# ANNUAL REPORT
*for the year ended June 30, 2013*

NAGINA

NAGINA GROUP

Ellcot Spinning Mills Limited

An ISO 9001:2008 Certified Company

# CONTENTS

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# COMPANY INFORMATION

| | | |
|---|---|---|
| **BOARD OF DIRECTORS** | Mr. Shaikh Enam Ellahi | Non-Executive Director / Chairman |
| | Mr. Jamal Nasim (Nominee NIT) | Non-Executive Director |
| | Mr. Javaid Bashir Sheikh | Non-Executive Director |
| | Mr. Shahzada Ellahi Shaikh | Non-Executive Director |
| | Mr. Shaukat Ellahi Shaikh | Non-Executive Director |
| | Mr. Shafqat Ellahi Shaikh | Executive Director |
| | Mr. Shahzada Sultan Mubashir | Executive Director |
| **MANAGING DIRECTOR (Chief Executive)** | Mr. Shafqat Ellahi Shaikh | |
| **AUDIT COMMITTEE** | Mr. Shaukat Ellahi Shaikh | Chairman |
| | Mr. Shaikh Enam Ellahi | Member |
| | Mr. Shahzada Ellahi Shaikh | Member |
| | Mr. Shahzada Sultan Mubashir | Secretary |
| **HUMAN RESOURCE & REMUNERATION (HR & R) COMMITTEE** | Mr. Shaukat Ellahi Shaikh | Chairman |
| | Mr. Shahzada Ellahi Shaikh | Member |
| | Mr. Shahzada Sultan Mubashir | Member |
| | Mr. Muhammad Azam | Secretary |
| **EXECUTIVE COMMITTEE** | Mr. Shaikh Enam Ellahi | Chairman |
| | Mr. Shahzada Ellahi Shaikh | Member |
| | Mr. Shaukat Ellahi Shaikh | Member |
| | Mr. Shafqat Ellahi Shaikh | Member |
| | Mr. Muhammad Azam | Secretary |
| **CORPORATE SECRETARY** | Mr. Shahzada Sultan Mubashir | |
| **CHIEF FINANCIAL OFFICER (CFO)** | Mr. Muhammad Ahmad | |
| **AUDITORS** | Messrs Rahman Sarfraz Rahim Iqbal Rafiq<br>Chartered Accountants | |
| **LEGAL ADVISOR** | Bandial & Associates | |
| **LEAD BANKERS** | Albaraka Bank (Pakistan) Limited<br>Allied Bank Limited<br>Askari Bank Limited<br>Bank Alfalah Limited<br>Faysal Bank Limited<br>Habib Bank Limited<br>HSBC Bank Middle East Limited<br>MCB Bank Limited<br>National Bank of Pakistan<br>Standard Chartered Bank (Pakistan) Limited<br>The Bank of Punjab<br>United Bank Limited | |
| **REGISTERED OFFICE** | Nagina House<br>91-B-1, M.M. Alam Road,<br>Gulberg-III, Lahore - 54660 | |
| **WEB REFERNCE** | www.nagina.com | |
| **SHARE REGISTRAR** | M/s Hameed Majeed Associates (Pvt.) Ltd.<br>1st Floor, H.M. House<br>7-Bank Square, Lahore.<br>Phone # 042-37235081-2<br>Fax # 042-37358817 | |
| **MILLS** | 6.3 K.M, Manga Mandi, Raiwind Road,<br>Mouza Rossa, Tehsil & DIstrict Kasur. | |

# NOTICE OF ANNUAL GENERAL MEETING

25th Annual General Meeting of ELLCOT SPINNING MILLS LTD. will be held at the Registered Office of the Company, Nagina House, 91-B-1, M.M. Alam Road, Gulberg-III, Lahore-54660 on Wednesday, October 23, 2013 at 11:30 a.m. to transact the following business:-

1. To confirm minutes of the 24th Annual General Meeting held on October 24, 2012.
2. To receive and adopt Audited Accounts of the Company for the year ended June 30, 2013 together with the Directors' and Auditors' Reports thereon.
3. To approve and declare final dividend as recommended by the Board of Directors.
4. To appoint Auditors and fix their remuneration.
5. To transact any other ordinary business with the permission of the Chair.

Statement under Section 160 of the Companies Ordinance, 1984 is annexed.

By Order of the Board

**Shahzada Sultan Mubashir**
Corporate Secretary

Lahore : September 26, 2013

NOTES:

1. The share transfer books for ordinary shares of the Company will be closed from Thursday, October 17, 2013 to Wednesday, October 23, 2013 (both days inclusive). Valid transfer(s) received in order by our Share Registrar, M/s Hameed Majeed Associates (Pvt.) Limited, 1st Floor, H.M. House, 7-Bank Square, Lahore, by the close of business on Wednesday, October 16, 2013 will be in time to be passed for payment of dividend to the transferee(s).
2. A member entitled to attend and vote at the general meeting is entitled to appoint another member as proxy. Proxies, in order to be effective, must be received at the Company's registered office not less than forty eight (48) hours before the time of meeting. Members through CDC appointing proxies must attach attested copy of their Computerised National Identity Card (CNIC) with the proxy form.
3. The Shareholders through CDC, who wish to attend the Annual General Meeting are requested to please bring, original CNIC with copy thereof duly attested by their Bankers, Account Number and Participant I.D Number for identification purpose.
4. In case of corporate entity, certified copy of the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form of the Company.
5. Members who have not yet submitted photocopy of their CNIC are requested to send the same to the Share Registrar of the Company.
6. SECP has taken new initiative to make the process of payment of cash dividend to shareholders more efficient through e - Dividend mechanism where shareholders can get amount of dividend credited to their respective bank accounts electronically without delay. In order to avail this benefit, the members are encouraged to provide dividend mandates (i.e. Bank detail for deposit of dividend). An awareness session shall be conducted in AGM to inform shareholders about the Mechanism and its benefits. The e - Dividend mandate forms are available with the Company Secretary.
7. Shareholders are requested to promptly notify the Company of any change in their registered address.

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# STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

## In compliance with The Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2012

Members had approved a special resolution u/s 208 of the Companies Ordinance, 1984 on October 26, 2009. The Company has not made any investment under the resolution. The following is the status:

| | |
|---|---|
| a. Total investment approved. | Rs.75,000,000/= (Rupees seventy five million only) to each of the following Associated Company:<br>i. Nagina Cotton Mills Ltd. (NCML)<br>ii. Prosperity Weaving Mills Ltd. (PWML) |
| b. Amount of investment made to date. | Nil |
| c. Reason for not having made complete investment so far where resolution required it to be implemented in specified time. | Due to better cash flows, the Associated Companies did not need funds envisaged u/s 208 of the Companies Ordinance, 1984. Therefore, no investment transaction took place during the year 2012-13. |
| d. Material change in financial statements of Associated Company or Associated Undertaking since date of the resolution passed for approval of investment in such company. | See table below |

| | Present Financial Position as on June 30, 2013 | | Financial Position at the time of Approval as on June 30, 2009 | |
|---|---|---|---|---|
| | NCML | PWML | NCML | PWML |
| | Rupees in Millions | | | |
| Net sales | 4,451.553 | 6,600.175 | 2,158.571 | 3,634.559 |
| Gross Profit | 936.547 | 666.533 | 216.856 | 368.861 |
| Profit before tax | 625.356 | 395.472 | 14.650 | 108.120 |
| Profit after tax | 605.152 | 342.573 | 7.576 | 83.902 |

## Vision:

*To be a dynamic, profitable and growth oriented company.*

## Mission:

*To be the leading producer of cotton and blended yarn for knitting and weaving for local and international customers manufacturing well-known textile brands.*

*To strive for excellence and sustain position as a preferred supplier for yarn with a customer focused strategy.*

*Continuous enhancement  the quality objectives for customer satisfaction and operational efficiencies.*

*To achieve the comparative advantage by employing latest technologies for enhancing the efficiency and productivity.*

*To build enduring relationship with our suppliers by giving them fair return on their products and services.*

*To provide a professional, open and participative environment to our dedicated employees for developing their potential and team performance.*

*To give consistent financial returns to the shareholders on their investments.*

*To be responsible to the society, employees and communities in which we operate by initiating health care, education and social welfare activities.*

# Certificate of Registration

MOODY
INTERNATIONAL

**This is to certify that the**
**Quality Management System of:**

**ELLCOT SPINNING MILLS LIMITED.**
HEAD OFFICE: 91-B-1, M.M. ALAM ROAD, GULBERG III, LAHORE
FACTORY: 6.3 K.M. MOUZA ROSSA, MANGA MANDI, RAIWIND ROAD, TEHSIL
AND DISTRICT KASUR
PAKISTAN

**has been assessed and found compliant with the requirements of**

## ISO 9001:2008

Approval is hereby granted for registration on the proviso that the
Certification rules and conditions are observed at all times.

**Certification Scope:**

**MANUFACTURER AND EXPORTERS OF YARN.**

**Certificate No.** **04-A-10-QMS 0163**

**Issue Date:** **February 6, 2011**

**Expiry Date:** **January 18, 2014**

Authorised Signature

**Moody International Certification Ltd.**
www.moodyint.com

UKAS
QUALITY
MANAGEMENT
014

The use of the Accreditation Mark indicates accreditation in respect of those activities covered by the Accreditation Certificate 014.
The certificate remains the property of Moody International Certification Limited to whom it must be returned on request.

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PNAC
Pakistan National Accreditation Council
CB 001
EMS

**Authorised Signature**
**Moody International (Pvt.) Ltd.**

**The use of the Accreditation Mark indicates accreditation in respect of those activities covered by the Accreditation Certificate CB 001.
The certificate remains the property of Moody International (Pvt.) Limited to whom it must be returned on request.**

# DIRECTORS' REPORT TO THE MEMBERS

*IN THE NAME OF ALLAH THE MOST GRACIOUS*
*THE MOST BENEVOLENT THE MOST MERCIFUL*

The Directors have the honour to present 25$^{th}$ Annual Report of your Company together with Audited Financial Statements and Auditors' Report thereon for the year ended June 30, 2013. Figures for the previous year ended June 30, 2012 are included for comparison.

**Company Performance**

Alhamdulillah, your company has done well. Both sales revenue and profits after tax have increased as compared to previous year. Net profit after tax for the year is Rs.352,202,966 (7.25% of Sales) as compared to Rs.146,404,197 (3.64% of sales). Increase is mainly due to growth in sales volumes and reduction in finance costs as compared to previous year. Earnings per share (EPS) stood at Rs.32.16 for the year under review as compared to Rs.13.37 of previous year.

Sales revenue for the year stood at Rs.4,858,425,674 showing growth of 20.70% over previous year. Gross profit for the year is Rs. 654,755,443 (13.48% of sales) as compared to Rs. 432,739,611 (10.75% of sales) of previous year. Sales growth was volume driven due to continued demand for yarn in both domestic and international markets.

Distribution costs increased from Rs.37,816,791 or 0.94% of sales to Rs.50,724,044 or 1.04% of sales mainly due to high proportion of export sales resulting in additional costs incurred on account of ocean freights and other related expenses. Administrative costs slightly increased taking in account the impact of inflation. Other operating costs increased as the provisions for Workers Profit Participation Fund and Workers Welfare Fund increased in line with growth in profits for the year ended as compared to previous year.

Your Company has been able to generate stable cash flows and discharged all its operating and financial liabilities in time. Financial costs have decreased by 36.35% during the year under review as compared to previous year mainly due to repayments of long term loans, reduction in mark up rates and efficient working capital management.

**Capital Assets Investment**

During the year your Company invested Rs. 215,427,840 in Balancing, Modernization, Replacement (BMR) of building, plant and machinery and other assets. This was done in line with Company's strategic plans to continue to diversify its product line, addition of new qualities and blends of yarn and improvement in the production capacity of the plant to cater both domestic and International markets.

**Dividend**

The Directors have pleasure to recommend payment of cash dividend @ 100% i.e. Rs. 10/= per ordinary share. The dividend will amount to Rs. 109,500,000/=.

**Future Outlook**

The management is optimistic about the growth and profitability of the Company in the coming year. Textile industry in Pakistan is facing uphill task to cope with prolonged power outages and energy shortfalls especially in the Province of Punjab. Government has increased the tariffs of both electricity and gas during the month of August 2013 and next phase of increase in gas tariff is expected later during the year. Due to these measures cost of energy shall be significantly increased in the coming year. These facts have made it very difficult for the textile companies to compete in the international markets. Continued and strong demand of yarn from domestic and International markets especially China is supporting the industry and this trend is expected to continue in the foreseeable future.

State Bank of Pakistan (SBP) has been following a relaxed monetary policy owing to controlled inflation and continued to decrease interest rates during the last two years in giving much needed incentive to the industry. However, in its monetary policy statement announced in September 2013, SBP raised the interest rates by 50 bps owing to rupee devaluation and recent revenue generation measures taken by the Government to check its daunting fiscal deficit. In the coming year, the inflationary pressures are expected to further exert pressure on the economy and necessitate further increase in interest rates.

The Board of Directors is cognizant of these facts and strives to take all necessary steps to protect the interests of the Company.

**ISO 9001: 2008 Certification**

The Company continues to operate at high standards of quality and had obtained latest version of certification for the period from February 6, 2011 to January 18, 2014. The quality control certification helps to build up trust of new and old customers.

**Corporate Social Responsibility**

The Company strongly believed in the integration of Corporate Social Responsibility into its business, and consistently endeavors to uplift communities that are influenced directly or indirectly by our business.

**Environment, Health and Safety:** The Company maintains safe working conditions avoiding the risk to the health of employees and public at large. The management has maintained safe environment in all its operations throughout the year and is constantly upgrading their safety and living facilities.

Safety is a matter of concern for machinery as well the employees working at plant. Fire extinguishers and other fire safety equipments have been placed at sites as well as registered and head office of the Company. Regular drills are performed to ensure efficiency of fire safety equipments.

**Corporate Governance & Financial Reporting Framework**

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

a) The financial statements prepared by the management of the Company present fair state of Company's operations, cash flows and changes in equity.

b) Proper books of account of the Company have been maintained.

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

d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.

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

f) There is no doubt upon the Company's ability to continue as a going concern.

g) Key operating and financial data for the last six years is annexed.

h) There are no statutory payments on account of taxes, duties, levies and charges that are outstanding as on June 30, 2013 except for those disclosed in the financial statements.

i) No adverse material changes and commitments affecting the financial position of the Company have occurred between the end of the financial year to which this balance sheet relates and the date of the Director's Report.

j) During the year, no trade in the shares of the Company were carried out by the Directors, CEO, CFO, Company secretary, their spouses and minor children except Mr. Shahzada Sultan Mubashir, who purchased 500 qualifying shares and Mr. Jamal Nasim, who sold 10,000 shares of the Company.

**Related Parties**

The transactions between the related parties were carried out at an arm's length basis. The Company has fully complied with the best practices of the transfer pricing as contained in the listing regulation of stock exchanges in Pakistan.

**Financial Statements Audit**

Financial statements of the Company have been audited without any qualification by Messrs Rahman Sarfraz Rahim Iqbal Rafiq, Chartered Accountants, the auditors of the Company.

**Shareholding pattern**

The shareholding pattern as at June 30, 2013 including the information under the Code of Corporate Governance, for ordinary shares, is annexed.

**Notice u/s 218 of the Companies Ordinance, 1984**

Notice u/s 218 of the Companies Ordinance, 1984 is annexed.

**Committees of the Board**

In compliance with the Code of Corporate Governance and Articles of the Association of the Company, the Board of Directors had formed following Committees.
- Audit Committee
- Human Resource and Remuneration (HR & R) Committee
- Executive Committee

The names of the members of above committees are given in the Company information.

**Board of Directors' Meetings**

During the year four (4) meetings of the Board of Directors were held. Attendance by each Director is as follows:

| Name of Director | Attended |
|---|---|
| Mr. Shaikh Enam Ellahi | 4 |
| Mr. Jamal Nasim | 2 |
| Mr. Javaid Bashir Sheikh | 4 |
| Mr. Shahzada Ellahi Shaikh | 3 |
| Mr. Shaukat Ellahi Shaikh | 4 |
| Mr. Shafqat Ellahi Shaikh | 3 |
| Mr. Iftikhar Taj Mian* | 2 |
| Mr. Shahzada Sultan Mubashir** | 2 |

**Notes:**

*Resigned on November 14, 2012.
** Appointed to fill casual vacancy on the Board w.e.f November 14, 2012.

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

**Audit Committee Meetings**

During the year five (5) meetings of Audit Committee of the Board were held. Attendance by each Director is as follows:

| Name of Director | Attended |
|---|---|
| Mr. Shaikh Enam Ellahi | 5 |
| Mr. Shahzada Ellahi Shaikh | 5 |
| Mr. Shaukat Ellahi Shaikh | 5 |

**Executive Committee Meetings**

During the year six (6) meetings of Executive Committee were held. Attendance by each Director is as follows:

| Name of Director | Attended |
|---|---|
| Mr. Shaikh Enam Ellahi | 6 |
| Mr. Shahzada Ellahi Shaikh | 5 |
| Mr. Shaukat Ellahi Shaikh | 6 |
| Mr. Shafqat Ellahi Shaikh | 6 |

**Human Resource & Remuneration (HR & R) Committee Meetings**

During the year, five (5) meetings of HR & R Committee of the Board were held. Attendance by each Director is as follows:

| Name of Director | Attended |
|---|---|
| Mr. Shaikh Enam Ellahi | 5 |
| Mr. Shahzada Ellahi Shaikh | 5 |
| Mr. Iftikhar Taj Mian* | 2 |
| Mr. Shahzada Sultan Mubashir** | 2 |

**Notes:**

*Resigned on November 14, 2012.
** Appointed as member of HR & R Committee of the Board w.e.f November 14, 2012.

### Director's Training Program

The Company has complied with the requirements of clause (xi) of the Code of Corporate Governance. Following Directors of the Company have taken certification of the Director's Training Program during the year.

1. Mr. Shafqat Ellahi Shaikh.
2. Mr. Jamal Nasim.
3. Mr. Shahzada Sultan Mubashir.

### Appointment of Auditors

The Audit Committee has recommended for re-appointment of present auditors, Messrs Rahman Sarfraz Rahim Iqbal Rafiq, Chartered Accountants, Lahore. They are due to retire and being eligible, offer themselves for re-appointment as auditors for the year 2013-2014.

### Acknowledgment

The continued good results have been possible due to continued diligence and devotion of the staff and workers of the Company and the continued good human relations at all levels deserve acknowledgement.

On behalf of the Board

**Shaikh Enam Ellahi**
Chairman

Lahore: September 26, 2013

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2013

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 35 of listing regulations of Karachi & Lahore 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 CCG in the following manner:

1. The Board of Directors of the Ellcot Spinning Mills Ltd., has always supported and re-confirms its commitment to continued support and implementation of the highest standards of Corporate Governance at all times.

2. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes:

| | |
|---|---|
| Mr. Shaikh Enam Ellahi | Non-Executive Director / Chairman |
| Mr. Jamal Nasim (Nominee NIT) | Non Executive Director |
| Mr. Javaid Bashir Sheikh | Non-Executive Director |
| Mr. Shahzada Ellahi Shaikh | Non-Executive Director |
| Mr. Shaukat Ellahi Shaikh | Non-Executive Director |
| Mr. Shafqat Ellahi Shaikh | Executive Director |
| Mr. Shahzada Sultan Mubashir | Executive Director |

3. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.

4. 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.

5. Casual vacancy occurred on the Board on November 14, 2012 was filled up by the Directors on the same day.

6. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

7. 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.

8. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board in line with Articles of Association of the Company.

9. 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.

10. Requirement under Listing Regulation No. 35 (xi) has been complied with.

11. The Board had approved appointment of CFO, Company Secretary and Head of Internal Audit in line with Code of Corporate Governance.

12. The Directors' Report for this year has been prepared in compliance with the requirements of CCG and fully describes the salient matters required to be disclosed.

13. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board. However, in the absence of CEO, financial statements were signed by two Directors and CFO in compliance of section 241 (2) of the Companies Ordinance, 1984.
14. 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.
15. The Company has complied with all the corporate and financial reporting requirements of the CCG.
16. The Board has formed an Audit Committee. It comprises three members, all members are non-executive directors.
17. 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 CCG. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
18. The Board has formed an HR and Remuneration Committee. It comprises three members, of whom two are non-executive directors including the Chairman.
19. The Board has formed an Executive Committee comprising four directors to meet and take decisions on behalf of Board in the absence of full Board. The minutes of the meetings are properly maintained.
20. The Board has set up an effective internal audit function.
21. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, 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 the ICAP.
22. 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.
23. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchange(s).
24. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors.
25. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
26. We confirm that all other material principles enshrined in the CCG have been complied with.

On behalf of the Board

**Shaikh Enam Ellahi**
Chairman

Lahore: September 26, 2013

# SHAREHOLDERS' INFORMATION

**Annual General Meeting**

25th Annual General Meeting of ELLCOT SPINNING MILLS LTD. will be held at the Registered Office of the Company, Nagina House, 91-B-1, M.M. Alam Road, Gulberg-III, Lahore-54660 on Wednesday, October 23, 2013 at 11:30 a.m.

Eligible shareholders are encouraged to participate and vote.

**Ownership**

On June 30, 2013, the Company has 579 Shareholders.

**Web Reference**

The Company maintains a functional website. Annual, half-yearly and quarterly reports are regularly posted at the Company's website: www.nagina.com

**Dividend**

The Board of Directors have recommended in their meeting held on September 26, 2013, payment of final cash dividend at the rate of Rs10/= per share i.e.100 % for the year ended June 30, 2013.

**Dividend Mandate (Optional)**

Securities and Exchange Commission of Pakistan has taken new initiative to make the process of payment of cash dividend to shareholders more efficient through e - Dividend mechanism, where shareholders can get amount of dividend credited to their respective bank accounts electronically without delay. By opting this mechanism, there will be instant credit of dividend and no chance of dividend warrants getting lost in the post, undelivered or delivered to the wrong address etc.

In order to avail this benefit, the members are encouraged to provide dividend mandates by sending the mandate information on the following format, directly to the Company's Share Registrar in case of physical shareholders and directly to the relevant Participant / CDC Investor Account Service in case of maintaining shareholding under Central Depository System (CDS).

| ***Detail of Bank Mandate*** | |
|---|---|
| Title of Bank Account | |
| Bank Account No. | |
| Bank's Name | |
| Branch Name and Address | |
| Cell number of Shareholder | |
| Landline number of Shareholder, if any | |

It is stated that the above mentioned information is correct, that I will intimate the changes in the above mentioned information to the Company and the concerned Share Registrar as soon as these occur.

________________________

Signature of the Shareholder

An awareness session shall be conducted in AGM to inform shareholders about the e-Dividend mechanism and its benefits.

**Requirement of CNIC Number / National Tax Number (NTN) Certificate**

With reference to the notifications of Securities and Exchange Commission of Pakistan (SECP), SRO 779(I)/2011 dated August 18, 2011 and SRO 831(I)2012 dated July 5, 2012 which state that dividend warrants should bear CNIC number of the registered member.

Members who have not yet submitted copy of their valid Computerized National Identity Card (CNIC) or in case of corporate entity valid National Tax Number (NTN) Certificate, are requested to submit the same at the earliest.

Copy of CNIC/NTN may be sent directly to the Share Registrar:

M/s Hameed Majeed Associates (Pvt.) Limited,
1st Floor, H.M. House,
7-Bank Square,
Lahore
Ph # (+92-42) 37235081-82
Fax # (+92-42) 37358817

**Kindly note that in case of non compliance of the submission of CNIC, the Company may be constrained to withhold the dispatch of dividend warrant.**

**Investor Relations Contact**

Mr. Shahzada Sultan Mubashir, Corporate Secretary
Email: mubashir.sultan@nagina.com, Ph # (+92-42) 35756270, Fax: (+92-42) 35711856

**Delivery of the Unclaimed / Undelivered Shares**

Members are requested to contact the Registered Office of the Company or the Share Registrar, M/s. Hameed Majeed Associates (Pvt) Ltd., 1st Floor, H.M. House, 7-Bank Square, Lahore., for collection of their shares which they have not received due to any reasons.

To: All members of the Company

**NOTICE UNDER SECTION 218 OF THE COMPANIES ORDINANCE, 1984**

In pursuance of Section 218 of the Companies Ordinance, 1984, the members of the Company are hereby informed that upon recommendation of Human Resource and Remuneration (HR&R) Committee, Board of Directors in their meeting held on September 26, 2013 has approved the increase in remuneration of Mg. Director (Chief Executive) and Chairman of the Board effective from July 1, 2013 as under:

**a) Remuneration of Mr. Shafqat Ellahi Shaikh, Mg. Director (Chief Executive)**

| **Description** | **Present Remuneration** | **Remuneration after increase** |
|---|---|---|
| Remuneration | Rs. 325,000/= per month inclusive of 10% medical allowance. | Rs. 357,500/= per month inclusive of 10% medical allowance. |
| **Other benefits** | | |
| Transport | Two company maintained cars with drivers | No Change |
| Utilities | Actual cost of utilities, i.e. gas, electricity and water at his residence and telecommunication facilities | No Change |
| Leave Fare Assistance (LFA) | Leave passage for self and family. | No Change |

**b) Remuneration of Mr. Shaikh Enam Ellahi, Chairman of the Board**

| | | |
|---|---|---|
| Remuneration | Rs. 425,000/= per month inclusive of 10 % medical allowance | Rs. 467,500/= per month inclusive of 10 % medical allowance |
| **Other benefits** | | |
| Transport | One company maintained car with driver | No Change |
| Utilities | Actual cost of utilities, i.e. gas, electricity and water at his residence and telecommunication facilities | No Change |
| Leave Fare Assistance (LFA) | Leave passage for self and family. | No Change |

**Shahzada Sultan Mubashir**
Corporate Secretary

Lahore : September 26, 2013

NAGINA
NAGINA GROUP

# PATTERN OF SHAREHOLDING
# AS AT JUNE 30, 2013
# CUIN (INCORPORATION NUMBER) 0018985

| No. of Shareholders | Shareholding From | Shareholding To | Total Shares Held |
|---|---|---|---|
| 225 | 1 | 100 | 7,250 |
| 143 | 101 | 500 | 42,953 |
| 68 | 501 | 1,000 | 54,145 |
| 81 | 1,001 | 5,000 | 191,833 |
| 28 | 5,001 | 10,000 | 208,246 |
| 4 | 10,001 | 15,000 | 46,000 |
| 4 | 15,001 | 20,000 | 80,000 |
| 4 | 20,001 | 25,000 | 84,300 |
| 1 | 25,001 | 30,000 | 30,000 |
| 1 | 30,001 | 35,000 | 32,500 |
| 2 | 35,001 | 40,000 | 77,807 |
| 1 | 40,001 | 45,000 | 41,345 |
| 1 | 45,001 | 50,000 | 45,500 |
| 1 | 50,001 | 55,000 | 54,000 |
| - | 55,001 | 60,000 | - |
| 1 | 60,001 | 65,000 | 64,626 |
| - | 65,001 | 90,000 | - |
| 1 | 90,001 | 95,000 | 93,359 |
| 1 | 95,001 | 100,000 | 98,500 |
| - | 100,001 | 120,000 | - |
| 1 | 120,001 | 125,000 | 120,638 |
| - | 125,001 | 190,000 | - |
| 1 | 190,001 | 195,000 | 191,878 |
| - | 195,001 | 210,000 | - |
| 1 | 210,001 | 215,000 | 210,401 |
| - | 215,001 | 625,000 | - |
| 1 | 625,001 | 630,000 | 628,400 |
| - | 630,001 | 660,000 | - |
| 3 | 660,001 | 665,000 | 1,993,716 |
| - | 665,001 | 705,000 | - |
| 1 | 705,001 | 710,000 | 706,880 |
| - | 710,001 | 875,000 | - |
| 1 | 875,001 | 880,000 | 875,554 |
| - | 880,001 | 1,570,000 | - |
| 1 | 1,570,001 | 1,575,000 | 1,572,602 |
| - | 1,575,001 | 1,610,000 | - |
| 1 | 1,610,001 | 1,615,000 | 1,614,200 |
| - | 1,615,001 | 1,705,000 | - |
| 1 | 1,705,001 | 1,710,000 | 1,701,610 |
| | | | 81,757 |
| 579 | Total:- | | 10,950,000 |

| Categories of Shareholders | Shares Held | Percentage |
|---|---|---|
| Directors, Chief Executive Officer, and their Spouse and Minor Children | 5,142,624 | 46.96 |
| Associated Companies, Undertakings and Related Parties | 2,663,461 | 24.32 |
| NIT and ICP | 707,080 | 6.46 |
| Banks, Development Finance Institutions, Non Banking Finance Institutions | 491 | 0.00 |
| Insurance Companies | 191,878 | 1.75 |
| Modarabas and Mutual Funds | 1,114,692 | 10.18 |
| Shareholders Holding 10% or more | 4,888,412 | 44.64 |
| General Public | | |
| a. Local | 965,037 | 8.81 |
| b. Foreign | Nil | Nil |
| Others (Joint Stock Companies etc.) | 164,737 | 1.50 |

**Note:-**

M/s. Nagina Cotton Mils Ltd., had distributed 6,545,000 ordinary shares of M/s. Ellcot Spinning Mills Ltd., among its members, out of which 81,757 ordinary shares have yet to be transferred by the members of M/s. Nagina Cotton Mills Ltd. These shares have been shown under the head of "General Public".

# INFORMATION UNDER CLAUSE XVI (J) OF THE CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2013

| S # | | Name | Shares Held | Percentage |
|---|---|---|---|---|
| 1) | | ***Associated Companies, Undertaking and Related Parties*** | | |
| | i) | HAROON OMER (PVT) LTD. | 664,572 | 6.07 |
| | ii) | MONELL (PVT) LTD. | 664,572 | 6.07 |
| | iii) | ICARO (PVT) LTD. | 664,572 | 6.07 |
| | iv) | ARH (PVT) LTD. | 628,400 | 5.73 |
| | v) | ELLAHI INTERNATIONAL (PVT) LTD. | 41,345 | 0.38 |
| | | | **2,663,461** | **24.32** |
| 2) | | ***Mutual Funds*** | | |
| | i) | GOLDEN ARROW SELECTED STOCKS FUND LIMITED | 875,554 | **8.00** |
| | ii) | CDC - TRUSTEE AKD OPPORTUNITY FUND | 120,638 | **1.10** |
| | iii) | CDC - TRUSTEE MCB DYNAMIC STOCK FUND | 98,500 | **0.90** |
| | iv) | TRUSTEE - PAKISTAN PENSION FUND - EQUITY SUB FUND | 20,000 | **0.18** |
| | | | **1,114,692** | **10.18** |
| 3) | | ***Directors, Chief Executive Officer and their Spouse and Minor Children*** | | |
| | i) | MR. SHAIKH ENAM ELLAHI | 210,401 | 1.92 |
| | ii) | MR. SHAHZADA ELLAHI SHAIKH | 1,572,602 | 14.36 |
| | iii) | MR. SHAUKAT ELLAHI SHAIKH | 1,701,610 | 15.54 |
| | iv) | MR. SHAFQAT ELLAHI SHAIKH | 1,614,200 | 14.74 |
| | v) | MR. JAVAID BASHIR SHEIKH | 500 | 0.01 |
| | vi) | MR. SHAHZADA SULTAN MUBASHIR | 500 | 0.01 |
| | vii) | MR. JAMAL NASIM | 30,000 | 0.27 |
| | viii) | MRS. HUMERA SHAHZADA | 1,437 | 0.01 |
| | ix) | MRS. MONA SHAUKAT | 1,437 | 0.01 |
| | x) | MRS. SHAISTA SHAFQAT | 1,437 | 0.01 |
| | xi) | MRS. MEHREEN SAADAT | 8,500 | 0.08 |
| | | | **5,142,624** | **46.96** |
| 4) | | ***Executives*** | **627** | **0.01** |
| 5) | | ***Public Sector Companies and Corporations*** | **707,080** | **6.46** |
| 6) | | ***Banks, Development Financial Institutions, Non Banking Financial Institutions, Insurance Companies, Takaful, Modarabas and Pension Funds.*** | **256,995** | **2.35** |
| 7) | | ***Shareholders Holding Five Percent or More Voting Rights*** | | |
| | i) | ARH (PVT) LTD. | 628,400 | 5.74 |
| | ii) | HAROON OMER (PVT) LTD. | 664,572 | 6.07 |
| | iii) | MONELL (PVT) LTD. | 664,572 | 6.07 |
| | iv) | ICARO (PVT) LTD. | 664,572 | 6.07 |
| | v) | NATIONAL BANK OF PAKISTAN-TRUSTEE DEPARTMENT NI(U)T FUND | 706,880 | 6.46 |
| | vi) | GOLDEN ARROW SELECTED STOCKS FUND LIMITED | 875,554 | 8.00 |
| | vii) | MR. SHAHZADA ELLAHI SHAIKH | 1,572,602 | 14.36 |
| | viii) | MR. SHAFQAT ELLAHI SHAIKH | 1,614,200 | 14.74 |
| | ix) | MR. SHAUKAT ELLAHI SHAIKH | 1,701,610 | 15.54 |

# KEY FINANCIAL INFORMATION

| | | YEAR ENDED 30TH JUNE | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Sales | Rs.'000 | 4,858,426 | 4,025,287 | 4,991,956 | 3,186,160 | 2,427,536 | 1,828,932 |
| Gross profit | Rs.'000 | 654,755 | 432,740 | 689,245 | 413,790 | 259,615 | 267,524 |
| Operating profit | Rs.'000 | 504,445 | 329,154 | 559,844 | 306,737 | 185,362 | 179,062 |
| Profit before tax | Rs.'000 | 422,249 | 200,010 | 421,921 | 166,677 | 5,254 | 84,387 |
| Profit after tax | Rs.'000 | 352,203 | 146,404 | 352,101 | 128,633 | 997 | 65,077 |
| Share capital - paid up | Rs.'000 | 109,500 | 109,500 | 109,500 | 109,500 | 109,500 | 109,500 |
| Shareholders' equity | Rs.'000 | 1,270,265 | 972,812 | 903,057 | 589,281 | 468,860 | 484,288 |
| Total assets | Rs.'000 | 2,185,275 | 1,852,202 | 2,237,348 | 1,725,678 | 1,825,681 | 1,806,493 |
| Earnings per share - pre tax | Rs. | 38.56 | 18.27 | 38.53 | 15.22 | 0.48 | 7.71 |
| Earnings per share - after tax | Rs. | 32.16 | 13.37 | 32.16 | 11.75 | 0.09 | 5.94 |
| Dividend per share | Rs. | 10.00 | 5.00 | 7.00 | 3.50 | 0.75 | 1.50 |
| Market value per share as on 30 June | Rs. | 64.89 | 26.00 | 24.00 | 21.40 | 9.90 | 25.10 |
| Gross profit to sales | % | 13.48 | 10.75 | 13.81 | 12.99 | 10.69 | 14.63 |
| Operating profit to sales | % | 10.38 | 8.18 | 11.21 | 9.63 | 7.64 | 9.79 |
| Profit before tax to sales | % | 8.69 | 4.97 | 8.45 | 5.23 | 0.22 | 4.61 |
| Profit after tax to sales | % | 7.25 | 3.64 | 7.05 | 4.04 | 0.04 | 3.56 |
| Current ratio | | 2.27:1 | 1.67:1 | 1.33:1 | 1.20:1 | 1.01:1 | 1:1 |
| Total debt to total assets ratio | % | 41.87 | 47.48 | 59.64 | 65.85 | 74.32 | 73.19 |
| Debt equity ratio | % | 24.19 | 26.53 | 33.80 | 48.97 | 54.19 | 53.03 |

# Financial Statements

Rahman Sarfaraz Rahim
Iqbal Rafiq

*Chartered Accountants*

3 - Shariff Colony,
Iftikhar Ahmed Malik Road,
Canal Park, Gulberg II, Lahore.

T: +92 42 35756440, 35757022
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# Review Report 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 **ELLCOT SPINNING MILLS LIMITED** ("the Company") to comply with the listing regulation No. 35 of Karachi Stock Exchange Limited and Lahore Stock Exchange Limited, where the Company is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further Sub- Regulations (xiii) of Listing Regulations No 35 notified by Karachi Stock Exchange 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 transaction 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 arm's 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 for the year ended June 30, 2013.

Rahman Sarfaraz Rahim Iqbal Rafiq

RAHMAN SARFARAZ RAHIM IQBAL RAFIQ
RAHMAN SARFARAZ RAHIM IQBAL RAFIQ CHARTERED ACCOUNTANTS

***Chartered Accountants***

**Engagement Partner:** ***ZUBAIR IRFAN MALIK***

**Date:** ***SEPTEMBER 26, 2013***
**Place:** ***LAHORE***

*Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, is a partnership firm registered in Pakistan and a member of Russell Bedford International, a global network of independent accounting firms and consultants with affiliated offices worldwide.*

Russell Bedford

Rahman Sarfaraz Rahim
Iqbal Rafiq

*Chartered Accountants*

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Iftikhar Ahmed Malik Road,
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## Auditors' Report to the Members

We have audited the annexed balance sheet of **ELLCOT SPINNING MILLS LIMITED** ("the Company") as at June 30, 2013 and the related profit and loss account, statement of profit or loss and other 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 purpose of our audit.

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material 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 accounts 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 accounts 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 profit or loss and other 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, 2013 and of the profit, other comprehensive income, its cash flows and changes in equity for the year then ended; and

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

Rahman Sarfaraz Rahim Iqbal Rafiq

RAHMAN SARFARAZ RAHIM IQBAL RAFIQ
*Chartered Accountants*

RAHMAN SARFARAZ RAHIM IQBAL RAFIQ
CHARTERED ACCOUNTANTS

**Engagement Partner:** ***ZUBAIR IRFAN MALIK***

**Date:** ***SEPTEMBER 26, 2013***
**Place:** ***LAHORE***

*Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, is a partnership firm registered in Pakistan and a member of Russell Bedford International, a global network of independent accounting firms and consultants with affiliated offices worldwide.*

NAGINA
NAGINA GROUP

# BALANCE SHEET
## AS AT JUNE 30, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | **Rupees** | *Rupees* |
| **EQUITY AND LIABILITIES** | | | |
| **SHARE CAPITAL AND RESERVES** | | | |
| *Authorized capital* | | | |
| 20,000,000 (2012: 20,000,000) ordinary shares of Rs. 10 each | | **200,000,000** | 200,000,000 |
| Issued, subscribed and paid-up capital | 6 | **109,500,000** | 109,500,000 |
| Capital reserve | 7 | **7,760,000** | 7,760,000 |
| Accumulated profit | | **1,153,004,568** | 855,551,602 |
| **TOTAL EQUITY** | | **1,270,264,568** | 972,811,602 |
| **LIABILITIES** | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Long term finances | 8 | **294,826,393** | 206,386,641 |
| Liabilities against assets subject to finance lease | 9 | **8,927,987** | 17,117,921 |
| Employees retirement benefits | 10 | **17,928,228** | 13,519,826 |
| Deferred taxation | 11 | **75,138,055** | 75,640,186 |
| | | **396,820,663** | 312,664,574 |
| **CURRENT LIABILTIES** | | | |
| Trade and other payables | 12 | **245,106,852** | 173,609,529 |
| Accrued interest/mark-up | 13 | **10,729,631** | 13,477,934 |
| Short term borrowings | 14 | **160,781,337** | 251,803,640 |
| Current portion of non-current liabilities | 15 | **101,571,999** | 127,834,665 |
| | | **518,189,819** | 566,725,768 |
| **TOTAL LIABILITIES** | | **915,010,482** | 879,390,342 |
| **CONTINGENCIES AND COMMITMENTS** | 16 | **-** | - |
| **TOTAL EQUITY AND LIABILITIES** | | **2,185,275,050** | 1,852,201,944 |

***The annexed notes from 1 to 51 form an integral part of these financial statemements.***

***Pursuant to Section 241(2) of the Companies Ordinance, 1984, these financial statements have been signed by two Directors in the absence of Mg. Director (Chief Executive) who for the time being is not in the country.***

**Shahzada Ellahi Shaikh**
Director

Lahore: September 26, 2013

# BALANCE SHEET
## AS AT JUNE 30, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | Rupees |
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 17 | 1,002,596,544 | 895,585,042 |
| Long term deposits | 18 | 7,090,700 | 7,509,290 |
| | | 1,009,687,244 | 903,094,332 |
| **CURRENT ASSETS** | | | |
| Stores, spares and loose tools | 19 | 48,681,445 | 32,859,717 |
| Stock in trade | 20 | 697,920,197 | 736,731,198 |
| Trade debts | 21 | 200,969,718 | 88,104,410 |
| Advances, prepayments and other receivables | 22 | 90,109,984 | 57,272,629 |
| Short term investments | 23 | - | 45,160 |
| Advance income tax | 24 | 32,813,872 | 17,861,755 |
| Bank balances | 25 | 105,092,590 | 16,232,743 |
| | | 1,175,587,806 | 949,107,612 |
| **TOTAL ASSETS** | | 2,185,275,050 | 1,852,201,944 |

**Javaid Bashir Sheikh**
Director

# PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | Rupees |
| **Sales - *net*** | 26 | **4,858,425,674** | 4,025,287,140 |
| Cost of sales | 27 | **(4,203,670,231)** | (3,592,547,529) |
| **Gross profit** | | **654,755,443** | 432,739,611 |
| Distribution cost | 28 | **(50,724,044)** | (37,816,791) |
| Administrative expenses | 29 | **(68,298,281)** | (62,113,240) |
| Other expenses | 30 | **(35,701,349)** | (16,472,721) |
| | | **(154,723,674)** | (116,402,752) |
| | | **500,031,769** | 316,336,859 |
| Other income | 31 | **4,413,394** | 12,816,920 |
| **Operating profit** | | **504,445,163** | 329,153,779 |
| Finance cost | 32 | **(82,196,138)** | (129,143,536) |
| **Profit before taxation** | | **422,249,025** | 200,010,243 |
| Provision for taxation | 33 | **(70,046,059)** | (53,606,046) |
| **Profit after taxation** | | **352,202,966** | 146,404,197 |
| **Earnings per share - *basic and diluted*** | 34 | **32.16** | 13.37 |

***The annexed notes from 1 to 51 form an integral part of these financial statemements.***

***Pursuant to Section 241(2) of the Companies Ordinance, 1984, these financial statements have been signed by two Directors in the absence of Mg. Director (Chief Executive) who for the time being is not in the country.***

Lahore: September 26, 2013

**Shahzada Ellahi Shaikh**
Director

**Javaid Bashir Sheikh**
Director

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
## FOR THE YEAR ENDED JUNE 30, 2013

| | 2013<br>Rupees | 2012<br>Rupees |
|---|---|---|
| **Profit after taxation** | **352,202,966** | 146,404,197 |
| Other comprehensive income | **-** | - |
| **Total comprehensive income** | **352,202,966** | 146,404,197 |

***The annexed notes from 1 to 51 form an integral part of these financial statemements.***

***Pursuant to Section 241(2) of the Companies Ordinance, 1984, these financial statements have been signed by two Directors in the absence of Mg. Director (Chief Executive) who for the time being is not in the country.***

Lahore: September 26, 2013

**Shahzada Ellahi Shaikh**
Director

**Javaid Bashir Sheikh**
Director

# CASH FLOW STATEMENT
## FOR THE YEAR ENDED JUNE 30, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | *Rupees* | *Rupees* |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 36 | **553,890,508** | 485,588,865 |
| Payments for: | | | |
| Employees retirement benefits | | **(9,201,914)** | (7,847,110) |
| Interest/markup on borrowings | | **(75,250,109)** | (127,844,151) |
| Income tax | | **(85,500,307)** | (38,345,889) |
| **Net cash generated from operating activities** | | **383,938,178** | 311,551,715 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(215,427,840)** | (94,070,100) |
| Proceeds from disposal of property, plant and equipment | | **10,051,362** | 9,024,000 |
| Purchase of short term investments | | **(425,000,000)** | (415,000,000) |
| Proceeds from disposal of short term investments | | **427,576,807** | 571,410,118 |
| **Net cash (used in)/generated from investing activities** | | **(202,799,671)** | 71,364,018 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Long term finances obtained | | **182,326,393** | 100,000,000 |
| Repayment of long term finances | | **(118,571,313)** | (212,030,473) |
| Repayment of liabilities against assets subject to finance lease | | **(9,767,928)** | (6,988,534) |
| Net decrease in short term borrowings | | **(92,007,169)** | (307,542,470) |
| Dividend paid | | **(54,258,643)** | (76,650,000) |
| **Net cash used in financing activities** | | **(92,278,660)** | (503,211,477) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **88,859,847** | (120,295,744) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | **16,232,743** | 136,528,487 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 37 | **105,092,590** | 16,232,743 |

***The annexed notes from 1 to 51 form an integral part of these financial statemements.***

***Pursuant to Section 241(2) of the Companies Ordinance, 1984, these financial statements have been signed by two Directors in the absence of Mg. Director (Chief Executive) who for the time being is not in the country.***

Lahore: September 26, 2013

**Shahzada Ellahi Shaikh**
Director

**Javaid Bashir Sheikh**
Director

# STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED JUNE 30, 2013

| | Share capital | Reserves | | |
|---|---|---|---|---|
| | Issued subscribed and paid-up capital | Capital reserve | Accumulated profit | Total equity |
| | *Rupees* | *Rupees* | *Rupees* | *Rupees* |
| **Balance as at July 01, 2011** | 109,500,000 | 7,760,000 | 785,797,405 | 903,057,405 |
| **Comprehensive income** | | | | |
| Profit after taxation | - | - | 146,404,197 | 146,404,197 |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income** | - | - | 146,404,197 | 146,404,197 |
| **Transaction with owners** | | | | |
| Final dividend @ 70% i.e. Rs. 7.0 per ordinary share | - | - | (76,650,000) | (76,650,000) |
| **Balance as at June 30, 2012** | 109,500,000 | 7,760,000 | 855,551,602 | 972,811,602 |
| **Comprehensive income** | | | | |
| Profit after taxation | **-** | **-** | **352,202,966** | **352,202,966** |
| Other comprehensive income | **-** | **-** | **-** | **-** |
| **Total comprehensive income** | **-** | **-** | **352,202,966** | **352,202,966** |
| **Transaction with owners** | | | | |
| Final dividend @ 50% i.e. Rs. 5.0 per ordinary share | **-** | **-** | **(54,750,000)** | **(54,750,000)** |
| **Balance as at June 30, 2013** | **109,500,000** | **7,760,000** | **1,153,004,568** | **1,270,264,568** |

***The annexed notes from 1 to 51 form an integral part of these financial statemements.***

***Pursuant to Section 241(2) of the Companies Ordinance, 1984, these financial statements have been signed by two Directors in the absence of Mg. Director (Chief Executive) who for the time being is not in the country.***

Lahore: September 26, 2013

**Shahzada Ellahi Shaikh**
Director

**Javaid Bashir Sheikh**
Director

# NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS
## FOR THE YEAR ENDED JUNE 30, 2013

### 1 REPORTING ENTITY

Ellcot Spinning Mills Limited ('the Company') is incorporated in Pakistan as a Public Limited Company under the Companies Ordinance, 1984 and is listed on Karachi Stock Exchange and Lahore Stock Exchange. The Company is a spinning unit engaged in the manufacture and sale of yarn. The registered office of the Company is situated at Nagina House, 91-B-1, M.M. Alam Road, Gulberg III, Lahore. The manufacturing facility, including the power generation unit, is located in District Kasur in the Province of Punjab.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

#### 2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for employee retirement benefits liabilities measured at present value and certain financial instruments measured at fair value/amortized cost. In these financial statements, except for the amounts reflected in the cash flow statement, all transactions have been accounted for on accrual basis.

#### 2.3 Judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions and judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which forms the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Subsequently, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Judgements made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a risk of material adjustment in subsequent years are as follows:

##### *2.3.1 Depreciation method, rates and useful lives of property, plant and equipment*

The Company reassesses useful lives, depreciation method and rates for each item of property, plant and equipment annually by considering expected pattern of economic benefits that the Company expects to derive from that item.

##### *2.3.2 Recoverable amount and impairment*

The management of the Company reviews carrying amounts of its assets for possible impairment and makes formal estimates of recoverable amount if there is any such indication.

##### *2.3.3 Obligation under defined benefit plan*

The Company's obligation under the defined benefit plan is based on assumptions of future outcomes, the principal ones being in respect of increases in remuneration, remaining working lives of employees and discount rates to be used to determine present value of defined benefit obligation. These assumptions are determined periodically by independent actuaries.

##### *2.3.4 Taxation*

The Company takes into account the current income tax law and decisions taken by appellate and other relevant legal forums while estimating its provision for current tax. Provision for deferred tax is estimated after taking into account historical and expected future turnover and profit trends and their taxability under the current tax law.

##### *2.3.5 Provisions*

Provisions are based on best estimate of the expenditure required to settle the present obligation at the reporting date, that is, the amount that the Company would rationally pay to settle the obligation at the reporting date or to transfer it to a third party.

### 2.4 Functional currency

These financial statements have been prepared in Pak Rupees which is the Company's functional currency.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### 3.1 Property, plant and equipment

#### 3.1.1 Operating fixed assets

Operating fixed assets are measured at cost less accumulated depreciation and accumulated impairment losses with the exception of freehold land, which is stated at cost less accumulated impairment losses. Cost comprises purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition or construction, erection and installation.

Major renewals and improvements to operating fixed assets are recognized in the carrying amount of the item if it is probable that the embodied future economic benefits will flow to the Company and the cost of renewal or improvement can be measured reliably. The cost of the day-to-day servicing of operating fixed assets are recognized in profit or loss as incurred.

The Company recognizes depreciation in profit or loss by applying reducing balance method over the useful life of each operating fixed asset using rates specified in note 17.1 to the financial statements. Depreciation on additions to operating fixed assets is charged from the month in which the item becomes available for use. Depreciation is discontinued from the month in which it is disposed or classified as held for disposal.

An operating fixed asset is de-recognized when permanently retired from use. Any gain or loss on disposal of operating fixed assets is recognized in profit or loss.

#### 3.1.2 Capital work in progress

Capital work in progress is stated at cost less identified impairment loss, if any, and includes the cost of material, labour and appropriate overheads directly relating to the construction, erection or installation of an item of operating fixed assets. These costs are transferred to operating fixed assets as and when related items become available for intended use.

### 3.2 Stores, spares and loose tools

These are generally held for internal use and are valued at cost. Cost is determined on the basis of weighted average except for items in transit, which are valued at invoice price plus related cost incurred up to the reporting date. For items which are considered obsolete, the carrying amount is written down to nil. Spare parts held for capitalization are classified as property, plant and equipment.

### 3.3 Stock in trade

These are valued at lower of cost and net realizable value, with the exception of stock of waste which is valued at net realizable value. Cost is determined using the following basis:

| | |
|---|---|
| Raw materials | First In First Out |
| Work in process | Average manufacturing cost |
| Finished goods | Average manufacturing cost |
| Stock in transit | Invoice price plus related cost incurred up to the reporting date |

Average manufacturing cost in relation to work in process and finished goods consists of direct material, labour and an appropriate proportion of manufacturing overheads.

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

### 3.4 Employee benefits

#### 3.4.1 Short-term employee benefits

The Company recognizes the undiscounted amount of short term employee benefits to be paid in exchange for services rendered by employees as a liability after deducting amount already paid and as an expense in profit or loss unless it is included in the cost of inventories or property, plant and equipment as permitted or required by the approved accounting standards. If the amount paid exceeds the undiscounted amount of benefits, the excess is recognized as an asset to the extent that the prepayment would lead to a reduction in future payments or cash refund.

### 3.4.2 Post-employment benefits

The Company operates an unfunded gratuity scheme (defined benefit plan) for all its employees who have completed the minimum qualifying service period. Liability is adjusted on each reporting date to cover the obligation and the adjustment is charged to profit or loss. The amount recognized on balance sheet represents the present value of defined benefit obligation as adjusted for unrecognized actuarial gains or losses. Actuarial gains or loss are recognized using '10% corridor approach' as set out by International Accounting Standard 19 - Employee Benefits. The details of the scheme are referred to in note 9 to the financial statements.

## 3.5 Financial instruments

### 3.5.1 Recognition

A financial instrument is recognized when the Company becomes a party to the contractual provisions of the instrument.

### 3.5.2 Classification

The Company classifies its financial instruments into following classes depending on the purpose for which the financial assets and liabilities are acquired or incurred. The Company determines the classification of its financial assets and liabilities at initial recognition.

***3.5.2(a) Loans and receivables***

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Assets in this category are presented as current assets except for maturities greater than twelve months from the reporting date, where these are presented as non-current assets.

***3.5.2(b) Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are financial assets that are either designated as such on initial recognition or are classified as held for trading. Financial assets are designated as financial assets at fair value through profit or loss if the Company manages such assets and evaluates their performance based on their fair value in accordance with the Company’s risk management and investment strategy. Financial assets are classified as held for trading when these are acquired principally for the purpose of selling and repurchasing in the near term, or when these are part of a portfolio of identified financial instruments that are managed together and for which there is a recent actual pattern of profit taking, or where these are derivatives, excluding derivatives that are financial guarantee contracts or that are designated and effective hedging instruments. Financial assets in this category are presented as current assets.

***3.5.2(c) Financial liabilities at amortized cost***

Non-derivative financial liabilities that are not financial liabilities at fair value through profit or loss are classified as financial liabilities at amortized cost. Financial liabilities in this category are presented as current liabilities except for maturities greater than twelve months from the reporting date where these are presented as non-current liabilities.

### 3.5.3 Measurement

The particular measurement methods adopted are disclosed in the individual policy statements associated with each instrument.

### 3.5.4 De-recognition

Financial assets are de-recognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are de-recognized if the Company's obligations specified in the contract expire or are discharged or cancelled. Any gain or loss on de-recognition of financial assets and financial liabilities is recognized in profit or loss.

### 3.5.5 Off-setting

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

### 3.6 Ordinary share capital

Ordinary share capital is recognized as equity. Transaction costs directly attributable to the issue of ordinary shares are recognized as deduction from equity.

### 3.7 Loans and borrowings

Loans and borrowings are classified as 'financial liabilities at amortized cost'. On initial recognition, these are measured at cost, being fair value at the date the liability is incurred, less attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost with any difference between cost and value at maturity recognized in the profit or loss over the period of the borrowings on an effective interest basis.

### 3.8 Investments in mutual funds

Investment in mutual funds units which are acquired principally for the purpose of selling in the near term and short term profit taking are classified as 'financial assets at fair value through profit or loss'. On initial recognition, these are measured at cost, being their fair value on the date of acquisition. Subsequent to initial recognition, these are measured at fair value. Changes in fair value are recognized in profit or loss. Gains and losses on de-recognition are recognized in profit or loss.

### 3.9 Finance leases

Leases in terms of which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Assets subject to finance lease are classified as 'operating fixed assets'. On initial recognition, these are measured at cost, being an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, these are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation, subsequent expenditure, de-recognition, and gains and losses on de-recognition are accounted for in accordance with the respective policies for operating fixed assets. Liabilities against assets subject to finance lease and deposits against finance lease are classified as 'financial liabilities at amortized cost' and 'loans and receivables' respectively, however, since they fall outside the scope of measurement requirements of IAS 39 'Financial Instruments - Recognition and Measurement', these are measured in accordance with the requirements of IAS 17 'Leases'. On initial recognition, these are measured at cost, being their fair value at the date of commencement of lease, less attributable transaction costs. Subsequent to initial recognition, minimum lease payments made under finance leases are apportioned between the finance charge and the reduction of outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Deposits against finance leases, subsequent to initial recognition are carried at cost.

### 3.10 Operating leases

Leases that do not transfer substantially all risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight line basis over the lease term.

### 3.11 Trade and other payables

#### 3.11.1 Financial liabilities

These are classified as 'financial liabilities at amortized cost'. On initial recognition, these are measured at cost, being their fair value at the date the liability is incurred, less attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method, with interest recognized in profit or loss.

#### 3.11.2 Non-financial liabilities

These, both on initial recognition and subsequently, are measured at cost.

### 3.12 Provisions and contingencies

Provisions are recognized when the Company has a legal and constructive obligation as a result of past events and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provision is recognized at an amount that is the best estimate of the expenditure required to settle the present obligation at the reporting date. Where outflow of resources embodying economic benefits is not probable, or where a reliable estimate of the amount of obligation cannot be made, a contingent liability is disclosed, unless the possibility of outflow is remote.

### 3.13 Trade and other receivables

#### 3.13.1 Financial assets

These are classified as 'loans and receivables'. On initial recognition, these are measured at cost, being their fair value at the date of transaction, plus attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method, with interest recognized in profit or loss.

#### 3.13.2 Non-financial assets

These, both on initial recognition and subsequently, are measured at cost.

### 3.14 Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of returns allowances, trade discounts and rebates, and represents amounts received or receivable for goods and services provided and other income earned in the normal course of business. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company, and the amount of revenue and the associated costs incurred or to be incurred can be measured reliably.

Revenue from different sources is recognized as follows:

Revenue from sale of goods is recognized when risks and rewards incidental to the ownership of goods are transferred to the buyer. Transfer of risks and rewards vary depending on the individual terms of the contract of sale. For local sales transfer usually occurs on dispatch of goods to customers. For export sales transfer occurs upon loading the goods on to the relevant carrier.

Export rebate is recognized at the same time when revenue from export sales is recognized.

Interest income is recognized using effective interest method.

### 3.15 Comprehensive income

Comprehensive income is the change in equity resulting from transactions and other events, other than changes resulting from transactions with shareholders in their capacity as shareholders. Total comprehensive income comprises all components of profit or loss and other comprehensive income. Other comprehensive income comprises items of income and expense, including reclassification adjustments, that are not recognized in profit or loss as required or permitted by approved accounting standards, and is presented in 'statement of profit or loss and other comprehensive income'.

### 3.16 Borrowing costs

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

### 3.17 Income tax

Income tax expense comprises current tax and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income.

#### 3.17.1 Current taxation

Current tax is the amount of tax payable on taxable income for the year and any adjustment to the tax payable in respect of previous years. Provision for current tax is based on current rates of taxation in Pakistan after taking into account tax credits, rebates and exemptions available, if any. The amount of unpaid income tax in respect of the current or prior periods is recognized as a liability. Any excess paid over what is due in respect of the current or prior periods is recognized as an asset.

#### 3.17.2 Deferred taxation

Deferred tax is accounted for using the' balance sheet approach' providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. In this regard, the effects on deferred taxation of the portion of income that is subject to final tax regime is also considered in accordance with the treatment prescribed by The Institute of Chartered Accountants of Pakistan. Deferred tax is measured at rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for deductible temporary differences to the extent that future taxable profits will be available against which temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### 3.18 Government grants

Government grants that compensate the Company for expenses or losses already incurred are recognized in profit or loss in the period in which these are received and are deducted in reporting the relevant expenses or losses.

**3.19 Earnings per share ('EPS')**

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by adjusting basic EPS by the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares and post-tax effect of changes in profit or loss attributable to ordinary shareholders of the Company that would result from conversion of all dilutive potential ordinary shares into ordinary shares.

**3.20 Cash and cash equivalents**

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand and cash at banks. These are classified as 'loans and receivables' and are carried at cost.

**3.21 Foreign currency transactions and balances**

Transactions in foreign currency are translated to the functional currency of the Company using exchange rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currency are translated to the functional currency at exchange rate prevailing at the reporting date. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated to the functional currency at exchange rate prevailing at the date the fair value is determined. Non-monetary assets and liabilities denominated in foreign currency that are measured at historical cost are translated to functional currency at exchange rate prevailing at the date of initial recognition. Any gain or loss arising on translation of foreign currency transactions and balances is recognized in profit or loss.

**3.22 Impairment**

**3.22.1 Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment loss in respect of a financial asset measured at fair value is determined by reference to that fair value. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss is reversed only to the extent that the financial asset's carrying amount after the reversal does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

**3.22.2 Non-financial assets**

The carrying amount of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

An impairment loss is recognized if the carrying amount of the asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash generating units are allocated to reduce the carrying amounts of the assets in a unit on a pro rata basis. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used in determining the recoverable amount. An impairment loss is reversed only to that extent that the asset's carrying amount after the reversal does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

**3.23 Dividend distribution to ordinary shareholders**

Dividend to ordinary shareholders is recognized as a deduction from accumulated profit in statement of changes in equity and as a liability, to the extent it is unclaimed/unpaid, in the Company's financial statements in the year in which the dividends are approved by the Company's shareholders.

## 4 ADOPTION OF NEW AND REVISED APPROVED ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS

The following amendments to approved accounting standards are effective in the current year and relevant to the Company.

***Fourth Schedule to the Companies Ordinance, 1984***

The Securities and Exchange Commission of Pakistan through S.R.O. 183(I)/2013 has notified certain amendments in the Fourth Schedule to the Companies Ordinance, 1984. These amendments have principally clarified certain matters, changed some of the presentation and classification requirements and incorporated additional disclosure requirements. The Company has adopted these changes which has resulted in additional disclosures made in the financial statements. However, no change in accounting policy was required and accordingly there was no impact on the amounts reported in these financial statements.

***IAS 1 - Presentation of Financial Statements ('Amendments')***

The amendments rename 'statement of comprehensive income' as 'statement of profit or loss and other comprehensive income' and require entities to group items presented as other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently, i.e. those that might be reclassified and those that will not be reclassified, and require tax associated with items presented before tax to be shown separately for each of the two groups, without changing the option to present items of other comprehensive income either before tax or net of tax. The adoption of amendment does not have any impact on these financial statements, with the exception of change of name to 'statement of profit or loss and other comprehensive income' because the Company has no other comprehensive income to report.

## 5 NEW AND REVISED APPROVED ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE

The following standards, interpretations and amendments are in issue which are not effective as at the reporting date. Their impact on the Company's financial statements cannot be ascertained as at the reporting date.

### 5.1 New and Revised Approved Accounting Standards and Interpretations

***IFRS 9 - Financial Instruments: Classification and Measurement (2010)***

The revised standard incorporates new requirements for the classification and measurement of financial instruments and carries over existing derecognition requirements from IAS 39 - Financial Instruments: Recognition and Measurement. The standard was originally effective for annual periods beginning on or after January 01, 2013, however IASB issued "Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7) which amended the effective date of IFRS 9 to annual periods beginning on or after January 01, 2015.

***IFRS 10 - Consolidated Financial Statements (2011)***

The standard replaces those parts of IAS 27 - Consolidated and Separate Financial Statements, that address when and how an investor should prepare consolidated financial statements and supersedes SIC 12 - Consolidation: Special Purpose Entities. The standard is effective for annual periods beginning on or after January 01, 2013.

***IFRS 11 - Joint Arrangements (2011)***

The standard supersedes IAS 31 - Interest in Joint Ventures and SIC 13 - Jointly Controlled Entities: Non-monetary Contributions by Venturers. The standard is effective for annual periods beginning on or after January 01, 2013.

***IFRS 12 - Disclosure of Interests in Other Entities (2011)***

The standard introduces disclosure requirements relating to interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is effective for annual periods beginning on or after January 01, 2013.

***IFRS 13 - Fair Value Measurement (2011)***

The standard establishes a single framework for measuring fair value where that is required by other standards. The standard is effective for annual periods beginning on or after January 01, 2013.

***IAS 19 - Employee Benefits (Revised 2011)***

The revised standard requires actuarial gains and losses to be recognized immediately in other comprehensive income and removes the corridor method as well as the option to recognize all changes in defined benefit obligation and plan assets in profit or loss. The revisions are effective for annual periods beginning on or after January 01, 2013.

***IAS 27 - Separate Financial Statements (Revised 2011)***

The revised standard supersedes IAS 27 - Consolidated and Separate Financial Statements (Revised 2008). The revised standard carries forward existing accounting and disclosure requirements for separate financial statements with some minor clarifications. The revised standard is effective for annual periods beginning on or after January 01, 2013.

*IAS 28 - Investments in Associates and Joint Ventures (Revised 2011)*

The revised standard supersedes IAS 28 - Investments in Associates (revised 2008). The revised standard makes amendments to apply IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations to investment, or a portion thereof, in an associate or joint venture, that meets the criteria to be classified as held for sale. The revised standard is effective for annual periods beginning on or after January 01, 2013.

*IFRIC 20 - Stripping Cost in the Production Phase of a Surface Mining (2011)*

The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The Interpretation is effective for annual periods beginning on or after January 01, 2013.

*IFRIC 21 - Levies (2013)*

The interpretation provides guidance on when to recognize a liability for levy imposed by a government. The Interpretation is effective for annual periods beginning on or after January 01, 2014.

**5.2 Amendments to Approved Accounting Standards and Interpretations**

*Government Loans (Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards)*

The amendments address how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to International Financial Reporting Standards. The amendments are effective for annual periods beginning on or after January 01, 2013.

*Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7 - Financial Instruments: Disclosures)*

The amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. The amendments are effective for annual periods beginning on or after January 01, 2013.

*Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 - Financial Instruments: Presentation)*

The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 01, 2014.

**Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities)**

The amendments provide transitional relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Also, amendments to IFRS 11 and IFRS 12 eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The amendments are effective for annual periods beginning on or after January 01, 2013.

*Investment Entities (Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 12 – Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements)*

The amendments provide exemption from consolidation of particular subsidiaries by certain entities defined as "Investment Entities" and require additional disclosures where such subsidiaries are excluded from consolidation pursuant to exemption. The amendments are effective for annual periods beginning on or after January 01, 2014.

*Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36 – Impairment of Assets)*

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed clarify the disclosures required and introduce an explicit requirement to disclose the discount rate used in determining impairment or reversals where recoverable amount is determined using a present value technique. The amendments are effective for annual periods beginning on or after January 01, 2014.

*Novation of Derivative and Continuation of Hedge Accounting (Amendments to IAS 39 – Financial Instruments: Recognition and Measurement)*

The amendments clarify that there is no need to discontinue hedge accounting if a hedge derivative is novated provided certain criteria are met. The amendments are effective for annual periods beginning on or after January 01, 2014.

***Annual Improvements 2009-2011(effective for annual periods beginning on or after January 01, 2013)***

The new cycle of improvements contains amendments to the following standards, with consequential amendments to other standards and interpretations.

***IFRS 1 – First-time Adoption of International Financial Reporting Standards***

The amendments clarify that an entity may apply IFRS 1 if its most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with International Financial Reporting Standards even if the entity applied IFRS 1 in the past.

***IAS 1 - Presentation of Financial Statements***

The amendments clarify that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the 'third statement of financial position', when required, is only required if the effect of restatement is material to statement of financial position.

***IAS 16 - Property, Plant and Equipment***

The amendments clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories.

***IAS 32 - Financial Instruments: Presentation***

The amendments clarify that IAS 12 - Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.

***IAS 34 - Interim Financial Reporting***

The amendments align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 - Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

| | **2013** | 2012 |
|---|---|---|
| | ***Rupees*** | *Rupees* |
| **6 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL** | | |
| Ordinary shares of Rs. 10 each | | |
| 8,760,000 (2012: 8,760,000) shares issued for cash | **87,600,000** | 87,600,000 |
| 2,190,000 (2012: 2,190,000) shares issued as fully paid bonus shares | **21,900,000** | 21,900,000 |
| | **109,500,000** | 109,500,000 |

## 7 CAPITAL RESERVE

On September 30, 2001, the net assets of Power Unit II of Ellahi Electric Company Limited were merged into the Company. Capital reserve represents the difference between the book value of shares held by the Company in Ellahi Electric Company Limited as on the date of merger and break-up value of those shares at that date.

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | Rupees | Rupees |
| **8 LONG TERM FINANCES** | | | |
| These represent secured long term finances utilized under interest/markup arrangements from banking companies | | | |
| Term Finances ('TF') | | | |
| TF - I | 8.1 | **18,886,641** | 56,659,917 |
| TF - II | 8.2 | **12,500,000** | 37,500,000 |
| TF - III | 8.3 | **-** | 10,000,000 |
| TF - IV | 8.4 | **75,000,000** | 112,500,000 |
| TF - V | 8.5 | **100,000,000** | 100,000,000 |
| TF - VI | 8.6 | **182,326,393** | - |
| | | **388,713,034** | 316,659,917 |
| Long Term Finance for Export Oriented Project | 8.7 | **-** | 8,298,037 |
| | | **388,713,034** | 324,957,954 |
| Current portion presented under current liabilities | 15 | **(93,886,641)** | (118,571,313) |
| | | **294,826,393** | 206,386,641 |

**8.1** The finance has been obtained from United Bank Limited to finance capital expenditure and is secured by charge over operating fixed assets of the Company and personal guarantees of the Company's Directors. The finance carries mark-up at six months KIBOR plus 1.5% per annum (2012: six months KIBOR plus 1.5% per annum), payable semi-annually. The finance is repayable in ten equal semi-annual installments with the first installment due in February 2009.

**8.2** The finance has been obtained from National Bank of Pakistan for financial restructuring and is secured by charge over operating fixed assets of the Company and personal guarantees of the Company's Directors. The finance carries mark-up at six months KIBOR plus 2.5% per annum (2012: six months KIBOR plus 2.5% per annum), payable quarterly. The finance is repayable in eight equal semi-annual installments with the first installment due in June 2010.

**8.3** The finance was obtained from Faysal Bank Limited for financial restructuring and was secured by charge over operating fixed assets of the Company and personal guarantees of the Company's Directors. The finance carried mark-up at three months KIBOR plus 2.25% per annum (2012: three months KIBOR plus 2.25% per annum), payable quarterly. The finance has been fully repaid during the year.

**8.4** The finance has been obtained from United Bank Limited to finance capital expenditure and is secured by charge over operating fixed assets of the Company and personal guarantees of the Company's Directors. The finance carries mark-up at six months KIBOR plus 1.75% per annum (2012: six months KIBOR plus 1.75% per annum), payable semi-annually. The finance is repayable in eight equal semi-annual installments with the first installment due in December 2011.

**8.5** The finance has been obtained from United Bank Limited to finance capital expenditure and is secured by charge over operating fixed assets of the Company and personal guarantees of the Company's Directors. The finance carries mark-up at six months KIBOR plus 1.5% per annum (2012: six months KIBOR plus 1.5% per annum), payable semi-annually. The finance is repayable in eight equal semi-annual installments with the first installment due in December 2013.

**8.6** The finance has been obtained from Bank Alfalah Limited to finance capital expenditure and is secured by charge over operating fixed assets of the Company and personal guarantee of the Company's directors. The finance carries mark-up at six months KIBOR plus 1.35% per annum, payable quarterly. The finance is repayable in ten equal semi-annual installments with the first installment due in August 2015.

**8.7** The finance was obtained from United Bank Limited and was secured by charge over operating fixed assets of the Company and personal guarantees of the Company's Directors. The finance carried mark-up at 7% per annum, payable semi-annually. The finance has been fully repaid during the year.

**8.8** For mortgages and charges on assets as security for liabilities, refer to note 42 to the financial statements.

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | *Rupees* | *Rupees* |

## 9 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Present value of minimum lease payments | 9.1 & 9.2 | **16,613,345** | 26,381,273 |
| Current portion presented under current liabilities | 9.1 & 9.2 | **(7,685,358)** | (9,263,352) |
| | | **8,927,987** | 17,117,921 |

**9.1** These represent vehicles and machinery acquired under finance lease arrangements. The leases are priced at rates ranging from six months KIBOR plus 1% to 3% per annum (2012: six months KIBOR plus 1% to 3.4% per annum). Lease rentals are payable quarterly over a tenor ranging from 4 to 5 years. Under the terms of agreement, taxes, repairs, replacements and insurance costs in respect of assets subject to finance lease are borne by the Company. The Company also has the option to acquire these assets at the end of their respective lease terms by adjusting the deposit amount against the residual value of the asset and intends to exercise the option.

**9.2** The amount of future payments under the finance lease arrangements and the period in which these payments will become due are as follows:

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | *Rupees* | *Rupees* |
| Not later than one year | | **8,945,289** | 11,853,006 |
| Later than one year but not later than five years | | **9,148,860** | 20,344,377 |
| **Total future minimum lease payments** | | **18,094,149** | 32,197,383 |
| Finance charge allocated to future periods | | **(1,480,804)** | (5,816,110) |
| **Present value of future minimum lease payments** | | **16,613,345** | 26,381,273 |
| Not later than one year | 15 | **(7,685,358)** | (9,263,352) |
| Later than one year but not later than five years | | **8,927,987** | 17,117,921 |

## 10 EMPLOYEES RETIREMENT BENEFITS

The amounts recognized on balance sheet are as follows:

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Present value of defined benefit obligation | 10.1 | **36,797,059** | 17,150,994 |
| Unrecognized actuarial losses | 10.2 | **(18,868,831)** | (3,631,168) |
| | | **17,928,228** | 13,519,826 |

### 10.1 Movement in present value of defined benefit obligation

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| As at beginning of the year | | **17,150,994** | 16,296,208 |
| Charged to profit or loss for the year | 10.3 | **13,436,128** | 8,701,896 |
| Benefits paid during the year | | **(9,201,914)** | (7,847,110) |
| Actuarial losses arising during the year | 10.2 | **15,411,851** | - |
| As at end of the year | | **36,797,059** | 17,150,994 |

### 10.2 Movement in unrecognized actuarial losses

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| As at beginning of the year | | **3,631,168** | 3,631,168 |
| Loss arising during the year | | **15,411,851** | - |
| Recognized during the year | 10.3 | **(174,188)** | - |
| As at end of the year | | **18,868,831** | 3,631,168 |

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| **10.3 Charge to profit or loss** | | | |
| Current service cost | | **11,034,989** | 6,420,427 |
| Interest cost | | **2,401,139** | 2,281,469 |
| | 10.1 | **13,436,128** | 8,701,896 |
| Actuarial gain recognized during the year | 10.2 | **174,188** | - |
| | | **13,610,316** | 8,701,896 |
| **10.4 The charge to profit or loss has been allocated as follows** | | | |
| Cost of sales | 27.2 | **9,974,414** | 6,693,180 |
| Administrative and general expenses | 29.1 | **3,635,902** | 2,008,716 |
| | | **13,610,316** | 8,701,896 |

**10.5 Principal actuarial assumptions**

Present value of defined benefit obligation has been determined using projected unit credit method. The liabilitiy as at June 30, 2013 is based on actuarial valuation carried out by independent actuaries. The liability as at June 30, 2012 is based on internal estimates by the management of the Company. The principal assumptions used in determining present value of defined benefit obligation are:

| | 2013 | 2012 |
|---|---|---|
| Discount rate | **10.5%** | 14% |
| Expected rates of increase in salary | **8.5%** | 10% |
| Expected average remaining working lives of employees | **9 years** | 11 years |

**10.6 Historical information**

| | | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| Present value of defined benefit obligation | Rupees | **36,797,059** | 17,150,994 | 16,296,208 | 14,760,631 | 13,992,889 |
| Actuarial adjustment arising during the year | % | **41.88** | - | 17.77 | 15.34 | 5.54 |

The experience adjustment component of actuarial adjustment is impracticable to determine and thus has not been disclosed.

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| **11 DEFERRED TAXATION** | | | |
| Deferred tax liability on taxable temporary differences | 11.1 | **77,513,670** | 78,123,508 |
| Deferred tax asset on deductible temporary differences | 11.1 | **(2,375,615)** | (2,483,322) |
| | | **75,138,055** | 75,640,186 |

**11.1 Recognized deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

| | 2013 | | | |
|---|---|---|---|---|
| | **As at July 01** *Rupees* | **Recognized in profit or loss** *Rupees* | **Recognized in equity** *Rupees* | **As at June 30** *Rupees* |
| **Deferred tax liabilities** | | | | |
| Operating fixed assets - owned | **76,920,974** | **(1,250,244)** | **-** | **75,670,730** |
| Operating fixed assets - leased | **1,202,534** | **640,406** | **-** | **1,842,940** |
| | **78,123,508** | **(609,838)** | **-** | **77,513,670** |
| **Deferred tax assets** | | | | |
| Employees retirement benefits | **(2,483,322)** | **107,707** | **-** | **(2,375,615)** |
| | **75,640,186** | **(502,131)** | **-** | **75,138,055** |

| | 2012 | | | |
|---|---|---|---|---|
| | As at July 01 *Rupees* | Recognized in profit or loss *Rupees* | Recognized in equity *Rupees* | As at June 30 *Rupees* |
| **Deferred tax liabilities** | | | | |
| Operating fixed assets - owned | 75,718,176 | 1,202,798 | - | 76,920,974 |
| Operating fixed assets - leased | 300,355 | 902,179 | - | 1,202,534 |
| | 76,018,531 | 2,104,977 | - | 78,123,508 |
| **Deferred tax assets** | | | | |
| Employees retirement benefits | (1,948,658) | (534,664) | - | (2,483,322) |
| | 74,069,873 | 1,570,313 | - | 75,640,186 |

**11.2** Revenue from export sales of the Company is subject to taxation under the final tax regime, while the remaining portion of revenue attracts assessment under normal provisions of the Ordinance. Deferred tax is provided for only that portion of timing differences that represent income taxable under normal provisions of the Ordinance. These differences are calculated at that proportion of total timing differences that the local sales, other than the indirect exports taxable under section 154 (3) of the Ordinance, bear to the total sales revenue based on historical and future trends. Deferred tax has been calculated at 35% of the timing differences so determined. The Government of Pakistan vide Finance Act, 2013 has notified a reduced tax rate of 34% for tax year 2014 only, however deferred tax has been recognized using tax rate of 35% (2012: 35%) as the impact of reduction in tax rate for one tax year is immaterial.

| | ***Note*** | **2013** *Rupees* | 2012 *Rupees* |
|---|---|---|---|
| **12 TRADE AND OTHER PAYABLES** | | | |
| Trade creditors - *Unsecured* | | **29,697,402** | 21,450,550 |
| Accrued liabilities | | **124,002,534** | 83,624,862 |
| Advances from customers - *Unsecured* | | **4,745,943** | 10,195,090 |
| Infrastructure tax | *12.1* | **40,125,317** | 34,700,672 |
| Workers' Profit Participation Fund | *12.2* | **22,727,936** | 10,755,645 |
| Workers' Welfare Fund | *12.3* | **15,681,569** | 7,064,242 |
| Unclaimed dividend | | **2,190,592** | 1,699,235 |
| Other payables -*Unsecured* | | **5,935,559** | 4,119,233 |
| | | **245,106,852** | 173,609,529 |

**12.1** This represents tax levied by the Sindh Government on movement of imported goods entering the Sindh Province from outside

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| **12.2 Workers' Profit Participation Fund** | | | |
| As at beginning of the year | | **10,755,645** | 22,755,967 |
| Interest on funds utilized by the Company | *12.2.1* | **1,341,777** | 8,435,357 |
| Charged to profit or loss for the year | *30* | **22,677,176** | 10,704,885 |
| Paid during the year | | **(12,046,662)** | (31,140,564) |
| As at end of the year | | **22,727,936** | 10,755,645 |

**12.2.1** Interest is charged at 37.5% (2012: 52.5%) per annum.

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| **12.3 Workers' Welfare Fund** | | | |
| As at beginning of the year | | **7,064,242** | 8,453,997 |
| Charged to profit or loss for the year | *30* | **8,617,327** | 2,257,579 |
| Paid during the year | | **-** | (3,647,334) |
| As at end of the year | | **15,681,569** | 7,064,242 |

## 13 ACCRUED INTEREST/MARK-UP

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Long term finances | | **5,446,053** | 6,694,645 |
| Liabilities against assets subject to finance lease | | **279,717** | 647,332 |
| Short term borrowings | | **5,003,861** | 6,135,957 |
| | | **10,729,631** | 13,477,934 |

## 14 SHORT TERM BORROWINGS

These represent secured short term finances utilized under interest/mark-up arrangements from banking companies

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Running finances | *14.1* | **47,161,337** | 124,462,685 |
| Term loans | *14.1* | **113,620,000** | 127,340,955 |
| | | **160,781,337** | 251,803,640 |

**14.1** These facilities have been obtained from various banking companies for working capital requirements and are secured by charge over all present and future current assets of the Company, lien over documents of title of imported goods, lien over firm export orders, trust receipts, demand promissory notes, counter guarantees, specific indemnities and personal guarantees of the Company's Directors.

Interest/mark-up on running finances is payable quarterly whereas interest/mark-up on terms loans is payable along with principal on maturity, except where interest/mark-up is paid in advance at the time of disbursement. Local currency finances carry mark up at rates ranging from one to three months KIBOR plus 0.1% to 1.5% per annum (2012: one to three months KIBOR plus 0.25% to 1.5% per annum).

The aggregate available short term funded facilities amounts to Rs. 3,127 million (2012: Rs. 2,632 million) out of which Rs. 2,966 million (2012: Rs.2,380 million) remained unavailed as at the reporting date.

**14.2** For mortgages and charges on assets as security for liabilities, refer to note 42 to the financial statements.

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| **15 CURRENT PORTION OF NON-CURRENT LIABILITIES** | | | |
| Long term finances | 8 | **93,886,641** | 118,571,313 |
| Liabilities against assets subject to finance lease | 9 | **7,685,358** | 9,263,352 |
| | | **101,571,999** | 127,834,665 |

**16 CONTINGENCIES AND COMMITMENTS**

**16.1 Contingencies**

| | 2013 Rupees | 2012 Rupees |
|---|---|---|
| **16.1.1** Guarantees issued by banks on behalf of the Company | **64,395,941** | 59,326,941 |
| **16.1.2** Bills discounted/negotiated | **332,083,754** | 342,860,324 |

**16.1.3** The Company may have to indemnify its Directors for any losses that may arise due to personal guarantees given by them for securing the debts of the Company, in case the Company defaults.

**16.1.4** Contingencies related to tax matters are referred to in note 31 to the financial statements.

**16.2 Commitments**

**16.2.1** Commitments under irrevocable letters of credit for:

| | 2013 Rupees | 2012 Rupees |
|---|---|---|
| - purchase of stores, spare and loose tools | **5,650,477** | 4,932,724 |
| - purchase of machinery | **-** | 7,702,500 |
| - purchase of raw material | **84,348,303** | 81,596,273 |
| | **89,998,780** | 94,231,497 |

**16.2.2** Commitments under operating leases

The Company has rented office premises from an associated undertaking under operating lease arrangements. Lease agreement covers a period of one year and is renewable/extendable on mutual consent. Lease rentals are payable quarterly in advance. Commitments for payments in future periods under the lease agreement are as follows:

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| - payments not later than one year | | **264,000** | 240,000 |
| - payments later than one year | | **-** | - |
| | | **264,000** | 240,000 |
| **17 PROPERTY, PLANT AND EQUIPMENT** | | | |
| Operating fixed assets | 17.1 | **1,002,596,544** | 895,585,042 |
| Capital work in progress | 17.2 | **-** | - |
| | | **1,002,596,544** | 895,585,042 |

## 17.1 Operating fixed assets

| | 2013 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | COST / REVALUED AMOUNT | | | | | | DEPRECIATION | | | | Net book value |
| | As at July 01, 2012 *Rupees* | Additions *Rupees* | Disposals *Rupees* | Transfers *Rupees* | As at June 30, 2013 *Rupees* | Rate % | As at July 01, 2012 *Rupees* | For the year *Rupees* | Adjustment *Rupees* | As at June 30, 2013 *Rupees* | as at June 30, 2013 *Rupees* |
| ***Assets owned by the Company*** | | | | | | | | | | | |
| Freehold land | 6,093,568 | - | - | - | 6,093,568 | - | - | - | - | - | 6,093,568 |
| Buildings on freehold land | | | - | | | | | | | | |
| Mills | 173,401,446 | - | - | - | 173,401,446 | 10 | 104,739,087 | 6,866,236 | - | 111,605,323 | 61,796,123 |
| Other factory buildings | 68,841,136 | - | - | - | 68,841,136 | 5 | 23,605,153 | 2,261,799 | - | 25,866,952 | 42,974,184 |
| Non-factory buildings | 6,773,921 | - | - | - | 6,773,921 | 10 | 3,970,007 | 280,391 | - | 4,250,398 | 2,523,523 |
| | 249,016,503 | - | - | - | 249,016,503 | | 132,314,247 | 9,408,426 | - | 141,722,673 | 107,293,830 |
| Plant and machinery | 1,411,745,377 | - | (54,539,875) | 189,598,938 | 1,546,804,440 | 10 | 738,629,783 | 71,701,406 | (42,689,746) | 767,641,443 | 779,162,997 |
| Electric installations and equipment | 77,775,017 | - | - | - | 77,775,017 | 10 | 42,018,539 | 3,575,648 | - | 45,594,187 | 32,180,830 |
| Factory equipment | 6,582,763 | - | - | - | 6,582,763 | 10 | 4,042,302 | 254,046 | - | 4,296,348 | 2,286,415 |
| Laboratory equipment | 11,166,359 | - | - | - | 11,166,359 | 10 | 5,716,407 | 544,995 | - | 6,261,402 | 4,904,957 |
| Fire fighting equipment | 1,846,665 | - | - | - | 1,846,665 | 10 | 1,310,549 | 53,612 | - | 1,364,161 | 482,504 |
| Office equipment | 12,516,241 | 144,890 | - | - | 12,661,131 | 10 | 8,554,331 | 403,602 | - | 8,957,933 | 3,703,198 |
| Furniture and fixtures | 6,737,762 | 184,841 | - | - | 6,922,603 | 10 | 4,160,849 | 262,796 | - | 4,423,645 | 2,498,958 |
| Arms and ammunitions | 763,013 | - | - | - | 763,013 | 10 | 515,946 | 24,707 | - | 540,653 | 222,360 |
| Vehicles | 24,366,468 | 25,499,171 | (5,084,248) | 3,760,465 | 48,541,856 | 20 | 13,835,536 | 3,884,986 | (943,195) | 16,777,327 | 31,764,529 |
| | 1,808,609,736 | 25,828,902 | (59,624,123) | 193,359,403 | 1,968,173,918 | | 951,098,489 | 90,114,224 | (43,632,941) | 997,579,772 | 970,594,146 |
| ***Assets subject to finance lease*** | | | | | | | | | | | |
| Plant and machinery | 43,643,313 | - | - | - | 43,643,313 | 10 | 10,151,109 | 3,349,220 | - | 13,500,329 | 30,142,984 |
| Vehicles | 7,835,465 | - | - | (3,760,465) | 4,075,000 | 20 | 3,253,874 | 916,318 | (1,954,606) | 2,215,586 | 1,859,414 |
| | 1,860,088,514 | 25,828,902 | (59,624,123) | 189,598,938 | 2,015,892,231 | | 964,503,472 | 94,379,762 | (45,587,547) | 1,013,295,687 | 1,002,596,544 |

| | 2012 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | COST | | | | | | DEPRECIATION | | | | |
| | As at July 01, 2011 Rupees | Additions Rupees | Disposals Rupees | Transfers Rupees | As at June 30, 2012 Rupees | Rate % | As at July 01, 2011 Rupees | For the year Rupees | Disposal Adjustment Rupees | As at June 30, 2012 Rupees | Net book value as at June 30, 2012 Rupees |
| ***Assets owned by the Company*** | | | | | | | | | | | |
| Freehold land | 6,093,568 | - | - | - | 6,093,568 | - | - | - | - | - | 6,093,568 |
| Buildings on freehold land | | | | | | | | | | | |
| Mills | 173,401,446 | - | - | - | 173,401,446 | 10 | 97,109,936 | 7,629,151 | - | 104,739,087 | 68,662,359 |
| Other factory buildings | 50,571,523 | - | - | 18,269,613 | 68,841,136 | 5 | 21,544,894 | 2,060,259 | - | 23,605,153 | 45,235,983 |
| Non-factory buildings | 6,773,921 | - | - | - | 6,773,921 | 10 | 3,658,461 | 311,546 | - | 3,970,007 | 2,803,914 |
| | 230,746,890 | - | - | 18,269,613 | 249,016,503 | | 122,313,291 | 10,000,956 | - | 132,314,247 | 116,702,256 |
| Plant and machinery | 1,373,497,862 | 574,221 | (35,734,115) | 73,407,409 | 1,411,745,377 | 10 | 692,882,239 | 70,879,955 | (25,132,411) | 738,629,783 | 673,115,594 |
| Electric installation and equipment | 75,906,472 | - | - | 1,868,545 | 77,775,017 | 10 | 38,235,912 | 3,782,627 | - | 42,018,539 | 35,756,478 |
| Factory equipment | 6,582,763 | - | - | - | 6,582,763 | 10 | 3,760,028 | 282,274 | - | 4,042,302 | 2,540,461 |
| Laboratory equipment | 11,166,359 | - | - | - | 11,166,359 | 10 | 5,110,857 | 605,550 | - | 5,716,407 | 5,449,952 |
| Fire fighting equipment | 1,846,665 | - | - | - | 1,846,665 | 10 | 1,250,981 | 59,568 | - | 1,310,549 | 536,116 |
| Office equipment | 12,283,041 | 233,200 | - | - | 12,516,241 | 10 | 8,129,766 | 424,565 | - | 8,554,331 | 3,961,910 |
| Furniture and fixtures | 6,269,547 | 468,215 | - | - | 6,737,762 | 10 | 3,918,650 | 242,199 | - | 4,160,849 | 2,576,913 |
| Arms and ammunitions | 763,013 | - | - | - | 763,013 | 10 | 488,494 | 27,452 | - | 515,946 | 247,067 |
| Vehicles | 23,730,946 | 966,868 | (2,142,716) | 1,811,370 | 24,366,468 | 20 | 11,778,873 | 2,595,441 | (538,778) | 13,835,536 | 10,530,932 |
| | 1,748,887,126 | 2,242,504 | (37,876,831) | 95,356,937 | 1,808,609,736 | | 887,869,091 | 88,900,587 | (25,671,189) | 951,098,489 | 857,511,247 |
| ***Assets subject to finance lease*** | | | | | | | | | | | |
| Plant and machinery | 33,343,607 | 10,299,706 | - | - | 43,643,313 | 10 | 6,873,621 | 3,277,488 | - | 10,151,109 | 33,492,204 |
| Vehicles | 9,646,835 | - | - | (1,811,370) | 7,835,465 | 20 | 2,637,806 | 1,433,571 | (817,503) | 3,253,874 | 4,581,591 |
| | 1,791,877,568 | 12,542,210 | (37,876,831) | 93,545,567 | 1,860,088,514 | | 897,380,518 | 93,611,646 | (26,488,692) | 964,503,472 | 895,585,042 |

**17.1.1** Transfers represent transfers from capital work in progress on related assets becoming available for use and those from assets subject to finance lease on transfer of title to the Company at the end of lease term.

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### 17.1.2 Disposal of operating fixed assets

| Particulars | Cost | Accumulated depreciation | Net book value | Disposal proceeds | Gain/(loss) on disposal | Mode of disposal | Particulars of buyer |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| | *Rupees* | *Rupees* | *Rupees* | *Rupees* | *Rupees* | | |
| ***Machinery*** | | | | | | | |
| Auto coner | 7,555,556 | 6,797,213 | 758,343 | 800,000 | 41,657 | Negotiation | Sawabi Textile Mills Limited |
| Auto coner | 7,555,556 | 6,809,958 | 745,598 | 686,224 | (59,374) | Negotiation | Azam Javed Traders |
| Generator | 2,925,849 | 1,921,018 | 1,004,831 | 1,000,000 | (4,831) | Negotiation | Fazal Cloth Textile Mills Limited |
| Comber Set | 2,987,879 | 2,314,633 | 673,246 | 474,138 | (199,108) | Negotiation | Hydery Traders |
| Auto coner | 7,555,556 | 6,848,194 | 707,362 | 800,000 | 92,638 | Negotiation | Colony Textile Mills Limited |
| Auto coner | 4,496,480 | 3,783,567 | 712,913 | 800,000 | 87,087 | Negotiation | Waqas Spinning Mills (Private) Limited |
| Parcopine | 430,620 | 317,081 | 113,539 | 115,000 | 1,461 | Market value | Nagina Cotton Mills Limited |
| 2-Cross Roll Cards | 2,812,322 | 1,896,873 | 915,449 | 500,000 | (415,449) | Market value | Nagina Cotton Mills Limited |
| 4-Cross Roll Cards | 7,000,484 | 3,874,618 | 3,125,866 | 1,300,000 | (1,825,866) | Market value | Nagina Cotton Mills Limited |
| Walker Yarn Conditioning Machine | 6,066,893 | 3,518,973 | 2,547,920 | 625,000 | (1,922,920) | Market value | Nagina Cotton Mills Limited |
| Sanco Air Compressor | 656,200 | 483,182 | 173,018 | 80,000 | (93,018) | Market value | Nagina Cotton Mills Limited |
| Auto coner | 4,496,480 | 4,124,436 | 372,044 | 250,000 | (122,044) | Negotiation | Abdul Majeed and Sons, Karachi |
| | 54,539,875 | 42,689,746 | 11,850,129 | 7,430,362 | (4,419,767) | | |
| ***Vehicles*** | | | | | | | |
| Honda City | 912,370 | 598,456 | 313,914 | 500,000 | 186,086 | Negotiation | Shahid Sultan, Lahore |
| Suzuki Liana | 954,340 | 477,764 | 476,576 | 500,000 | 23,424 | Negotiation | Omer Shehzad , Lahore |
| Suzuki Cultus | 923,423 | 479,687 | 443,736 | 470,000 | 26,264 | Negotiation | Mehwish Tauqeer, Lahore |
| Suzuki Cultus | 927,423 | 537,262 | 390,161 | 475,000 | 84,839 | Negotiation | Muhammad Asif, Lahore |
| Suzuki Pickup | 411,909 | 308,654 | 103,255 | 176,000 | 72,745 | Negotiation | Khurram Ayub, Lahore |
| Hyundai Shahzoor | 954,783 | 495,978 | 458,805 | 500,000 | 41,195 | Negotiation | Nazar Hussain, Lahore |
| | 5,084,248 | 2,897,801 | 2,186,447 | 2,621,000 | 434,553 | | |
| | 59,624,123 | 45,587,547 | 14,036,576 | 10,051,362 | (3,985,214) | | |

| Particulars | Cost | Accumulated depreciation | Net book value | Disposal proceeds | Gain/(loss) on disposal | Mode of disposal | Particulars of buyer |
|---|---|---|---|---|---|---|---|
| 2012 | | | | | | | |
| | *Rupees* | *Rupees* | *Rupees* | *Rupees* | *Rupees* | | |
| ***Machinery*** | | | | | | | |
| One Auto coner | 9,605,381 | 6,662,280 | 2,943,101 | 2,250,000 | (693,101) | Market value | Nagina Cotton Mills Limited |
| Two Auto coners | 19,210,762 | 13,376,195 | 5,834,567 | 4,500,000 | (1,334,567) | Market value | Nagina Cotton Mills Limited |
| Three MK- 5-D Crassroll cards | 6,917,972 | 5,093,936 | 1,824,036 | 750,000 | (1,074,036) | Market value | Nagina Cotton Mills Limited |
| | 35,734,115 | 25,132,411 | 10,601,704 | 7,500,000 | (3,101,704) | | |
| ***Vehicles*** | | | | | | | |
| Honda City | 940,674 | 811,788 | 128,886 | 425,000 | 296,114 | Negotiation | Abdul Rehman, Lahore |
| Suzuki Mehran | 303,042 | 249,022 | 54,020 | 200,000 | 145,980 | Negotiation | Sajjad Hussain, Lahore |
| Hyundai Shahzore | 899,000 | 295,471 | 603,529 | 899,000 | 295,471 | Negotiation | Dewan Farooque Motors Limited |
| | 2,142,716 | 1,356,281 | 786,435 | 1,524,000 | 737,565 | | |
| | 37,876,831 | 26,488,692 | 11,388,139 | 9,024,000 | (2,364,139) | | |

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | *Rupees* | *Rupees* |
| **17.1.3** The depreciation charge for the year has been allocated as follows: | | | |
| Cost of sales | 27 | **90,686,013** | 90,803,298 |
| Administrative and general expenses | 29 | **3,693,749** | 2,808,349 |
| | | **94,379,762** | 93,611,647 |

**17.2 Capital work in progress**

| | **2013** | | | |
|---|---|---|---|---|
| | **As at July 01, 2012** | **Additions** | **Transfers** | **As at June 30, 2013** |
| | ***Rupees*** | ***Rupees*** | ***Rupees*** | ***Rupees*** |
| Building | **-** | **-** | **-** | **-** |
| Plant and machinery | **-** | **189,598,938** | **(189,598,938)** | **-** |
| Electric installations and equipment | **-** | **-** | **-** | **-** |
| | **-** | **189,598,938** | **(189,598,938)** | **-** |

| | 2012 | | | |
|---|---|---|---|---|
| | As at July 01, 2011 | Additions | Transfers | As at June 30, 2012 |
| | *Rupees* | *Rupees* | *Rupees* | *Rupees* |
| Building | 2,747,941 | 15,521,672 | (18,269,613) | - |
| Plant and machinery | - | 73,407,409 | (73,407,409) | - |
| Electric installations and equipment | - | 1,868,545 | (1,868,545) | - |
| | 2,747,941 | 90,797,626 | (93,545,567) | - |

**18 LONG TERM DEPOSITS**

These have been deposited with various utility companies and regulatory authorities. These are classified as 'loans and receivables' under IAS 39 'Financial Instruments - Recognition and Measurement' which are required to be carried at amortized cost. However, these, being held for an indefinite period with no fixed maturity date, are carried at cost as their amortized cost is impracticable to determine.

| | 2013 | 2012 |
|---|---|---|
| | *Rupees* | *Rupees* |
| **19 STORES, SPARES AND LOOSE TOOLS** | | |
| Stores | **42,667,487** | 27,840,830 |
| Spares | **5,754,691** | 4,807,865 |
| Loose tools | **259,267** | 211,022 |
| | **48,681,445** | 32,859,717 |

**19.1** There are no spare parts held for capitalization as at the reporting date.

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|

## 20 STOCK IN TRADE

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Raw material | 20.2 | **582,446,732** | 622,380,621 |
| Work in process | 20.2 | **42,484,186** | 40,975,482 |
| Finished goods | 20.1 & 20.2 | **72,989,279** | 73,375,095 |
| | | **697,920,197** | 736,731,198 |

**20.1** Stock of finished goods include stock of waste valued at Rs. 4,016,271 (2012: Rs. 2,877,638). The entire stock of waste is valued at net realizable value.

**20.2** Entire stock in trade, with exception of stock of waste, is carried at cost being lower than net realizable value.

## 21 TRADE DEBTS

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Local - *unsecured* | | | |
| considered good | | **153,714,819** | 72,959,186 |
| considered doubtful | | **-** | 400,200 |
| | | **153,714,819** | 73,359,386 |
| Foreign - *secured* | 21.1 | **47,254,899** | 15,145,224 |
| | | **200,969,718** | 88,504,610 |
| Impairment allowance for doubtful debts | 31 | **-** | (400,200) |
| | | **200,969,718** | 88,104,410 |

**21.1** These are secured against confirmed letters of credit

## 22 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Advances to suppliers -*unsecured, considered good* | | **8,132,667** | 5,865,626 |
| Advances to employees -*unsecured, considered good* | 22.1 | **584,390** | 918,234 |
| Prepayments | | **1,103,331** | 1,055,048 |
| Export rebate receivable | | **852,878** | 376,825 |
| Withholding tax on regular income certificates | | **-** | 66,650 |
| Letters of credit | | **32,312,271** | 33,456,793 |
| Sales tax refundable | | **47,059,339** | 15,212,364 |
| Other receivables -*unsecured, considered good* | | **65,108** | 321,089 |
| | | **90,109,984** | 57,272,629 |

**22.1** These represent advances to employees for purchases and expenses on behalf of the Company and those against future salaries and post employment benefits in accordance with the Company policy. No advances have been given to any of the directors or executives of the Company.

## 23 SHORT TERM INVESTMENT

This represents investment in nil (2012: 450.01) units in Money Market Fund of Habib Bank Limited. The investment has been classified as "financial assets at fair value through profit or loss". The fair value has been measured by reference to price in active market. The movement during the year is as follows:

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | ***Rupees*** | *Rupees* |
| As at beginning of the year | | **45,160** | 146,238,336 |
| Purchased during the year | | **425,000,000** | 415,000,000 |
| Disposed during the year | | **(425,045,160)** | (561,238,336) |
| Changes in fair value | | **-** | 45,160 |
| As at end of the year | | **-** | 45,160 |

**24 ADVANCE INCOME TAX**

| | Note | 2013 | 2012 |
|---|---|---|---|
| Advance income tax/income tax refundable | | **103,362,062** | 59,276,810 |
| Provision for taxation | *33* | **(70,548,190)** | (41,415,055) |
| | | **32,813,872** | 17,861,755 |

**25 BANK BALANCES**

| | Note | 2013 | 2012 |
|---|---|---|---|
| Current accounts in local currency | | **55,032,379** | 16,046,142 |
| Deposit/saving accounts in local currency | *25.1* | **50,029,053** | 159,812 |
| Deposit/saving accounts in foreign currency | *25.1* | **31,158** | 26,789 |
| | | **105,092,590** | 16,232,743 |

**25.1** Effective mark-up rate in respect of deposit/saving accounts, for the year, ranges from 6% to 7% (2012: 5.35% to 7%) per annum.

**26 SALES - NET**

| | ***Note*** | **2013** | | | |
|---|---|---|---|---|---|
| | | **Yarn** | **Raw cotton, polyester etc.** | **Waste** | **Total** |
| | | ***Rupees*** | ***Rupees*** | ***Rupees*** | ***Rupees*** |
| Local | | **2,633,144,363** | **30,108,760** | **27,150,754** | **2,690,403,877** |
| Export | *26.1* | **2,095,775,092** | **-** | **126,683,020** | **2,222,458,112** |
| Gross sales | | **4,728,919,455** | **30,108,760** | **153,833,774** | **4,912,861,989** |
| Export rebate | | **1,101,328** | **-** | **-** | **1,101,328** |
| Sales tax | | **(54,921,231)** | **(433,496)** | **(182,916)** | **(55,537,643)** |
| | | **4,675,099,552** | **29,675,264** | **153,650,858** | **4,858,425,674** |

| | Note | 2012 | | | |
|---|---|---|---|---|---|
| | | Yarn | Raw cotton, polyester etc. | Waste | Total |
| | | *Rupees* | *Rupees* | *Rupees* | *Rupees* |
| Local | | 2,238,639,722 | 94,889,117 | 47,374,242 | 2,380,903,081 |
| Export | *26.1* | 1,580,538,540 | - | 78,535,317 | 1,659,073,857 |
| Gross sales | | 3,819,178,262 | 94,889,117 | 125,909,559 | 4,039,976,938 |
| Export rebate | | - | - | - | - |
| Sales tax | | (14,689,798) | - | - | (14,689,798) |
| | | 3,804,488,464 | 94,889,117 | 125,909,559 | 4,025,287,140 |

**26.1** Yarn export sales include indirect exports amounting to Rs.1,181,577,998 (2012: Rs.959,522,010).

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| **27 COST OF SALES** | | | |
| Raw material consumed | 27.1 | **3,158,937,716** | 2,801,250,001 |
| Stores, spares and loose tools consumed | | **175,891,674** | 139,595,670 |
| Salaries, wages and benefits | 27.2 | **238,814,666** | 177,337,569 |
| Insurance | | **9,867,990** | 9,936,070 |
| Power and fuel | | **481,736,109** | 340,584,706 |
| Repair and maintenance | | **6,722,156** | 6,644,982 |
| Depreciation | 17.1.3 | **90,686,013** | 90,803,298 |
| Others | | **24,365,043** | 25,992,771 |
| Manufacturing cost | | **4,187,021,367** | 3,592,145,067 |
| Work in process | | | |
| As at beginning of the year | | **40,975,482** | 41,099,164 |
| As at end of the year | | **(42,484,186)** | (40,975,482) |
| | | **(1,508,704)** | 123,682 |
| Cost of goods manufactured | | **4,185,512,663** | 3,592,268,749 |
| Finished goods | | | |
| As at beginning of the year | | **73,375,095** | 67,387,775 |
| Purchased during the year | | **17,771,752** | 6,266,100 |
| As at end of the year | | **(72,989,279)** | (73,375,095) |
| | | **18,157,568** | 278,780 |
| | | **4,203,670,231** | 3,592,547,529 |

**27.1 Raw material consumed**

| | 2013 Rupees | 2012 Rupees |
|---|---|---|
| As at beginning of the year | **622,380,621** | 790,704,925 |
| Purchased during the year | **3,119,003,827** | 2,632,925,697 |
| As at end of the year | **(582,446,732)** | (622,380,621) |
| | **3,158,937,716** | 2,801,250,001 |

**27.2** These include charge in respect of employees retirement benefits amounting to Rs. 9,974,414 (2012: Rs. 6,693,180).

| | 2013 Rupees | 2012 Rupees |
|---|---|---|
| **28 DISTRIBUTION COST** | | |
| **Export** | | |
| Ocean freight and forwarding | **15,006,180** | 11,351,671 |
| Commission | **14,605,214** | 11,118,155 |
| Export development surcharge | **2,534,573** | 1,703,627 |
| | **32,145,967** | 24,173,453 |
| **Local** | | |
| Inland transportation | **12,068,304** | 10,112,022 |
| Commission | **5,093,356** | 2,738,367 |
| Others | **1,416,417** | 792,949 |
| | **18,578,077** | 13,643,338 |
| | **50,724,044** | 37,816,791 |

| | Note | 2013<br>Rupees | 2012<br>Rupees |
|---|---|---|---|
| **29 ADMINISTRATIVE EXPENSES** | | | |
| Directors' remuneration | *38.1 & 43* | **11,627,951** | 11,829,345 |
| Directors' meeting fee | *43* | **150,000** | 105,000 |
| Salaries and benefits | *29.1* | **31,857,674** | 25,619,781 |
| Rent, rates and taxes | | **504,000** | 480,000 |
| Printing and stationery | | **862,984** | 718,713 |
| Communication | | **1,557,131** | 2,003,055 |
| Electricity | | **2,498,300** | 2,559,220 |
| Repair and maintenance | | **299,689** | 302,027 |
| Vehicles running and maintenance | | **2,889,147** | 3,183,102 |
| Traveling and conveyance | | **5,231,317** | 5,012,700 |
| Legal and professional charges | | **1,322,793** | 3,195,155 |
| Auditors' remuneration | *29.2* | **910,000** | 910,000 |
| Fee and subscription | | **1,689,269** | 796,624 |
| Entertainment | | **322,728** | 350,472 |
| Insurance | | **2,465,590** | 2,032,197 |
| Depreciation | *17.1.3* | **3,693,749** | 2,808,349 |
| Others | | **415,959** | 207,500 |
| | | **68,298,281** | 62,113,240 |

**29.1** These include charge in respect of employees retirement benefits amounting to Rs. 3,635,902 (2012: Rs. 2,008,716).

| | Note | 2013<br>Rupees | 2012<br>Rupees |
|---|---|---|---|
| **29.2 Auditor's remuneration** | | | |
| Annual statutory audit | | **750,000** | 750,000 |
| Half yearly review | | **100,000** | 100,000 |
| Review report under Code of Corporate Governance | | **50,000** | 50,000 |
| Out of pocket expenses | | **10,000** | 10,000 |
| | | **910,000** | 910,000 |
| **30 OTHER EXPENSES** | | | |
| **Loss on financial instruments** | | | |
| Foreign exchange loss | | **21,632** | 46,119 |
| **Other expenses** | | | |
| Loss on disposal of property, plant and equipment | *17.1.2* | **3,985,214** | 2,364,138 |
| Workers' Profit Participation Fund | *12.2* | **22,677,176** | 10,704,885 |
| Workers' Welfare Fund | *12.3* | **8,617,327** | 2,257,579 |
| Donations | *30.1* | **400,000** | 1,100,000 |
| | | **35,679,717** | 16,426,602 |
| | | **35,701,349** | 16,472,721 |

**30.1** None of the directors or their spouses had any interest in donations made by the Company.

| | Note | 2013<br>*Rupees* | 2012<br>*Rupees* |
|---|---|---|---|
| **31 OTHER INCOME** | | | |
| **Gain on financial instruments** | | | |
| Gain on disposal of short term investments | | **2,531,647** | 10,171,782 |
| Changes in fair value of financial assets at fair value through profit or loss | | **-** | 45,160 |
| Return on bank deposits | | **14,611** | 1,052,069 |
| Doubtful debts recovered | *21* | **400,200** | - |
| | | **2,946,458** | 11,269,011 |
| **Other income** | | | |
| Scrap sale | | **1,466,936** | 1,547,909 |
| | | **4,413,394** | 12,816,920 |
| **32 FINANCE COST** | | | |
| Interest / mark-up on borrowings: | | | |
| long term finances | *32.1* | **36,189,574** | 47,573,237 |
| liabilities against assets subject to finance lease | *32.2* | **2,456,450** | 4,377,741 |
| short term borrowings | | **33,855,782** | 61,218,924 |
| | | **72,501,806** | 113,169,902 |
| Interest on workers' profit participation fund | | **1,341,777** | 8,435,357 |
| Foreign exchange loss | | **984,866** | 1,853,877 |
| Bank charges and commission | | **7,367,689** | 5,684,400 |
| | | **82,196,138** | 129,143,536 |

**32.1** This includes interest/mark-up rate subsidy amouting to Rs.1,876,169 (2012: Rs. 1,740,099) recognized as government grants. See note 35.

**32.2** This includes interest/mark-up rate subsidy amouting to Rs. 171,533 (2012: Rs. 92,000) recognized as government grants. See note 35.

| | Note | 2013<br>*Rupees* | 2012<br>*Rupees* |
|---|---|---|---|
| **33 PROVISION FOR TAXATION** | | | |
| Current taxation | | | |
| for the year | *24 & 33.1* | **70,548,190** | 41,415,055 |
| for prior year | | **-** | 10,620,678 |
| | | **70,548,190** | 52,035,733 |
| Deferred taxation | *11.1* | **(502,131)** | 1,570,313 |
| | | **70,046,059** | 53,606,046 |

**33.1** Provision for current tax has been made in accordance with section 18 and section 154 of the Income Tax Ordinance, 2001 ('the Ordinance').

| | Unit | 2013 | 2012 |
|---|---|---|---|
| **33.2 Reconciliation between average effective tax rate and applicable tax rate** | | | |
| Profit before taxation | ***Rupees*** | 422,249,025 | 200,010,243 |
| Provision for taxation | ***Rupees*** | 70,046,059 | 53,606,046 |
| Average effective tax rate | ***%*** | 16.59 | 26.80 |
| Tax effects of: | | | |
| Items not included in determination of taxable income | ***%*** | (5.43) | (11.39) |
| Admissible deductions, losses and tax credits | ***%*** | 13.26 | 19.02 |
| Income taxable under final tax regime | ***%*** | 10.46 | 6.67 |
| Provision for deferred taxation | ***%*** | 0.12 | (0.79) |
| Others | ***%*** | - | (5.31) |
| Applicable tax rate | ***%*** | 35.00 | 35.00 |

**33.3** Assessments upto assessment year 2002-2003 have been finalized under the relevant provisions of the Repealed Income Tax Ordinance, 1979.

**33.4** The Company's case was selected for audit by the department for tax year 2003 in terms of section 177 of the Ordinance. On conclusion of audit proceedings, the department, through order passed under section 122(1) of the Ordinance, raised a tax demand of Rs. 8,458,874. The Company filed an appeal before CIR (A) against this order and CIR (A), through order, dismissed certain disallowances / additions made by the Assistant Commissioner Inland Revenue ('ACIR') and upheld some of them against which the Company filed an appeal before Appellate Tribunal Inland Revenue ('ATIR'). Moreover, the department also went into cross appeal against the CIR (A)'s order before ATIR. Both appeals are pending for adjudication.

**33.5** The assessment for the tax year 2005 was amended under section 122(5A) of the Ordinance through order dated June 06, 2011, issued by the ACIR, thereby creating a demand of Rs 5,374,044 which was further rectified by the department on rectification application to a demand of Rs. 452,722. The Company filed revised return for the tax year 2005 on March 27, 2012 consequent to the decision of ATIR passed in the Company's case in the tax year 2004, whereby the ATIR confirmed an addition of Rs. 9,689,817 million made by the ACIR on account of unpaid liability under section 34(5) of the Ordinance. In respect of transitional tax year 2005, a rectification order dated March 31, 2011 has been passed by the ACIR under section 221 of the Ordinance thereby creating a demand of Rs. 2,832,615 against the Company by aligning the refund adjustment relating to the tax year 2005 according to the departmental records.

The Company has filed an appeal against the above referred orders of the both the years before the CIR(A). The CIR(A) accepted the Company's appeal on all the issues except on the issue of minimum tax. The Company has filed appeal before the ATIR, against the order of CIR(A), on the issue of minimum tax for both tax years. The department also went into cross appeal before the ATIR on the issues of apportionment of 'export rebate' and 'financial charges', deletion of 'interest on Workers' Profit Participation Fund' and inclusion of other income in turnover for the purposes of minimum tax under section 113 of the Ordinance. The cross appeals are yet to be fixed for hearing.

**33.6** In respect of tax year 2006, the ACIR finalized proceedings under section 122(5A) of the Ordinance through order dated June 30, 2012, wherein a demand of Rs. 4.855 million was raised against the Company on the grounds that minimum tax under section 113 of the Ordinance is to be levied in addition to tax under final tax regime. The Company appealed against the order with CIR(A) and applied for rectification on account of correction of charge of 'Workers' Welfare Fund' and 'brought forward losses' under section 221 of the Ordinance. The CIR (A), through order dated February 22, 2013, decided the abovementioned appeal by upholding the levy of minimum tax over and above paid under the final tax regime. The Company has file an appeal with the ATIR which yet to be fixed for hearing. The rectification application has, however, not yet been taken up for disposal.

**33.7** In respect of tax year 2008, the ACIR initiated proceedings under section 122(5A) of the Ordinance through issuance of notice under section 122(9) of the Ordinance wherein intentions were shown to amend proceedings on certain grounds. The proceedings were finalized through order dated March 8, 2013 wherein a demand of Rs. 4.791 million was raised against the Company mainly on account of minimum tax, levied over and above the tax paid under the final tax regime. The Company has filed appeal against the order with the CIR(A) which is yet to be disposed off.

**33.8** The DCIR passed a rectification order under section 121 of the Ordinance, thereby enhancing the Company's liability by Rs. 5,801,503 in respect of the tax year 2010. The Company has filed an appeal against this order before the CIR(A) which is pending for adjudication.

**33.9** Assessment for tax year 2012 is deemed assessment in terms of section 120(1) of the Ordinance, as per returns filed by the Company.

| | Unit | 2013 | 2012 |
|---|---|---|---|
| **34 EARNINGS PER SHARE - BASIC AND DILUTED** | | | |
| Profit attributable to ordinary shareholders | *Rupees* | **352,202,966** | 146,404,197 |
| Weighted average number of ordinary shares outstanding during the year | *No. of shares* | **10,950,000** | 10,950,000 |
| Earnings per share | *Rupees* | **32.16** | 13.37 |

There is no diluting effect on the basic earnings per share of the Company.

## 35 GOVERNMENT GRANTS

During the year, the Company recognized Rs. 2,047,702 (2012: Rs. 1,832,099) as interest/mark-up rate subsidy which has been accounted for as government grant in accordance with IAS 20 'Government Grants'. The amount has been deducted in reporting interest/markup expenses on relevant borrowings.

| | 2013 *Rupees* | 2012 *Rupees* |
|---|---|---|
| **36 CASH GENERATED FROM OPERATIONS** | | |
| **Profit before taxation** | **422,249,025** | 200,010,243 |
| **Adjustments for non-cash and other items** | | |
| Interest/mark-up on borrowings | **72,501,806** | 113,169,902 |
| Loss on disposal of property, plant and equipment | **3,985,214** | 2,364,139 |
| Foreign exchange loss | **1,006,498** | 1,853,877 |
| Gain on disposal of short term investments | **(2,531,647)** | (10,171,782) |
| Changes in fair value of financial assets at fair value through profit or loss | **-** | (45,160) |
| Provision for employees retirement benefits | **13,610,316** | 8,701,896 |
| Depreciation | **94,379,762** | 93,611,646 |
| | **182,951,949** | 209,484,518 |
| | **605,200,974** | 409,494,761 |
| **Changes in working capital** | | |
| Stores, spares and loose tools | **(15,821,728)** | (932,627) |
| Stock in trade | **38,811,001** | 166,660,413 |
| Trade debts | **(112,837,614)** | (27,008,102) |
| Advances, prepayments and other receivables | **(32,837,355)** | (35,060,912) |
| Long term deposits | **418,590** | (351,600) |
| Trade and other payables | **70,956,640** | (27,213,068) |
| | **(51,310,466)** | 76,094,104 |
| **Cash generated from operations** | **553,890,508** | 485,588,865 |
| **37 CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | **105,092,590** | 16,232,743 |
| | **105,092,590** | 16,232,743 |

## 38 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties from the Company's perspective comprise associated companies and key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and includes the Chief Executive and Directors of the Company.

Transactions with key management personnel are limited to payment of short term employee benefits and dividend on ordinary shares. The Company in the normal course of business carries out various transactions with associated companies and continues to have a policy whereby all such transactions are carried out on commercial terms and conditions which are equivalent to those prevailing in an arm's length transaction.

There are no balances outstanding with related parties as at the reporting date. Details of transactions with related parties is as follows:

### 38.1 Transactions with related parties

| Nature of relationship | Nature of transactions | *Note* | **2013** | 2012 |
|---|---|---|---|---|
| | | | ***Rupees*** | *Rupees* |
| Associated companies | Purchase of goods and services | | **21,689,407** | 919,953 |
| | Sales of goods and services | | **1,230,890,675** | 1,157,591,486 |
| | Dividend paid | | **13,317,305** | 18,644,227 |
| Key management personnel | Short term employee benefits | *29 & 43* | **11,777,951** | 11,934,345 |
| | Dividend paid to directors and their family members | | **25,763,120** | 36,068,368 |

## 39 FINANCIAL INSTRUMENTS

### 39.1 Financial instruments by class and category

#### 39.1.1 Financial assets

| | *Note* | **2013** | 2012 |
|---|---|---|---|
| ***Loans and receivables*** | | | |
| Long term deposits | *18* | **7,090,700** | 7,509,290 |
| Trade debts | *21* | **200,969,718** | 88,104,410 |
| Bank balances | *25* | **105,092,590** | 16,232,743 |
| | | **313,153,008** | 111,846,443 |
| ***Financial assets at fair value through profit or loss*** | | | |
| Short term investments | *23* | **-** | 45,160 |
| | | **313,153,008** | 111,891,603 |

#### 39.1.2 Financial liabilities

| | *Note* | **2013** | 2012 |
|---|---|---|---|
| ***Financial liabilities at amortized cost*** | | | |
| Long term finances | *8* | **388,713,034** | 324,957,954 |
| Liabilities against assets subject to finance lease | *9* | **16,613,345** | 26,381,273 |
| Short term borrowings | *14* | **160,781,337** | 251,803,640 |
| Accrued interest/mark-up | *13* | **10,729,631** | 13,477,934 |
| Trade creditors | *12* | **29,697,402** | 21,450,550 |
| Accrued liabilities | *12* | **124,002,534** | 83,624,862 |
| | | **730,537,283** | 721,696,213 |

### 39.2 Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged or liability be settled between knowledgeable willing parties in an arm's length transaction. As at the reporting date, fair values of all financial instruments are considered to approximate their carrying amounts. Further, there are no fair value estimation uncertainties.

#### 39.2.1 Methods of determining fair values

Fair values of financial instruments for which prices are available from the active market are measured by reference to those market prices. Fair values of financial assets and liabilities with no active market are determined in accordance with generally accepted pricing models based on discounted cash flow analysis based on inputs from other than observable market.

#### 39.2.2 Discount/interest rates used for determining fair values

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve as at the reporting date plus an adequate credit spread.

## 40 FINANCIAL RISK EXPOSURE AND MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk). These risks affect revenues, expenses and assets and liabilities of the Company.

The Board of Directors has the overall responsibility for establishment and oversight of risk management framework. The Board of Directors has developed a risk policy that sets out fundamentals of risk management framework. The risk policy focuses on unpredictability of financial markets, the company's exposure to risk of adverse effects thereof and objectives, policies and processes for measuring and managing such risks. The management team of the Company is responsible for administering and monitoring the financial and operational financial risk management throughout the company in accordance with the risk management framework.

The Company's exposure to financial risks, the way these risks affect the financial position and performance, and forecast transactions of the Company and the manner in which such risks are managed is as follows:

### 40.1 Credit risk

Credit risk is the risk of financial loss to the Company, if the counterparty to a financial instrument fails to meet its obligations.

| | *Note* | **2013** | 2012 |
|---|---|---|---|
| | | ***Rupees*** | *Rupees* |
| **40.1.1 Maximum exposure to credit risk** | | | |
| The maximum exposure to credit risk as at the reporting date is as follows: | | | |
| ***Loans and receivables*** | | | |
| Long term deposits | *18* | **7,090,700** | 7,509,290 |
| Trade debts | *21* | **200,969,718** | 88,104,410 |
| Bank balances | *25* | **105,092,590** | 16,232,743 |
| | | **313,153,008** | 111,846,443 |
| ***Financial assets at fair value through profit or loss*** | | | |
| Short term investments | *23* | **-** | 45,160 |
| | | **313,153,008** | 111,891,603 |

#### 40.1.2 Concentration of credit risk

The Company identifies concentrations of credit risk by reference to type of counter party. Maximum exposure to credit risk by type of counterparty is as follows:

| | 2013 | 2012 |
|---|---|---|
| | ***Rupees*** | *Rupees* |
| Customers | **200,969,718** | 88,104,410 |
| Utility companies and regulatory authorities | **7,090,700** | 7,509,290 |
| Banking companies and financial institutions | **105,092,590** | 16,277,903 |
| | **313,153,008** | 111,891,603 |

**40.1.3 Credit quality and impairment**

Credit quality of financial assets is assessed by reference to external credit ratings, where available, or to historical information about counterparty default rates. All counterparties, with the exception of customers, have external credit ratings determined by various credit rating agencies. Credit quality of customers is assessed by reference to historical default rates and present ages of balances due from them.

***40.1.3(a) Counterparties with external credit ratings***

These include banking companies and financial institutions, which are counterparties to investments in mutual funds, deposits with financial institutions and bank balances. These counterparties have reasonably high credit ratings as determined by various credit rating agencies. Due to long standing business relationships with these counterparties and considering their strong financial standing, management does not expect non-performance by these counterparties on their obligations to the Company.

***40.1.3(b) Counterparties without external credit ratings***

These include customers which are counter parties to trade debts and utility companies and regulatory authorities which are counter parties to long term deposits. Credit risk in respect of long term deposits is considered to be insignificant as non-performance by these parties is not expected. The Company is exposed to credit risk in respect of trade debts. The analysis of ages of trade debts as at the reporting date is as follows:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Gross carrying amount** | **Accumulated Impairment** | Gross carrying amount | Accumulated Impairment |
| | ***Rupees*** | ***Rupees*** | *Rupees* | *Rupees* |
| Neither past due nor impaired | **200,969,718** | **-** | 88,104,410 | - |
| Past due by 0 to 12 months | **-** | **-** | - | - |
| Past due by more than 12 months | **-** | **-** | 400,200 | 400,200 |
| | **200,969,718** | **-** | 88,504,610 | 400,200 |

The Company's two (2012: two) significant customers account for Rs. 65.41 million (2012: Rs. 21.31 million) of trade debts as at the reporting date, apart from which, exposure to any single customer does not exceed 10% (2012: 10%) of trade debts as at the reporting date. These significant customers have long standing business relationships with the Company and have a good payment record and accordingly non-performance by these customers is not expected. Further, trade debts amounting to Rs. 47.25 million (2012: Rs. 15.15 million) are secured through confirmed letters of credit and thus do not carry any significant credit risk.

**40.1.4 Collateral held**

The Company does not hold any collateral to secure its financial assets with the exception of trade debts, which are partially secured through confirmed letters of credit.

### 40.1.5 Credit risk management

As mentioned in note 40.1.3 to the financial statements, the Company's financial assets do not carry significant credit risk, with the exception of trade debts, which are exposed to losses arising from any non-performance by customers. In respect of trade debts, the Company manages credit risk by limiting significant exposure to any single customer. Formal policies and procedures of credit management and administration of trade debts are established and executed. In monitoring customer credit risk, the ageing profile of trade debts and individually significant balances, along with collection activities are reviewed on a regular basis. High risk customers are identified and restrictions are placed on future trading, including suspending future shipments and administering dispatches on a prepayment basis or confirmed letters of credit.

## 40.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

### 40.2.1 Exposure to liquidity risk

The followings is the analysis of contractual maturities of financial liabilities, including estimated interest payments.

| | **2013** | | | | |
|---|---|---|---|---|---|
| | **Carrying amount** *Rupees* | **Contractual cash flows** *Rupees* | **One year or less** *Rupees* | **One to three years** *Rupees* | **More than three years** *Rupees* |
| Long term finances | **388,713,034** | **509,606,419** | **128,350,618** | **176,756,604** | **204,499,197** |
| Liabilities against assets subject to finance lease | **16,613,345** | **19,234,683** | **8,945,289** | **9,148,860** | **1,140,534** |
| Short term borrowings | **160,781,337** | **160,882,701** | **160,882,701** | **-** | **-** |
| Accrued interest/mark-up | **10,729,631** | **10,729,631** | **10,729,631** | **-** | **-** |
| Trade creditors | **29,697,402** | **29,697,402** | **29,697,402** | **-** | **-** |
| Accrued liabilities | **124,002,534** | **124,002,534** | **124,002,534** | **-** | **-** |
| | **730,537,283** | **854,153,370** | **462,608,175** | **185,905,464** | **205,639,731** |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Carrying amount *Rupees* | Contractual cash flows *Rupees* | One year or less *Rupees* | One to three years *Rupees* | More than three years *Rupees* |
| Long term finances | 324,957,954 | 405,290,421 | 155,455,154 | 191,490,233 | 58,345,034 |
| Liabilities against assets subject to finance lease | 26,381,273 | 32,197,383 | 11,853,006 | 15,152,950 | 5,191,427 |
| Short term borrowings | 251,803,640 | 252,032,602 | 252,032,602 | - | - |
| Accrued interest/mark-up | 13,477,934 | 13,477,934 | 13,477,934 | - | - |
| Trade creditors | 21,450,550 | 21,450,550 | 21,450,550 | - | - |
| Accrued liabilities | 83,624,862 | 83,624,862 | 83,624,862 | - | - |
| | 721,696,213 | 808,073,752 | 537,894,108 | 206,643,183 | 63,536,461 |

### 40.2.2 Liquidity risk management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company monitors cash flow requirements and produces cash flow projections for the short and long term. Typically, the Company ensures that it has sufficient cash on demand to meet expected operational cash flows, including servicing of financial obligations. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of overall funding mix and avoidance of undue reliance on large individual customer. The Company also maintains various lines of credit with banking companies.

**40.3 Market risk**

**40.3.1 Currency risk**

Currency risk is the risk that fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises from sales, purchases and resulting balances that are denominated in a currency other than functional currency.

***40.3.1(a) Exposure to currency risk***

The Company's exposure to currency risk as at the reporting date is as follows:

| | 2013 | 2012 |
|---|---|---|
| | **Rupees** | *Rupees* |
| ***Financial liabilities*** | | |
| Short term borrowings | **113,620,000** | 52,340,955 |
| Accrued interest/mark-up | **74,058** | 231,376 |
| | **113,694,058** | 52,572,331 |
| ***Financial assets*** | | |
| Trade debts | **47,254,899** | 15,145,224 |
| Bank balances | **31,158** | 26,789 |
| | **47,286,057** | 15,172,013 |
| Net exposure | **66,408,001** | 37,400,318 |

***40.3.1(b) Exchange rates applied during the year***

All foreign currency balances are denominated in United States Dollars (US $). Spot exchange rates applied are as follows:

| | 2013 | 2012 |
|---|---|---|
| | **Rupees** | *Rupees* |
| Financial assets | **98.75** | 94.00 |
| Financial liabilities | **98.95** | 94.20 |

***40.3.1(c) Sensitivity analysis***

A five percent appreciation in Pak Rupee against the US $ would have increased profit for the year by Rs. 3.32 million (2012: Rs. 1.87 million). A five percent depreciation in Pak Rupee would have had an equal but opposite effect on profit for the year. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores the impact, if any, on provision for taxation for the year.

***40.3.1(d) Currency risk management***

The Company manages its exposure to currency risk through continuous monitoring of expected/forecast committed and non-committed foreign currency payments and receipts. Reports on forecast foreign currency transactions, receipts and payments are prepared on monthly basis, exposure to currency risk is measured and appropriate steps are taken to ensure that such exposure is minimized while optimizing return. This includes matching of foreign currency liabilities/payments to assets/receipts and using source inputs in foreign currency.

**40.3.2 Interest rate risk**

Interest rate risk is the risk that fair values or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

***40.3.2(a) Interest/mark-up bearing financial instruments***

The effective interest/mark-up rates for interest/mark-up bearing financial instruments are mentioned in relevant notes to the financial statements. The Company's interest/mark-up bearing financial instruments as at the reporting date are as follows:

| | 2013 | 2012 |
|---|---|---|
| | **Rupees** | Rupees |
| ***Fixed rate instruments*** | | |
| Financial assets | **-** | - |
| Financial liabilities | **-** | 8,298,037 |
| ***Variable rate instruments*** | | |
| Financial assets | **50,060,211** | 186,601 |
| Financial liabilities | **566,107,716** | 594,844,830 |

***40.3.2(b) Fair value sensitivity analysis for fixed rate instruments***

The Company does not account for fixed rate financial assets and liabilities at fair value through profit or loss.

***40.3.2(c) Cash flow sensitivity analysis for variable rate instruments***

An increase of 100 basis points in interest rates as at the reporting date would have decreased profit for the year by Rs. 5.16 million (2012: Rs. 5.94 million). A decrease of 100 basis points wound have had an equal but opposite effect on profit for the year. The analysis assumes that all other variables, in particular foreign exchange rates, remain constant and ignores the impact, if any, on provision for taxation for the year.

***40.3.2(d) Interest rate risk management***

The Company manages interest rate risk by analyzing its interest rate exposure on a dynamic basis. Cash flow interest rate risk is managed by simulating various scenarios taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Company calculates impact on profit after taxation and equity of defined interest rate shift, mostly 100 basis points.

**40.3.3 Price risk**

Price risk represents the risk that the fair value or future cash flows of 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 instruments. The Company is not exposed to price risk as at June 30, 2013. The exposure as at June 30, 2012 was not material.

## 41 CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital and level of dividends to ordinary shareholders. The Company seeks to keep a balance between the higher return that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position. The Company monitors capital using the gearing ratio which is debt divided by total capital employed. Debt comprises long term finances and liabilities against assets subject to finances lease, including current maturity. Total capital employed includes total equity as shown in the balance sheet plus debt. The Company's strategy is to maintain an optimal capital structure in order to minimize cost of capital. Gearing ratio of the Company as at the reporting date is as follows:

| | *Unit* | **2013** | 2012 |
|---|---|---|---|
| Total debt | *Rupees* | **405,326,379** | 351,339,227 |
| Total equity | *Rupees* | **1,270,264,568** | 972,811,602 |
| Total capital employed | | **1,675,590,947** | 1,324,150,829 |
| Gearing | *% age* | **24.19** | 26.53 |

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements, except those related to maintenance of debt covenants, commonly imposed by the providers of debt finance.

| | 2013 | 2012 |
|---|---|---|
| | ***Rupees*** | *Rupees* |

**42 RESTRICTION ON TITLE, AND ASSETS PLEDGED AS SECURITY**

**Mortgages and charges**

| | | |
|---|---|---|
| Hypothecation of moveables, book debts and receivables | 5,115,845,898 | 4,910,095,898 |
| Mortgage over operating fixed assets | 1,429,000,000 | 1,429,000,000 |
| Hypothecation of plant and machinery | 1,029,000,000 | 1,896,000,000 |

**43 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

The aggregate amount charged to profit or loss in respect of chief executive, directors and executives on account of managerial remuneration, allowances and perquisites, post employment benefits and the number of such directors and executives is as follows:

| | **2013** | | |
|---|---|---|---|
| | **Chief Executive** | **Directors** | **Executives** |
| | ***Rupees*** | ***Rupees*** | ***Rupees*** |
| Managerial remuneration | **3,140,040** | **4,406,412** | **6,872,400** |
| Allowances and perquisites | **1,565,412** | **2,516,087** | **3,434,400** |
| Meeting fee | **-** | **150,000** | **-** |
| Post employment benefits | **-** | **-** | **758,900** |
| | **4,705,452** | **7,072,499** | **11,065,700** |
| Number of persons | **1** | **4** | **8** |

| | 2012 | | |
|---|---|---|---|
| | Chief Executive | Directors | Executives |
| | *Rupees* | *Rupees* | *Rupees* |
| Managerial remuneration | 2,539,200 | 5,863,248 | 6,525,133 |
| Allowances and perquisites | 1,228,101 | 2,198,796 | 1,385,867 |
| Meeting fee | - | 105,000 | - |
| Post employment benefits | - | - | 439,522 |
| | 3,767,301 | 8,167,044 | 8,350,522 |
| Number of persons | 1 | 4 | 8 |

Remuneration, allowances and meeting fee include Rs. 4,662,822 (2012: Rs. 4,567,044) paid to non-executive directors of the Company.

**44 EVENTS AFTER THE REPORTING PERIOD**

The Board of Directors in their meeting held on September 26, 2013 has proposed dividend on ordinary shares at Rs.10/= per ordinary share of Rs. 10 each. The proposed dividend is subject to approval by the shareholders in the forthcoming annual general meeting.

| | 2013 | 2012 |
|---|---|---|
| | **No. of shares** | *No. of shares* |

**45 SHARES IN THE COMPANY HELD BY ASSOCIATES**

Ordinary shares in the Company held by associates are as follows:

| | 2013 | 2012 |
|---|---|---|
| Haroon Omer (Private) Limited | **664,572** | 664,572 |
| Monell (Private) Limited | **664,572** | 664,572 |
| Icaro (Private) Limited | **664,572** | 664,572 |
| ARH (Private) Limited | **628,400** | 628,400 |
| Ellahi International (Private) Limited | **41,345** | 41,345 |
| | **2,663,461** | 2,663,461 |

**46 PLANT CAPACITY AND ACTUAL PRODUCTION**

| | *Unit* | **2013** | 2012 |
|---|---|---|---|
| ***Spinning*** | | | |
| Number of spindles installed | *No.* | **54,528** | 54,528 |
| Plant capacity on the basis of utilization converted into 30s count | *Kgs* | **11,002,549** | 13,654,540 |
| Actual production converted into 30s count | *Kgs* | **10,826,590** | 12,112,809 |

It is difficult to precisely compare production capacity and the resultant production converted into base count in the textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw materials used, spindle speed and twist etc. It would also vary according to pattern of production adopted in a particular year.

| | *Unit* | **2013** | 2012 |
|---|---|---|---|
| ***Power*** | | | |
| Installed capacity (based on 8,760 hrs) | *Mwhs* | **112,654** | 121,414 |
| Power generated | *Mwhs* | **28,607** | 24,009 |
| Power consumed | *Mwhs* | **28,607** | 24,009 |

Actual power generated is less than the installed capacity because requirement for consumption is less than the installed capacity.

**47 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on September 26, 2013 by the Board of Directors of the Company.

**48 NUMBER OF EMPLOYEES**

Total number of employees of the Company as at the reporting date are 1,167 (2012: 1,095). Average number of persons employed by the Company during the year are 1,162 (2012: 1,038).

**49 RECOVERABLE AMOUNTS AND IMPAIRMENT**

As at the reporting date, recoverable amounts of all assets/cash generating units are equal to or exceed their carrying amounts, unless stated otherwise in these financial statements.

**50 RE-CLASSIFICATIONS**

During the year, fuel stock valued at Rs. 26,402,912 (2012: Rs. 9,677,459) was re-classified from 'stock in trade' to 'stores, spares and loose tools' for better presentation.

## 51 GENERAL

Figures have been rounded off to the nearest rupee. Comparative figures have been rearranged and reclassified, where necessary, for the purpose of comparison. However, there were no significant reclassifications during the year, with the exceptions of those referred to in note 50.

***Pursuant to Section 241(2) of the Companies Ordinance, 1984, these financial statements have been signed by two Directors in the absence of Mg. Director (Chief Executive) who for the time being is not in the country.***

| | | |
|---|---|---|
| | **Shahzada Ellahi Shaikh** | **Javaid Bashir Sheikh** |
| Lahore: September 26, 2013 | Director | Director |

# FORM OF PROXY

The Secretary,
**ELLCOT SPINNING MILLS LTD.**
Nagina House,
91-B-1, M.M. Alam Road,
Gulberg-III,
Lahore-54660.

I/We ________________________________________ of ________________ being member(s) of **ELLCOT SPINNING MILLS LITD.,** and holder of ____________________ Ordinary Shares as per Share Register Folio No. ________________ (In case of Central Depository System Account Holder A/c No.______________ Participant I.D. No. ________________________) hereby appoint_____________________________________ of _________________ who is member of the Company as per Register Folio No. ______________________ (in case of Central Depository System Account Holder A/c No. ______________ Participant I.D. No. ________________________) or failing him/her ________________________________________ of ________________ who is member of the Company as per Register Folio No. ______________________ (In case of Central Depository System Account Holder A/c No. ______________ Participant I.D. No.______________) as my/our proxy to vote for me/us and on my/our behalf at the 25th Annual General Meeting of the Company to be held on October 23, 2013 and at any adjournment thereof.

Affix
Rs. 5/=
Revenue
Stamp

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

Signed at ____________________ this the ______________ day of __________________ 2013

**NOTES:**

1. If a member is unable to attend the meeting, he/she may sign this form and send it to the Secretary so as to reach him not less than 48 hours before the time of holding the meeting.

2. Members through CDC appointing proxies must attach attested copy of their Computerized National Identity Card (CNIC) with the proxy form.

3. The Shareholders through CDC, who wish to attend the Annual General Meeting are requested to please bring, original CNIC with copy tereof duly attested by their Bankers, Account Number and Participant I.D Number for identification purpose.

4. In case of corporate entity, certified copy of the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier along with proxy form of the Company.

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