-2001 and 2001-2002 were finalized u/s 62 of the Income Tax Ordinance; 1979. The Company has filed appeals against these orders before the Commissioner of Income Tax (CIT - Appeals), which are still pending,

The tax authorities have also passed order u/s 52/86 in respect of assessment year 2000-2001 charging additional tax amounting to Rs.. 219,034 against which the Company filed appeal before the Commissioner of income Tax-Appeals which is still pending.

The management is confident of favourable outcome of the above cases.

13.3 Disposal of Fixed Assets

PARTICULARS	Cost	Accumulated depreciation	Written down value	Sale Proceeds Rupees	Gain/ (loss)	Mode of disposal	Sold to
Vehicles							
Motorcar	340	165.92	174.08	325	150.92	Negotiation	All Aamir, Lahore
Motor cycle	23.9	21,915	1,985.	21	19.015	Negotiation	M. Akram, Vehari
Rupees - 2004	363.9	187.835	176.065	346	- 169,935		
Rupees - 2003	1,418,976	936.187	482,789.	655.277	172.488		

14. CAPITAL WORK IN PROGRESS	2004 Rupees	2003 Rupees
Labour	908.883	—
Material	7,495,749	—
Advance to contractor	415	—
	8,819,632	-

15. LONG TERM ADVANCES - Considered good

Due from :	—	171.5
Executives	689.721	226,575 .
Employees	689.721	398.075
	—	170.106
Others	689.721	568.181
Less: receivable within one year	—	78
Executives	629.721	381.575
Employees	629.721	459.575
	60	108.606

16. LONG TERM DEPOSITS

With utility departments	1,358,559	1,358,559
With Central Depository Company	50	100
	1,408,559	1,458,559

17. STORES AND SPARES

Stores	186.102	180.559
Spares	6,311.332	6,833,107
	6,497,434	7,013,666

18. STOCKS IN TRADE	2004 Rupees	2003 Rupees
Raw material	68,082,452	37,679,400
Raw material in transit	6,132,687	—
Work in process	4,648,752	6,740,636
Finished goods	19,007,152	11,586,593
Packing material	549.478	544.342
. Waste	137.49	154.995
	98,558,011	56,705,966

19. TRADE DEBTS - Considered good

Local - unsecured	6,911,796	5,926,614
	6,911,796	5,926,61,4

20. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Advances - Considered good :		
Suppliers	1,272,660	3,104,486
Current portion of long term advances - staff	629.721	459.575
	1,902,381	3,564,061
Bank guarantee margin deposits	602.245	120.245
Prepayments	798.232	431.789
Duty draw back receivable	397.804	351.364
Advance income tax	4,451,298	4,279,636
Sales tax refundable	15,706,440	-
Others	224.91	131.249
	24,083,310	8,878,344

21. CASH AND BANK BALANCES

Cash in hand		16.839	7.048
Balance with banks on :			
Current accounts		64.792	224.905
Deposit accounts	(21.1)	25,058,135	11,184,926
		25,122,927	11,409,831
		25,139,766	11,416,879

2004 2003
Rupees Rupees

22. SALES-net

Yarn			
Export		218,543,902	167,322,895
Local		688,270,128	623,838,431
Waste		12,871,610	12,093,932
		919,685,640	803,255,258
Less: Sales tax		91,453,289	82,425,933
Commission		7,134,097	6,432,853
		98,587,386	88,858,786
		821,098,254	714,396,472

23. COST OF GOODS SOLD

Raw material consumed		636,627,476	539,890,124
Salaries, wages and benefits	(23.1)	35,215,806	36,335,400
Packing material consumed		9,151,729	9,205,349
Stores and spares consumed		13,994,024	15,051,716
Fuel and power		59,869,156	59,549,602
Insurance		911.783	1,545,184
Repairs and maintenance		973.275	1,084,761
Telephone and postage		176.893	140.102
Depreciation	(13.1)	25,748,777	27,805,650
Others		2,108,715	501.189
		784,777,634	691,109,077

Effect of work in process inventory :

Opening		6,740,636	2,100,330
Closing		(4,648,752)	(6,740,636)

		2,091,884	(4,640,306)
Cost of goods manufactured		786,869,518	686,468,771

Effect of finished goods inventory :

Opening		11,741,588	22,468,180
Closing		(19,144,642)	(11,741,588)

		(7,403,054)	10,726,592
		779,466,464	697,195,363

Less : Duty draw back		65	108.5
		779,401,464	697,086,863

24. TRADING PROFIT

Yarn Sale Export		33,379,398	1,670,951
Local		7,733,555	37,375,303
Cotton sale		911.521	39,046,254
		42,024,474	5,092,990
Less: Sales tax		1,008,725	33,953,264
		41,015,749	29,215,538
Less: Cost of goods sold		37,418,990	4,737,726
		3,596,759	

2004 2003
Rupees Rupees

25. ADMINISTRATIVE AND GENERAL

Directors' remuneration		710.238	645.672
Salaries and benefits	(25.1)	2,407,964	2,260,383

Electricity, gas and* water		253.777	252.544
Postage, telephone and telex		530.645	472.552
Rent, rates and taxes		211.53	195.383
Insurance		172.558	136.843
Advertisement		76.394	244.165
Travelling and conveyance		22.568	48.274
Auditors' remuneration	(25.2)	125	125
Legal and professional		230.7	72
Fee and subscription		597.247	506.096
Printing and stationery		169.218	192.434
Entertainment		159.195	174.778
Repairs and maintenance		145.225	156.529
Vehicle running and maintenance		652.118	514.995
Depreciation	(13.1)	1,145,203	727,589 -
Advances written off		-	61.632
Others		54.005	37.566
		7,663,585	6,824,435

25.2 Auditors' remuneration

Annual audit		125	85
Half yearly review		—	30
Out of pocket		—	10
		125	125

26. SELLING

Salaries and other benefits	(26.1)	1,514,276	1,663,347
Freight and forwarding		3,821,348	5,974,212
Export development surcharge .		568.062	358,327
Other export expenses		876.671	717.476
		6,780,357	8,713,362

27. OTHER INCOME / (EXPENSES)

Sale of scrap		363.471	655.931
Gain on sale of fixed assets - net		169.935	172.488
Return on deposits		649.224	1,027,764
Creditors written back		—	78.473
Loss on foreign exchange transactions		-	(46,986)
Miscellaneous		-	(72,898)
		1,182,630	1,814,772

2004
Rupees

2003
Rupees

28. FINANCIAL AND OTHER CHARGES

Interest/mark-up on :			
· short term borrowings		7,195,051	7,130,580
Bank charges and commission		3,045,548	4,089,719
Other charges		261.677	49.127
		10,502,276	11,269,426
Workers' Profit Participation Fund		1,076,498	—
		11,578,774	11,269,426

29. PROVISION FOR TAXATION

Current		6,158,696	5,028,835
Deferred		9*610,860	(1,141,511)
		15,769,556	3,887,324

30. EARNING PER SHARE - Basic

30.1 Earning per share- basic			
Profit/(Loss) Profit after taxation		166,776,676	(6,832,440)
Weighted average number of shares		14,365,875	11,492,700
Earnings/(Loss) per share		11.41	(0.59)

31. CASH FLOW FROM OPERATING ACTIVITIES

Profit/(Loss) before taxation		182,546,232	(2,945,116)
Adjustment for non-cash charges and other items:			
Depreciation		26,893,980	28,533,239
Gain on disposal of fixed assets		(169,935)	(172,488)
Provision for gratuity		1,335,746	2,819,557
Advances written off		-	134.53
Creditors written back		-	(78,473)
Provision for WPPF		1,076,498	—
Financial charges.		10,502,276	11,269,426
Liability written back		(162,092,769)	—

	(122,454,204)	42,505,791
Profit before working capital changes	60,092,028	39,560,675

	2004 Rupees	2003 Rupees
EFFECT ON CASH FLOW DUE TO WORKING CAPITAL CHANGES (Increase)/decrease in :		
Stores and spares	516.232	133.997
SfocK in trade	(41,852,045)	(11,598,285)
Trade debtors	(985,182)	(117,244)
Advances, deposits, prepayments and other receivables	843.282	9,284,111
Long term advances given to employees	(121,540)	656.575
Increase/(decrease) in :		
Creditors; advances, accrued and other liabilities	39,274^249	6,720,411
	(2,325,004)	5,079,565
Cash generated from operations	57,767,024	- 44,640,240

	2004	2003
33.3 EFFECTIVE MARK-UP RATES		
Short term bank borrowings	5.25% to 7%	10% to 13.87%
Cash and Bank balances	2.25% to 3.25%	3% to 3.75%

	2004 Rupees	2003 Rupees
34. PLANT CAPACITY AND ACTUAL PRODUCTION		
No. of spindles installed/worked	17.28	17.28
Shifts per day	3	3
Installed production capacity at 20/S count - kilogram	5,889,972	5,889,972
Actual production during the year at 20/S count - kilogram	5,581,696	4,869,577
Total shifts worked	1.095	1.086

PATTERN OF SHAREHOLDING
AS AT SEPTEMBER 30, 2004

No. of Shareholders	From	Shareholding To	Total Shares Held
45	1	500	22.5
3	501	1000	3
6	1001	5000	14,500
1	5001	10000	6.3
1	15001	20000	19.3
1	25001	30000	29.1
3	30001	35000	100.5
2	35001	40000	72
2	40001	45000	89.45
1	50001	55000	51.2
1	65001	70000	66
3	70001	75000	214.8
5	85001	90000	433.1
1	125001	150000	143.2
2	150001	175000	336.7
2	425001	450000	871.36
1	550001	575000	564
1	875001	900000	876.4
1	925001	950000	940
1	1100001	1125000	1,112,600
1	1200001	1225000	1,213,896
1	1525001	1550000	1,539,849
1	1625001	1650000	1,640,900
1	1750001	1775000	1,764,045
1	185000-1	1875000	1,869,620
1	2125001	2150000	2,140,000
1	2250001	2275000	2,254,000
90			18,388,320

Categories of Shareholders	Number	Shares Held	Percentage
Individuals	88	17,073,720	92.8509
Investment Companies	1	876.4	4.76607

Joint Stock Companies	1	438.2	2.38303
Total	.90	18,388,320	100