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## COMPANY PROFILE

Kohinoor Mills Limited's vision is to achieve and then remain as the most progressive and profitable textile organization in Pakistan. Incorporated in 1987 as a small weaving mill, today Kohinoor Mills broadly undertakes five major businesses, weaving, processing, stitching, knitting and power generation. It has, and continues to develop, a portfolio of businesses that are major players within their respective industries. Bringing together outstanding knowledge of customer needs with leading edge technology platforms your company undertakes to provide superior products to its customers.

With an annual turnover of over Rs. 6 billion, today Kohinoor Mills Limited employs over 3,200 employees. It aims to create superior value for Kohinoor's customers and stakeholders without compromising its commitment to safety, environment and health for the communities in which it operates. Its products range from greige fabric to processed fabric and stitched garments. It is also producing world class athletics socks.



## COMPANY INFORMATION

### Board of Directors

Mr. Aamir Fayyaz Sheikh .....Chief Executive /Chairman  
Mr. Asad Fayyaz Sheikh .....Director  
Mr. Ali Fayyaz Sheikh .....Director  
Mr. Rashid Ahmed .....Director  
Syed Mohsin Raza Naqvi .....Director  
Mr. Aamir Amin.....Director (NIT Nominee)  
Mr. Kamran Shahid.....Director

### Audit Committee

Mr. Rashid Ahmed .....Chairman  
Mr. Asad Fayyaz Sheikh .....Member  
Mr. Ali Fayyaz Sheikh .....Member

### Chief Financial Officer

Mr. Kamran Shahid

### Head of Internal Audit

Mr. Faisal Sharif

### Legal Advisors

- Raja Mohammad Akram & Co.,  
Advocate & Legal Consultants, Lahore.
- Malik Muhammad Ashraf Kumma, Advocate.

### Company Secretary

Mr. Muhammad Rizwan Khan

### Auditors

M/s. Riaz Ahmad & Co.,  
Chartered Accountants.

### Bankers

- Allied Bank Limited
- Al Baraka Islamic Bank B.S.C. (E.C)
- Askari Bank Limited
- Bank Alfalah Limited
- Faysal Bank Limited
- Habib Bank Limited
- MCB Bank Limited
- National Bank of Pakistan
- NIB Bank Limited
- Royal Bank of Scotland

- Silk Bank Limited
- Standard Chartered Bank (Pakistan) Limited
- The Bank of Punjab
- United Bank Limited

### Registered Office & Mills

8th K.M. Manga Raiwind Road,  
District Kasur.

UAN: (92-42) 111-941-941

CELL LINES :(92-333) 4998801-10

LAND LINES: (92-42) 35391941-45

FAX: (92-42) 35391946 & 35393459

EMAIL: info@kohinoormills.com

WEBSITE : www.kohinoormills.com

### Shares Registrar

M/s. Hameed Majeed Associates (Pvt) Ltd  
HM House, 7 Bank Square, Lahore.

LAND LINES: (92-42) 37235081 & 82

FAX: (92-42) 37358817

### Liaison Office

87/2 Arif Jan Road,  
Lahore Cantt.

LAND LINES: (92-42) 36600104-5, 36651086

FAX: (92-42) 36650994

### Stock Exchange

Kohinoor Mills Limited is a public limited Company and its shares are traded under textile composite sector at all three Stock Exchanges of Pakistan.



## MISSION & VISION STATEMENT

The Kohinoor Mills Limited's stated mission is to become and then remain as the most progressive and profitable company in Pakistan in terms of industry standards and stakeholders' interest.

The Company shall achieve its mission through a continuous process of having sourced, developed, implemented and managed the best leading edge technology, industry best practices, human resource and innovative products and services and sold these to its customers, suppliers and stakeholders.

# STATEMENT OF ETHICS AND BUSINESS PRACTICES

## Introduction to the Statement

This Statement has been formulated to ensure that directors and employees of the company operate within acceptable standards of conduct and sound business principles which strive for development and growth. The company takes pride in adherence to its principles and continues to serve its customers, stakeholders and society.

## Contents

This statement identifies the acceptable standards under following headings:

- Core values
- Business culture
- Responsibilities

## Core values

The credibility, goodwill and repute earned over the years can be maintained through continued conviction in our corporate values of honesty, justice, integrity, and respect. The Company strongly believes in democratic leadership style with fair, transparent, ethical and high professional standards of conduct in all areas of business activities.

## Business culture

### Operations

The Company shall formulate and monitor its objectives, strategies and overall business plan of the organization.

The Company shall be continuously involved in the research and development of new products while improving quality of existing products using highest level of quality control measures at every stage of its operations. Creativity and innovation must prevail at all levels of hierarchy to achieve organizational excellence.

## Abidance of Law

It is Company's prime object to comply with all applicable laws and regulations and to co-operate with all governmental and regulatory bodies.

## Corporate Reporting and Internal Controls

The Company maintains effective, transparent and secure financial reporting and internal control systems so as to ensure reliable performance measurement and compliance with local regulations and international accounting standards as applicable.

The Company strictly adheres to the principles of good corporate governance and is committed to high standards of corporate governance.

The Company regularly updates and upgrades manufacturing and reporting systems so as to keep abreast with technological advancements and achieve economies of production.

### Integrity and Confidentiality

The Company believes in uprightness and expects it to be a fundamental responsibility of employees to act in Company's best interest while holding confidential information and neither to solicit internal information from others nor to disclose Company's figures, data or any material information to any unauthorized person/body.

Inside information about the Company, its customers, vendors, employees shall not be used for their own gain or for that of others directly or indirectly.

### Responsibilities

#### Shareholders

The Company believes in maximizing shareholders value by providing consistent growth and fair return on their investment.

#### Customers

The Company considers it imperative to maintain cordial relationship with the customers as integral to its growth and development of business and is committed to provide high quality products and services that conform to highest international standards.

#### Employees

The Company is an equal opportunity employer at all levels with respect to issues such as color, race, gender, age, ethnicity and religious beliefs and its promotional policies are free of any discrimination.

The Company ensures that employees work towards achievement of corporate objectives, individually and collectively as a team and conduct themselves at work and in society as respectable employees and good citizens.

The Company believes in continuous development and training of its employees.

The Company has set high standards of performance and recognizes employees' contribution towards its growth and rewards them based on their performance. The Company believes development, growth and recognition result in motivated employees.

All employees of the Company are part of Kohinoor family and the families of all members are also part and parcel of Kohinoor family. The Company believes that the sense of belonging to Kohinoor fulfils an essential need of its employees and the organization and as such will always be nurtured.

### Environment and Social Responsibility

Protecting the environment in which we live is an important element. The Company uses all means to ensure a clean, safe, healthy and pollution free environment not only for its workers and employees but also for the well being of all people who live in and around any of the production and manufacturing facilities. The Company will always employ such technology as may be beneficial in maintaining a healthy and hygienic working environment. It also believes in community development without political affiliations with any person or group of persons and contributes part of its resources for a better environment with an unprejudiced approach.

# NOTICE OF 23<sup>rd</sup> ANNUAL GENERAL MEETING

NOTICE is hereby given that the 23rd Annual General Meeting (AGM) of the members of M/s Kohinoor Mills Limited will be held at its Registered Office situated at 8th Kilometer, Manga Raiwind Road, Distt. Kasur, on Saturday, 30th day of October, 2010 at 03:00 p.m. to transact the following ordinary business:-

1. To confirm the minutes of the Extraordinary General Meeting held on March 29, 2010.
2. To receive, consider and approve the Annual Audited Accounts of the Company for the year ended June 30, 2010, together with Directors' and Auditors' Reports thereon.
3. To appoint auditors for the year ending June 30, 2011 and fix their remuneration.
4. To transact such other business which may be placed before the meeting with the permission of the Chairman.

By Order of the Board



**MUHAMMAD RIZWAN KHAN**  
Company Secretary

Kasur:  
October 08, 2010.

## NOTES

1. The shares transfer books of the Company will remain closed from October 23, 2010 to October 30, 2010 (both days inclusive).
2. A member entitled to attend and vote at AGM may appoint a person/representative as proxy to vote in place of member at the meeting. Proxies in order to be effective must be received at the Company's Registered Office duly stamped and signed not later than 48 hours before the time of holding meeting. A member may not appoint more than one proxy. A copy of shareholder's attested Computerized National Identity Card (CNIC) must be attached with the proxy form.
3. The CDC account holders / sub account holders are requested to bring with them their CNIC along with participant(s) ID numbers and their account numbers at the time of attending the meeting in order to facilitate identification of the respective shareholders. In case of corporate entity, the Board of Directors' resolution/Power of Attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.
4. Members are requested to promptly notify change in their addresses, if any, to Shares Registrar of the Company i.e., M/s. Hameed Majeed Associates (Pvt.) Limited, HM House, 7 Bank Square, Lahore



## DIRECTORS' REPORT

The Directors of the Company present the audited financial statements for the year ended June 30, 2010. These accounts are presented in accordance with the requirements of Companies Ordinance, 1984.

### Textile Industry Outlook

The financial year (FY) 2009-10 continued to be another tough year for the Pakistani economy as a whole due to adverse security situation in the country and fragile geopolitical situation of the region. The situation was especially worsened for Pakistani value-added textile industry which also faced raw-material shortage and price-hike due to increased export of cotton yarn to India and China due to shortage of cotton in these countries. Further, the continuing global economic recession, with dampened overall demand in the US and European markets, escalating cost of doing business in Pakistan due to massive power outages and gas load-shedding and increase in labor costs made the operating environment more unfavourable for the whole industry. Although the overall textile sector recorded a growth in exports of 4% on year-on-year basis during FY 2009-10 on back of higher exports of raw cotton and yarn, but there was actually 0.5% decline in the exports of value-added sector, with cotton cloth recording highest (11%) decline.

Furthermore, recent floods, worst in the recorded history, do not add much hope to an already gloomy picture of the state of affairs because of the increased burden on national exchequer for aid and recovery efforts and adverse impact on cotton crop. The Government has been forced to cutback its expenditure on several fronts and the continued relief for a depressed textile industry is very much unlikely to be high on its agenda.

Going forward, the textile industry, left on its own, faces an uphill struggle to remain competitive in the global market. Product development, including research, innovation and development in technical textiles, remains the mainstay of any gain in the international textiles market share. Aggressive market with brand development and direct-selling through large retail store-chains is another area promising good returns.

## Operating & Financial Results

During the financial year ended June 30, 2010, your company earned a gross profit of Rs 324.598 million on sales of Rs 6,211.709 million as compared to gross profit of Rs 659.138 million on sales of Rs 7,578.457 million for the previous financial year 2008-09. During FY 2009-10, your company incurred a net loss after tax of Rs 1,136.512 million as compared to a net loss after tax of Rs 722.552 million during the corresponding previous financial year. Gross margin was at 5.23% during the year as compared to 8.7% of the corresponding previous financial year. Loss per share stood at 22.32 during the year as compared to 14.19 during the corresponding previous financial year.

Owing to depressed overseas demand in the earlier part of the year, the company was unable to maintain its sale volume in the current year under review, resulting in 18% decline in its sales turnover compared to previous year. With constricted liquidity due to continued losses, the company could not operate all its divisions at optimal capacity and thus was unable to recover most of its fixed costs. Higher raw material prices due to unchecked exports of yarn to China and India and massive gas load-shedding, forcing company to utilize expensive alternate fuel sources, further squeezed the gross margins. Loss from operations also included an impairment charge of Rs. 73.689 million on the investment in shares of Maple Leaf Cement Factory Limited.

## Dividend

In view of the adverse results in the current year, cash flows of your company do not permit dividend payout. Therefore, your directors have regrettably decided to omit any dividend this year.

## Performance Overview

A brief overview of performance of your company for the year ended June 30, 2010 is discussed below. Please also refer page no.18 of this Annual Report for six years' performance overview of your company.

## Weaving Division

The export of cotton yarn to China and India during the year, created its shortage and significant increase in prices during first half of the year. However, the raw-material price increase translated into higher greige fabric sale prices only in the later part of the year. Further, the capacity utilization in this division remained only 74% owing to liquidity constraints. Consequently, lower turnover and higher raw material costs resulted in significant deterioration of performance in this division. Keeping in view the good order position in this division, the management is confident that with full capacity utilization, the performance in this division will improve.

## Dyeing Division

The increase in greige fabric prices in later part of the year squeezed the overall margins in this division. With slight dip in the turnover and capacity utilization, the results of this division due to high raw material prices remained under pressure despite good order book position. However, subsequent to the year-end, the dyed fabric prices also improved absorbing some of the increase in raw material costs. The management is hopeful the situation would improve further in this division in coming months as further price increases may be passed on to the customers due to global increase in cost of raw materials.

### Hosiery Division

The management has been able to obtain program orders in this division from customers in the United States. The shipment for these orders has started in last two months of the current year. In the coming year, it is expected that the results of this division will show significant improvement as the capacity utilization increases. However, under-capacity utilization in earlier months resulted in this division incurring loss in the current year.

### Genertek Division

This Division incurred heavy losses during the year under review, especially during second and third quarters, due to extensive gas load-shedding in winters as standby RFO-based Niigata engines were utilized for electricity production. However, gas-loadshedding has persisted even after the winter season, with gas shut-down averaging one to two days per week. Further, the planned supply of electricity from WAPDA Grid could not be actualized due to delay by LESCO. However, installation and operation of husk-fired boilers avoided further deterioration of results.

### Apparel Division

The operations remain suspended in this Division. The management is continuously reviewing the market position and intends to resume operations in this division upon improvement in the market and the company's working capital position.

### Q Mart Corporation (Pvt) Ltd (a wholly owned subsidiary of your company)

Q Mart Corporation is currently operating with six stores in different locations of Punjab. Moreover, the management has increased the product range being offered to increase the store's revenue and has teamed-up with local brands, renting them out the available floor-space where they offer their own products. The management is hopeful that these efforts will result in this company making profits as the sales turnover increases.

### Information Technology

Your company is making continuous efforts to have efficient IT systems supporting timely and effective decisions. It has provided its employees, the most modern facilities to achieve optimum efficiency levels. Most of manufacturing equipment and machinery used in the operations are equipped with technologically advanced software providing on line real time information for most of the production processes.

The company's intranet acts as a useful resource base providing in depth information on the company's policies and procedures along with other information for beneficial use to the employees of the company.

### Human Resource & Training

With a human capital of about 3,200 employees, the company believes that the employees are vital ingredient in shaping company's future where each individual contributes directly to the success of the organization.

Your company's HR team is a group of highly skilled and experienced professionals. They work very closely with business teams to design efficient people solutions that will affectively meet the business goals.

Your company places a premium on respect for individuals, equal opportunities, advancement based on merit, effective communication, and the development of high performance culture. The company takes pride in continuous improvement at all levels and strive to ensure that opportunity for growth and varied career experiences are provided to all employees.

Your company is an equal opportunity employer and this is practiced in all aspects of the company's business activities including recruitment and employment.

Combined with state of the art technology and HR Information Systems, the result is a high performance environment within which individuals can achieve their professional and personal dreams.

### Training & Development

Your company believes in human resource development through training and development and places due emphasis on training in all spheres of its production process. The company made efforts during the year with more focused and cost effective training programs for the major technical categories such as weavers, technologists, knitting, linking, and boarding operators, off-line checkers, packers and quality control inspectors. Candidates are engaged through a Trainee Scheme and trained in-house over a period of 6 months through a career path. This has helped company in preparing a highly skilled workforce and also provides replacements to cover turnover.

In-house training sessions are regularly conducted in general management, fire fighting, first aid, health and safety, computer and technical disciplines.

### Safety, Health & Environment

Your company has provided safe & healthy workplace for both staff & contractors and will act responsibly towards the communities and environment in which we operate. This will be achieved by continuous improvement of our safety, health and environment performance through corporate leadership, dedication of staff and the application of the highest professional standards at workplace.

### Corporate Social Responsibility

Your company has very distinct Corporate and Social Responsibility (CSR) policy in fulfilling its responsibilities of securing the community within which it operates.

Your company through its directors is actively involved in the various social responsibility initiatives in the field of primary education and health care.

### Compliance with the Code of Corporate Governance

The Board reviews the company's strategic direction on regular basis. The business plans and budgetary targets, set by the Board are also reviewed regularly. The Audit Committee is empowered for effective compliance of Code of Corporate Governance. The Board is committed to maintain a high standard of good Corporate Governance.

## Corporate & Financial Reporting Frame Work

The Board of Directors of the company is fully cognizant of its responsibility as laid down in the Code of Corporate Governance issued by the Securities & Exchange Commission of Pakistan. The following statements are a manifestation of its commitment towards compliance with best practices of Code of Corporate Governance.

- a. The financial statements together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984. These Statements, prepared by the management of the company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- b. The company has maintained proper books of account as required by the Companies Ordinance, 1984.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements, except as stated in note 2.1 to these financial statements. Accounting estimates are based on reasonable and prudent judgment.
- d. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from, if any, has been adequately disclosed.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the company's ability to continue as a going concern. Auditors' reservation in their report regarding this issue has been explained in Note 1.2 to these financial statements.
- g. There has been no material departure from the best practices of Corporate Governance as detailed in the Listing Regulations of the stock exchanges where the company is listed.
- h. There are no significant plans for any corporate restructuring, business expansion or discontinuation of any part of company's operations.
- i. Information regarding statutory payments on account of outstanding taxes, duties, levies and other charges (if any) has been given in related note(s) to the audited accounts.
- j. The company strictly complies with the standard of safety rules & regulations. It also follows environmental friendly policies.
- k. The valuation of investment made by the staff retirement benefit fund (Provident Fund), based on their respective un-audited accounts is as follows:

June 30, 2010  
June 30, 2009

Rs. 76.264 million  
Rs. 111.862 million

### Board of Directors

The Board of Directors is responsible for the overall governance and administration of the company. All directors are aware of their duties and powers conferred by the Companies Ordinance, 1984, Code of Corporate Governance and Company's Memorandum and Articles of Association and have filed declaration to the effect. They exercise their fiduciary responsibilities through board meetings which are held every quarter for reviewing and approving the adoption of company's financial statements in addition to review and adoption of company's significant plans and decisions, projections, forecasts, and budgets having regard to the recommendations of the Audit Committee. The responsibilities include establishing the company's strategic objectives, providing leadership, supervising the management of the business and reporting to shareholders on their stewardship.

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

Name of Directors	No. of Meetings Attended
Mr. Aamir Fayyaz Sheikh	4
Mr. Asad Fayyaz Sheikh	3
Mr. Ali Fayyaz Sheikh	4
Mr. Salman Akram Raja*	-
Syed Mohsin Raza Naqvi	4
Mr. Rashid Ahmed	4
Mr. Aamir Amin (NIT Nominee)	4
Mr. Kamran Shahid **	1

\* Mr. Salman Akram Raja retired on completion of his three year term on Board on March 29, 2010.

\*\* Mr. Kamran Shahid was elected to the Board in Extra Ordinary General Meeting held on March 29, 2010.

Leaves of absence were granted to the directors who could not attend the Board of Directors' Meetings due to their pre-occupations.

The Board wishes to place on record its appreciation for the services and guidance that Mr. Salman Akram Raja provided during his term as the Director.

The Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minor children have not traded in company's shares during the year.

## Audit Committee

The Audit Committee operates according to the terms of reference agreed by the Board of Directors of the company. It focuses on monitoring compliance with the best practices of the Code of Corporate Governance and relevant statutory requirements, changes in accounting policies and practices, compliance with applicable accounting standards and listing regulations.

It recommends to the Board of Directors the terms of appointment of external auditors by company shareholders and reviews their recommendations relating to audit. Other responsibilities include monitoring the internal audit function, safeguarding company's assets through appropriate internal control systems including financial and operational controls, accounting system and reporting structure, preliminary review of business plans and quarterly, half-yearly and annual results prior to approval and publication by the Board.

The Audit Committee comprises the following three (3) members, of which the Chairman is an independent non-executive director:

Mr. Rashid Ahmed	Chairman
Mr. Asad Fayyaz Sheikh	Member
Mr. Ali Fayyaz Sheikh	Member

## Statement of Ethics & Business Practices

The Board has prepared and circulated the Statement of Ethics and Business Practices signed by every director and employee of the Company as a token of acknowledgement of his/her understanding of the standards of conduct in relation to everybody associated or dealing with the Company.

## Pattern of Shareholding

The Statement of Pattern of Shareholding along with categories of shareholders of the company as at June 30, 2010, as required under section 236 of Companies Ordinance, 1984 and Code of Corporate Governance is annexed with this report.

## Future Prospects

Pakistani economy, which was already going through its worst due to adverse security and geopolitical situation of the region, took another blow from the recent floods, highest in the recorded history. These floods have exacted a heavy cost from the economy, in shape of widespread damage to standing crops including cotton, destruction of infrastructure and diversion of government spending away from development to relief efforts. The effects and brunt of these floods are sure to be felt in the years to come. The textile industry is expected to be affected due to shortage of cotton and cutbacks imminent in Government assistance to the industry. However, the textile industry, which has shown great resilience in the past, is expected to withstand this crisis, especially with recovery in overseas demand due to an improving global economy.

For Kohinoor, the continued losses in the past three years have resulted in erosion of company's reserves and depletion of working capital base. This constricted liquidity continued to hamper the company's ability to operate at full capacity during the current year and cover all its fixed costs. In order to turn the current state of affairs around and replenish its lost working capital, the management has devised a detailed strategy, including injection of further fresh share capital. The company is in advanced stages of negotiation with its major bankers for restructuring of its existing debt, converting most of its existing short term borrowings into long term financing with a moratorium in principal repayments of two years and reduction in mark up rates and sanctioning of new working capital facility of Rupees 400 million. These funds will enable the company to operate again at an optimum level. The current order book of the company is quite healthy and it has confirmed orders upto December 2010 at full capacity in all of its divisions. Therefore, the management is confident that these steps will bring the company out of the existing financial crisis.

#### Auditors

The external auditors of the company, M/s Riaz Ahmed & Company, Chartered Accountants shall retire on the conclusion of forthcoming Annual General Meeting. Being eligible for re-appointment under the Companies Ordinance, 1984, they have offered their services as auditors of the company for the year ending June 30, 2011. The Board of Directors endorsed its recommendations of Audit Committee for their re-appointment.

The auditors have conveyed that they have been assigned satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan and the firm is fully compliant with the code of ethics issued by International Federation of Accountants (IFAC). Further they are also not rendering any related services to the company. The auditors have also confirmed that neither the firm nor any of their partners, their spouses or minor children at any time during the year held or traded in the shares of the company.

#### Acknowledgment

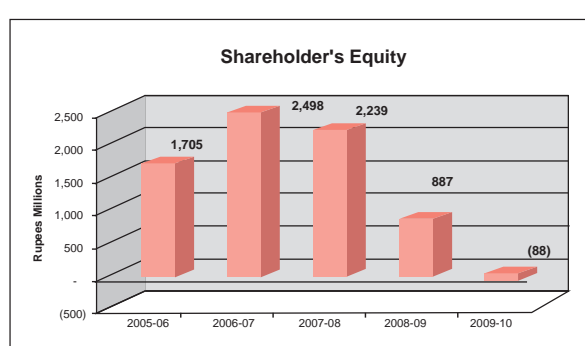
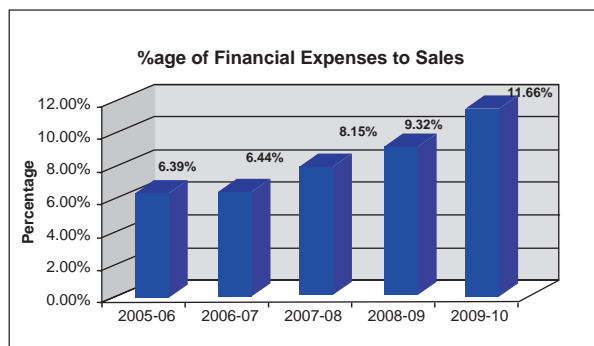
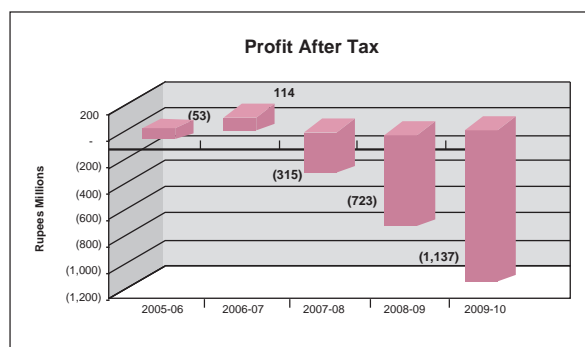
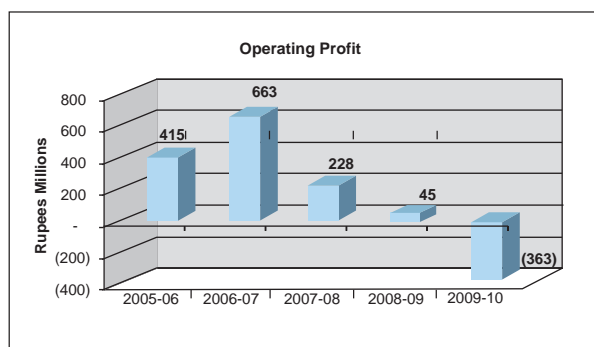
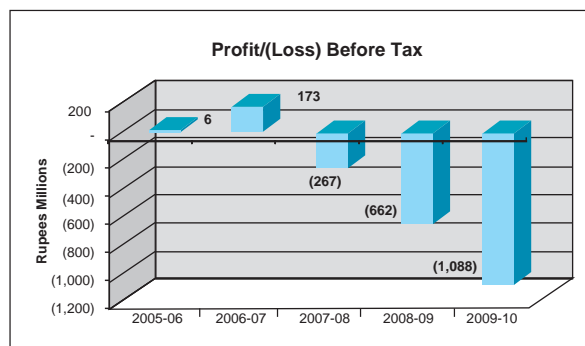
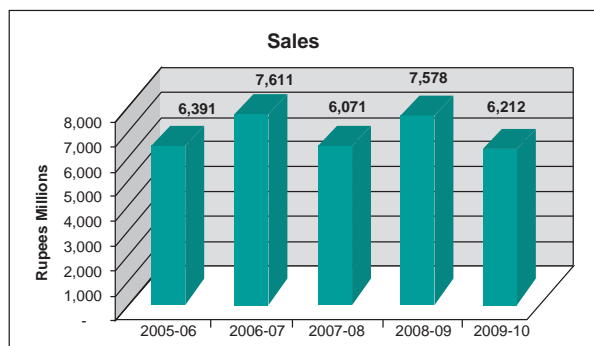
The board places on record its profound gratitude for its valued shareholders, banks, financial institutions and customers, whose cooperation, continued support and patronage have enabled the company to strive for constant improvement. During the period under review, relations between the management and employees remained cordial and we wish to place on record our appreciation for the dedication, perseverance and diligence of the staff and workers of the company.

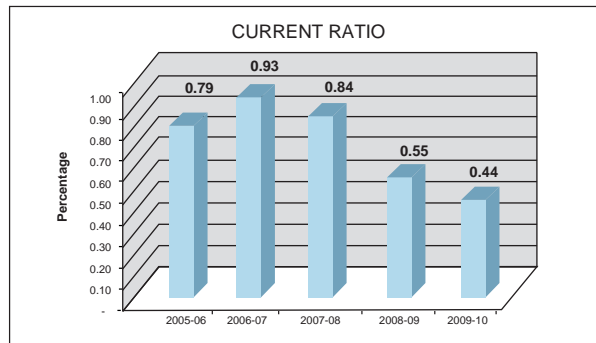
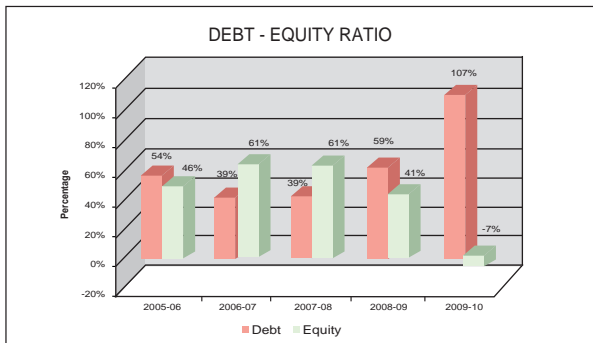
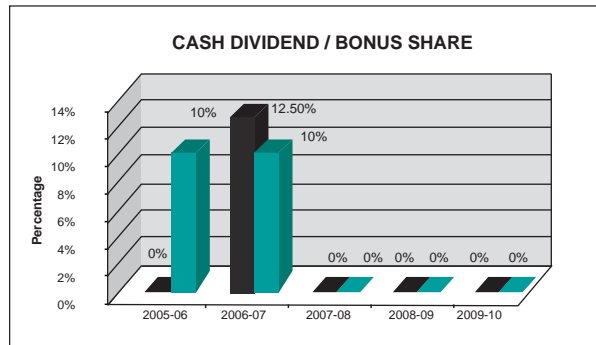
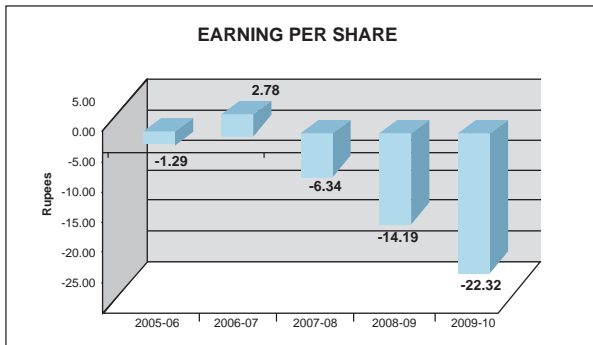
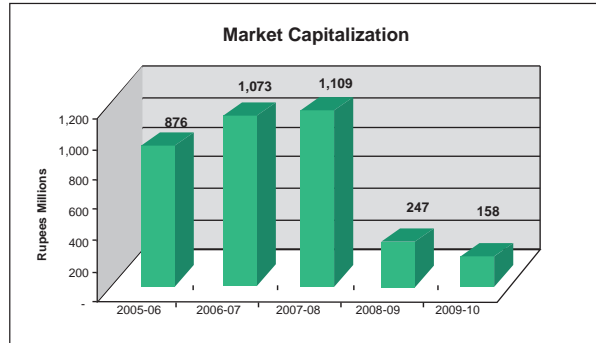
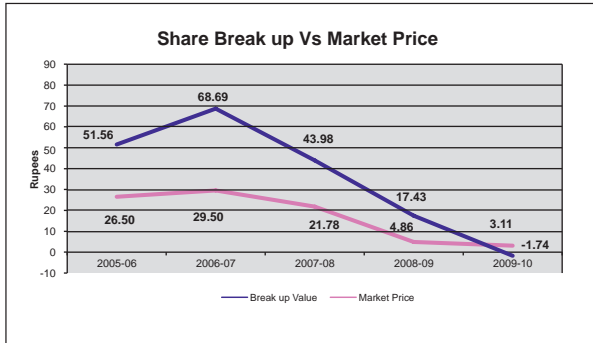
For and on behalf of the Board

Kasur:  
October 02, 2010

  
AAMIR FAYYAZ SHEIKH  
Chief Executive

# PERFORMANCE OVERVIEW





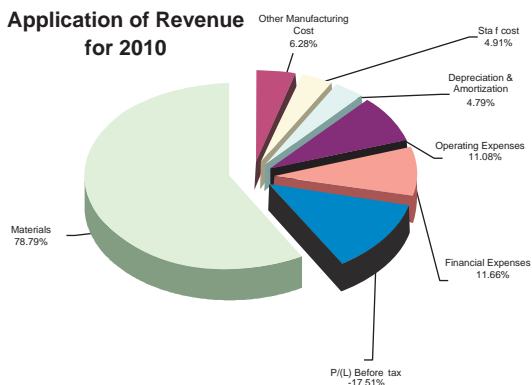
# SIX YEARS' PERFORMANCE

		2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
9 months							
<b>OPERATING</b>							
Gross Margin	%	5.23	8.70	13.07	14.78	12.44	5.71
Pre Tax Margin	%	(17.51)	(8.73)	(4.40)	2.27	0.09	(5.10)
Net Margin	%	(18.30)	(9.53)	(5.19)	1.50	(0.83)	(5.64)
<b>PERFORMANCE</b>							
Return on Long Term Assets	%	(20.73)	(12.74)	(7.30)	2.84	(1.29)	(4.87)
Total Assets Turnover		0.71	0.84	0.67	0.89	0.82	0.52
Fixed Assets Turnover		1.20	1.40	1.49	1.89	1.56	0.87
Inventory Turnover	Days	84	74	96	71	75	98
Return on Equity	%	1,284.37	(81.44)	(14.06)	4.58	(3.12)	(11.89)
Return on Capital Employed	%	(96.16)	(33.49)	(8.57)	2.81	(1.44)	(4.88)
Retention	%	-	-	-	44.39	-	-
<b>LEVERAGE</b>							
Debt:Equity		107:(7)	59:41	39:61	39:61	54:46	59:41
<b>LIQUIDITY</b>							
Current		0.44	0.55	0.84	0.93	0.79	0.87
Quick		0.24	0.30	0.49	0.61	0.45	0.51
<b>VALUATION</b>							
Earning per share (pre tax)	Rs.	(21.36)	(13.00)	(5.38)	4.21	0.15	(4.43)
Earning per share (after tax)	Rs.	(22.32)	(14.19)	(6.34)	2.78	(1.29)	(4.90)
Breakup value	Rs.	(1.74)	17.43	43.98	68.69	51.56	56.36
Dividend payout - Cash	Rs.	-	-	-	12.50	-	-
Bonus issue	%	-	-	-	10.00	10.00	-
Payout ratio - Cash (after tax)	%	-	-	-	55.61	-	-
Price earning ratio	Rs.	(0.14)	(0.34)	(3.43)	9.37	(16.48)	(5.09)
Market price to breakup value	Rs.	(1.79)	0.28	0.50	0.43	0.51	0.56
Dividend yield	%	-	-	-	4.24	-	-
Market value per share	Rs.	3.11	4.86	21.78	29.50	26.50	31.30
Market capitalization	Rs.(000)	158,333	247,428	1,108,842	1,072,768	876,064	1,034,747
<b>HISTORICAL TRENDS</b>							
Turnover	Rs.(000)	6,211,709	7,578,457	6,071,271	7,611,237	6,391,023	3,571,938
Gross profit	Rs.(000)	324,598	659,138	793,521	1,124,500	795,069	204,074
Profit/(Loss) before tax	Rs.(000)	(1,087,528)	(661,761)	(267,105)	173,054	6,049	(182,124)
Profit/(Loss) after tax	Rs.(000)	(1,136,512)	(722,552)	(314,802)	114,441	(53,169)	(201,432)
<b>FINANCIAL POSITION</b>							
Shareholder's funds	Rs.(000)	(88,488)	887,261	2,238,857	2,497,983	1,704,681	1,693,844
Property Plant and Equipment	Rs.(000)	5,181,770	5,404,086	4,062,382	4,026,564	4,104,627	4,122,938
Current assets	Rs.(000)	3,208,773	3,378,901	4,771,035	4,509,102	3,703,831	2,791,870
Current liabilities	Rs.(000)	7,317,408	6,109,691	5,689,702	4,868,224	4,679,881	3,222,565
Long term assets	Rs.(000)	5,483,211	5,672,331	4,311,432	4,031,148	4,119,688	4,137,965
Long term liabilities	Rs.(000)	438,911	1,016,955	1,153,908	1,174,043	1,438,957	2,013,426

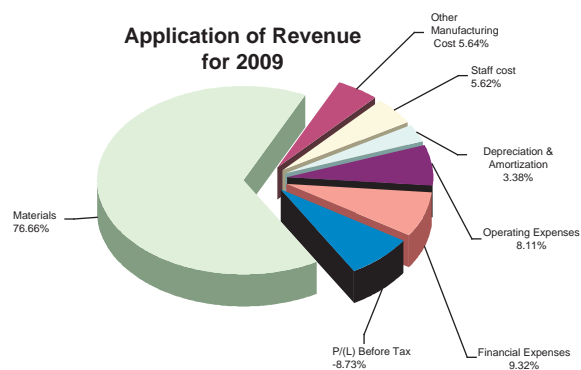
# STATEMENT OF VALUE ADDITION

Value Added	2010		2009	
	%age	Rupees (000)	%age	Rupees (000)
Local Sales	23.76%	1,476,176	27.95%	2,117,810
Export Sales	76.24%	4,735,533	72.05%	5,460,647
Total Sales	100%	6,211,709	100%	7,578,457
<b>Value Allocated</b>				
Materials	78.79%	4,894,387	76.66%	5,809,525
Other Manufacturing Cost	6.28%	389,791	5.64%	427,383
Staff cost	4.91%	305,210	5.62%	426,225
Depreciation & Amortization	4.79%	297,723	3.38%	256,185
Operating Expenses	11.08%	688,073	8.11%	614,600
Financial Expenses	11.66%	724,053	9.32%	706,299
P/(L) Before Tax	-17.51%	(1,087,528)	-8.73%	(661,761)
	100%	6,211,709	100%	7,578,457

**Application of Revenue for 2010**



**Application of Revenue for 2009**



# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2010

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

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board of Directors includes two non-executive directors including independent non-executive director representing institutional equity interest.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. The Board of Directors of the Company completed its term of three years on March 31, 2010 and the new Board of Directors was elected for next three years. Mr. Kamran Shahid joined the Board as an Executive Director in place of Mr. Salman Akram Raja. However, no casual vacancy occurred in the Board during the year.
5. The Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the Company.
6. The Board has developed a Vision/Mission Statement, Overall Corporate Strategy and Significant Policies of the Company. A complete record of particulars of Significant Policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of meetings were appropriately recorded and circulated.
9. The Company has planned Orientation Course for its Directors for the year 2011 to apprise them of their duties and responsibilities.

10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The Directors' Report for the year ended June 30, 2010, has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Company has complied with approval of transactions with related parties as per Karachi Stock Exchange notice No. KSE/N-269 dated January 19, 2009.
16. The Board has formed an Audit Committee. It comprises three members, of whom Chairman of the committee is an independent non-executive director.
17. The meetings of the Audit Committee were held at least once every quarter prior to the approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
18. The Board has set-up an effective internal audit function manned by suitably qualified and experienced personnel who are conversant with the policies and procedures of the Company and are involved in the internal audit function on a full time basis.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan (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 ICAP.
20. 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.
21. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Kasur:  
October 02, 2010.

  
AAMIR FAYYAZ SHEIKH  
Chief Executive

## REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of KOHINOOR MILLS LIMITED ("the Company") for the year ended 30 June 2010, to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

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

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We 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, Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges require the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at 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 as applicable to the Company for the year ended 30 June 2010.

RIAZ AHMAD & COMPANY  
Chartered Accountants

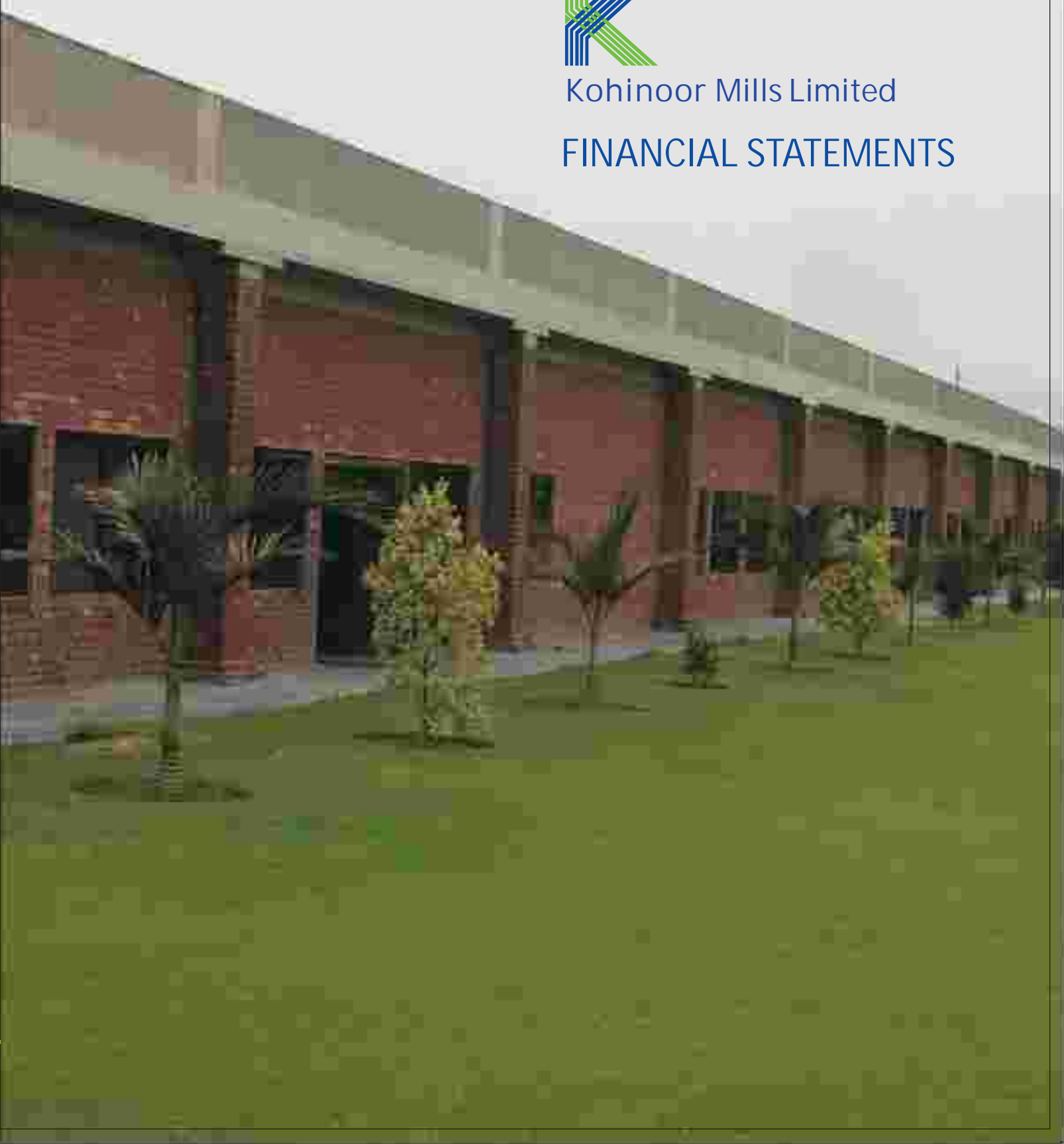
Name of engagement partner:  
Syed Mustafa Ali

LAHORE:  
October 02, 2010



Kohinoor Mills Limited

# FINANCIAL STATEMENTS





## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **KOHINOOR MILLS LIMITED** as at 30 June 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in Note 2.1(d)(i) with which we concur;
  - ii) the expenditure incurred during the year was for the purpose of the company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 30 June 2010 and of the loss, its comprehensive loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Without qualifying our opinion, we draw attention to note 1.2 to the financial statements, which indicates that the company has incurred a net loss of Rupees 1,136.512 million during the year ended 30 June 2010. Equity of the company has been eroded due to accumulated losses of Rupees 2,042.346 million as on 30 June 2010. At balance sheet date, the company's current liabilities exceeded its current assets by Rupees 4,108.635 million. The company could not meet its obligation in respect of repayment of long term financing, short term borrowings and finance cost accrued thereon. These conditions, alongwith other matters as set forth in the note 1.2, indicate the existence of material uncertainty which may cast doubt about the company's ability to continue as a going concern.

These financial statements have however been prepared on a going concern basis subject to the assumptions of injection of new share capital through right shares and support from lending institutions with restructuring of existing financing facilities, reduction in markup rates and sanctioning of new working capital facility for the company.

Lahore:  
October 02, 2010

RIAZ AHMAD & COMPANY  
Chartered Accountants

Name of engagement partner:  
Syed Mustafa Ali

# BALANCE SHEET

	Note	2010 Rupees	2009 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
Authorized share capital	3	<u>1,100,000,000</u>	<u>1,100,000,000</u>
Issued, subscribed and paid up share capital	4	509,110,110	509,110,110
Reserves	5	(597,598,306)	378,150,546
<b>Total equity</b>		(88,488,196)	887,260,656
<b>Surplus on revaluation of operating fixed assets</b>	6	1,024,153,342	1,037,326,061
<b>Non-current liabilities</b>			
Long term financing - secured	7	346,048,931	948,092,066
Deferred tax	8	92,861,746	68,862,581
		438,910,677	1,016,954,647
<b>Current liabilities</b>			
Trade and other payables	9	1,336,138,701	1,107,202,523
Accrued markup	10	494,147,375	165,360,822
Short term borrowings - secured	11	4,508,280,549	4,460,475,348
Current portion of long term financing	7	924,362,737	322,319,602
Provision for taxation		54,478,371	54,332,493
		7,317,407,733	6,109,690,788
<b>Total Liabilities</b>		7,756,318,410	7,126,645,435
<b>Contingencies and commitments</b>	12		
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>8,691,983,556</u>	<u>9,051,232,152</u>

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

  
**AAMIR FAYYAZ SHEIKH**  
 Chief Executive

# AS AT JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	13	5,181,769,803	5,404,085,959
Long term investments	14	300,000,000	266,629,500
Long term security deposits		1,440,751	1,615,751
		<hr/>	<hr/>
		5,483,210,554	5,672,331,210
 <b>Current assets</b>			
Stores, spares and loose tools	15	323,609,725	368,032,690
Stock-in-trade	16	1,119,779,665	1,195,946,684
Trade debts	17	774,726,517	872,369,399
Loans and advances	18	329,990,567	239,474,981
Trade deposits and short term prepayments	19	11,577,434	3,208,579
Other receivables	20	180,795,300	158,649,122
Sales tax recoverable		120,711,830	89,247,515
Short term investments	21	272,263,840	172,525,740
Cash and bank balances	22	75,318,124	279,446,232
		<hr/>	<hr/>
		3,208,773,002	3,378,900,942
 <b>TOTAL ASSETS</b>			
		<hr/> <hr/>	<hr/> <hr/>
		8,691,983,556	9,051,232,152



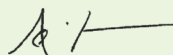
**SYED MOHSIN RAZA NAQVI**  
Director

# PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 Rupees	2009 Rupees
SALES	23	6,211,709,477	7,578,457,178
COST OF SALES	24	(5,887,111,108)	(6,919,319,192)
GROSS PROFIT		324,598,369	659,137,986
DISTRIBUTION COST	25	(427,762,097)	(499,728,559)
ADMINISTRATIVE EXPENSES	26	(198,493,424)	(220,275,950)
OTHER OPERATING EXPENSES	27	(137,897,904)	(202,438,502)
		(764,153,425)	(922,443,011)
OTHER OPERATING INCOME	28	76,080,251	307,843,468
PROFIT / (LOSS) FROM OPERATIONS		(363,474,805)	44,538,443
FINANCE COST	29	(724,053,189)	(706,299,453)
LOSS BEFORE TAXATION		(1,087,527,994)	(661,761,010)
PROVISION FOR TAXATION	30	(48,984,447)	(60,790,553)
LOSS AFTER TAXATION		(1,136,512,441)	(722,551,563)
LOSS PER SHARE - BASIC AND DILUTED	31	(22.32)	(14.19)

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



**AAMIR FAYYAZ SHEIKH**

Chief Executive



**SYED MOHSIN RAZA NAQVI**

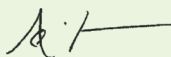
Director

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
LOSS AFTER TAXATION	(1,136,512,441)	(722,551,563)
OTHER COMPREHENSIVE INCOME / (LOSS)		
Impairment loss taken to profit and loss account	60,750,902	46,682,655
Surplus / (deficit) on remeasurement of available for sale investments	112,676,750	(658,961,924)
Surplus realised on disposal of investment	-	(235,655,042)
Deferred income tax relating to surplus / (deficit) on available for sale investment	(29,577,646)	218,889,842
Other comprehensive income / (loss) for the year - net of tax	143,850,006	(629,044,469)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>(992,662,435)</b>	<b>(1,351,596,032)</b>

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



**AAMIR FAYYAZ SHEIKH**  
Chief Executive



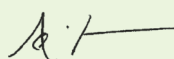
**SYED MOHSIN RAZA NAQVI**  
Director

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2010

	2010 Rupees	2009 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before taxation	(1,087,527,994)	(661,761,010)
<b>Adjustment for non cash charges and other items:</b>		
Depreciation	309,785,235	259,533,219
Amortization of intangible asset	1,950,890	1,785,702
Dividend income	(4,153,216)	(15,191,520)
Gain on sale of operating assets	(921,153)	(3,992,953)
Gain on sale of investments	-	(235,655,042)
Impairment loss on equity investment	73,689,552	60,750,903
Provision for doubtful debts	50,283,028	-
Finance cost	724,053,189	706,299,453
<b>CASH FLOWS FROM OPERATING ACTIVITIES BEFORE ADJUSTMENT OF WORKING CAPITAL</b>	67,159,531	111,768,752
<b>(INCREASE) / DECREASE IN CURRENT ASSETS</b>		
Stores, spares and loose tools	44,422,965	15,610,069
Stock-in-trade	76,167,019	402,783,996
Trade debts	47,359,854	(97,356,203)
Loans and advances	(90,515,586)	325,001,648
Trade deposits and short term prepayments	(8,368,855)	(859,539)
Other receivables	(20,381,681)	45,528,553
Sales tax recoverable	(31,464,315)	25,616,164
<b>INCREASE IN CURRENT LIABILITIES</b>		
Trade and other payables	228,936,178	211,632,697
<b>EFFECT ON CASH FLOWS DUE TO WORKING CAPITAL CHANGES</b>	246,155,579	927,957,385
<b>CASH GENERATED FROM OPERATIONS</b>	313,315,110	1,039,726,137
Income tax paid	(52,440,682)	(41,084,036)
Finance cost paid	(395,266,636)	(654,834,589)
<b>NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES</b>	(134,392,208)	343,807,512
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditure on property, plant and equipment	(108,632,120)	(555,525,738)
Capital expenditure on intangible assets	-	(213,091)
Proceeds from disposal of property, plant and equipment	20,133,303	30,787,183
Dividend on equity investments received	4,153,216	15,191,520
Investment in subsidiary	(33,370,500)	(19,400,000)
Short term investment made	-	(538,606)
Proceeds from sale of investment	-	240,569,642
Long term security deposits	175,000	205,000
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	(117,541,101)	(288,924,090)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of redeemable capital	-	(39,999,125)
Long term financing - net	-	(122,040,313)
Short term borrowings - secured - net	47,805,201	333,095,696
Dividend paid	-	(6,902)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	47,805,201	171,049,356
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(204,128,108)	225,932,778
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	279,446,232	53,513,454
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	75,318,124	279,446,232

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



**AAMIR FAYYAZ SHEIKH**

Chief Executive



**SYED MOHSIN RAZA NAQVI**

Director

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

	RESERVES						Total Equity		
	SHARE CAPITAL		CAPITAL		REVENUE				
	Share Premium	Fair Value reserves	Sub-Total	General	Accumulated Loss	Sub-Total			
<b>Balance as on 30 June 2008</b>	509,110,110	213,406,310	658,508,014	871,914,324	1,058,027,640	(200,195,386)	857,832,254	1,729,746,578	2,238,856,688
Total comprehensive loss for the year ended 30 June 2009	-	-	(629,044,469)	(629,044,469)	-	(722,551,563)	(722,551,563)	(1,351,596,032)	(1,351,596,032)
<b>Balance as on 30 June 2009</b>	509,110,110	213,406,310	29,463,545	242,869,855	1,058,027,640	(922,746,949)	1,352,806,91	378,150,546	887,260,656
Transfer from surplus on revaluation of operating fixed assets - net of deferred tax	-	-	-	-	-	16,913,583	16,913,583	16,913,583	16,913,583
Total comprehensive loss for the year ended 30 June 2010	-	-	143,850,006	143,850,006	-	(1,136,512,441)	(1,136,512,441)	(992,662,435)	(992,662,435)
<b>Balance as on 30 June 2010</b>	509,110,110	213,406,310	173,313,551	386,719,861	1,058,027,640	(2,042,345,807)	(984,318,167)	(597,598,306)	(88,488,196)

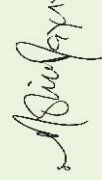
RUPEES

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



**AAMIR FAYYAZ SHEIKH**

Chief Executive



**SYED MOHSIN RAZA NAQVI**

Director

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

## 1. THE COMPANY AND ITS OPERATIONS

**1.1** Kohinoor Mills Limited (“the Company”) is a public limited Company incorporated on 21 December 1987 in Pakistan under the Companies Ordinance, 1984 and its shares are quoted on Karachi, Lahore and Islamabad Stock Exchanges of Pakistan. The registered office of the Company is situated at 8-K.M., Manga Raiwind Road, District Kasur. The Company is principally engaged in the business of textile manufacturing covering weaving, knitting, bleaching, dyeing, stitching, buying, selling and otherwise dealing in yarn, bed linen, home furnishing, socks, cloth and other goods and fabrics made from raw cotton and synthetic fiber, and to generate and distribute and sell electricity.

### 1.2 Going Concern Assumption

The company incurred loss after taxation of Rupees 722.551 million in the preceding financial year ended 30 June 2009 and further incurred loss after taxation of Rupees 1,136.512 million for the current year ended 30 June 2010. These losses have resulted in erosion of company’s reserves and depletion of working capital base. In order to turn the current state of affairs around and replenish its lost working capital, the management has devised a detailed strategy, including injection of further fresh share capital. The company is in advanced stages of negotiation with its major bankers for restructuring of its existing debt, converting most of its existing short term borrowings into long term financing with a moratorium in principal repayments of two years and reduction in mark up rates and sanctioning of new working capital facility of Rupees 400 million. The company is also considering to raise fresh equity through rights issue of shares. These funds will enable the company to operate again at an optimum level. The current order book of the company is quite healthy and it has confirmed orders upto December 2010 at full capacity in all of its divisions. Therefore, the management is confident that these steps will bring the company out of the existing financial crisis and it will continue as a going concern. These financial statements, therefore, do not include any adjustment relating to realization of its assets and liquidation of any liabilities that might be necessary should the company be unable to continue as a going concern.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of Preparation

#### a) Statement of Compliance

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

**b) Accounting Convention**

These financial statements have been prepared under the historical cost convention, except for lands and buildings which are carried at revalued amounts and certain financial instruments which are carried at their fair value.

**c) Critical accounting estimates and judgments**

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

- **Financial instruments**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques based on assumptions that are dependent on conditions existing at the balance sheet date.

- **Useful lives, patterns of economic benefits and impairments**

Estimates with respect to residual values and useful lives and pattern of flow of economic benefits are based on the analysis of the management of the Company. Further, the Company reviews the value of assets for possible impairments on an annual basis. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

- **Taxation**

In making the estimates for income tax currently payable by the Company, the management takes into account the current income tax law and the decisions of appellate authorities on certain issues in the past.

- **Provision for doubtful debts**

The Company reviews its receivable against any provision required for any doubtful balances on an ongoing basis. The provision is made while taking into consideration expected recoveries, if any.

**d) Standards and amendments to published approved accounting standards that are effective in current year**

**i) Changes in accounting policies and disclosures arising from standards and amendments to published approved accounting standards that are effective in the current year**

IAS 1 (Revised) 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 7 (Amendment) 'Financial instruments: Disclosures' (effective for annual periods beginning on or after 01 January 2009). This amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

IFRS 8 'Operating Segments' (effective for annual periods beginning on or after 01 January 2009). It introduces the "management approach" to segment reporting. IFRS 8 requires presentation and disclosure of segment information based on the internal reports regularly reviewed by the Company's chief operating decision makers in order to assess each segment's performance and to allocate resources to them. Previously, the Company did not present segment information as IAS 14 limited reportable segments to those that earn a majority of their revenue from sales to external customers and therefore did not require the different stages of vertically integrated operations to be identified as separate segments. Under the management approach, the Company has determined operating segments on the basis of business activities i.e. Weaving, Dyeing, Hosiery, Apparel and Power Generation. As the change in accounting policy only results in additional disclosures of segment information, there is no impact on earnings per share.

**ii) Other amendment to published approved accounting standards that are effective in the current year**

IAS 23 (Amendment) 'Borrowing Costs' (effective for annual periods beginning on or after 01 January 2009). It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a

substantial period of time to get ready for use or sale) as part of the cost of that asset. The Company's accounting policy on borrowing cost, as disclosed in note 2.10, complies with the above mentioned requirements to capitalize borrowing cost and hence this change has not impacted the Company's accounting policy.

**e) Standards, interpretations and amendments to published approved accounting standards that are effective in current year but not relevant**

There are other new standards, interpretations and amendments to the published approved accounting standards that are mandatory for accounting periods beginning on or after 01 July 2009 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements

**f) Standards and amendments to published approved accounting standards that are not yet effective but relevant**

Following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 01 July 2010 or later periods:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2013). IFRS 9 has superseded the IAS 39 'Financial Instruments: Recognition and Measurement'. It requires that all equity investments are to be measured at fair value while eliminating the cost model for unquoted equity investments. Certain categories of financial instruments available under IAS 39 will be eliminated. Moreover, it also amends certain disclosure requirements relating to financial instruments under IFRS 7. The management of the Company is in the process of evaluating impacts of the aforesaid standard on the Company's financial statements.

There are other amendments resulting from annual Improvements projects initiated by International Accounting Standards Board in April 2009 and May 2010, specifically in IFRS 7 'Financial Instruments: Disclosures', IFRS 8 'Operating Segments', IAS 1 'Presentation of Financial Statements', IAS 7 'Statement of Cash Flows', IAS 24 'Related Party Disclosures', and IAS 36 'Impairment of Assets' that are considered relevant to the Company's financial statements. These amendments are unlikely to have a significant impact on the Company's financial statements and have therefore not been analyzed in detail.

**g) Standards, interpretations and amendments to published approved accounting standards that are not effective in current year and not considered relevant**

There are other accounting standards, amendments to published approved accounting standards and new interpretations that are mandatory for accounting periods beginning on or after 01 July 2010 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

## **2.2 Employee Benefit**

The Company operates a funded contributory provident fund scheme for its permanent employees. The Company and employees make equal monthly contributions of 10 percent of the basic salary, towards the fund. The Company's contribution is charged to the profit and loss account.

## **2.3 Provisions**

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

## **2.4 Taxation**

### **Current**

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

### **Deferred**

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

## **2.5 Foreign Currencies**

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

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into Pak Rupees at the spot rate. All non-monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined. Exchange gain and loss where applicable are recognized in the profit and loss account.

## 2.6 Fixed Assets

### 2.6.1 Property, plant and equipment and depreciation

#### Owned

##### a) Cost

Property, plant and equipment except freehold land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land is stated at revalued amount, buildings are stated at revalued amount less accumulated depreciation and impairment losses, if any, while capital work in progress is stated at cost.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

##### b) Depreciation

Depreciation on all operating fixed assets is charged to income on a reducing balance method so as to write off historical cost of an asset over its estimated useful life at the rates as disclosed in note 13.1. Depreciation on additions is charged from the month in which the asset is put to use and on disposal up to the month of disposal.

##### c) Derecognition

An item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

#### Leased

##### a) Finance leases

Leases where the Company has substantially all the risk and rewards of ownership are classified as finance lease. Assets subject to finance lease are capitalized at the commencement of the lease term at the lower of present value of minimum lease payments under the lease agreements and the fair value of the leased assets, each determined at the inception of the lease.

The related rental obligation net of finance cost, is included in liabilities against assets subject to finance lease. The liabilities are classified as current and long term depending upon the timing of payments.

Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the balance outstanding. The finance cost is charged to income over the lease term.

Depreciation of assets subject to finance lease is recognized in the same manner as for owned assets. Depreciation of the leased assets is charged to income.

**b) Operating leases**

Leases where significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income on a straight-line basis over the period of lease.

**2.6.2 Intangible**

Intangible assets, which are non-monetary assets without physical substance, are recognized at cost, which comprise purchase price, non-refundable purchase taxes and other directly attributable expenditures relating to their implementation and customization. After initial recognition an intangible asset is carried at cost less accumulated amortization and impairment losses, if any. Intangible assets are amortized from the month, when these assets are available for use, using the straight line method, whereby the cost of the intangible asset is amortized over its estimated useful life over which economic benefits are expected to flow to the Company. The useful life and amortization method is reviewed and adjusted, if appropriate, at each balance sheet date.

**2.7 Investments**

The Company's management determines the appropriate classification of its investments at the time of purchase.

Investments are initially measured at fair value plus transaction costs directly attributable to acquisition, except for "investments at fair value through profit or loss".

**a) Investments at fair value through profit or loss**

Investments classified as held-for-trading and those designated as such are included in this category. Investments are classified as held-for-trading if they are acquired for the purpose of selling in the short term.

Gains or losses on investments held-for-trading are recognized in profit and loss account.

**b) Held-to-maturity**

Investments with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this

classification. Other long term investments that are intended to be held to maturity are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

**c) Available-for-sale**

Investments intended to be held for an indefinite period of time, which may be sold in response to need for liquidity, or changes to interest rates or equity prices are classified as available-for-sale. After initial recognition, investments which are classified as available-for-sale are measured at fair value. Gains or losses on available-for-sale investments are recognized directly in statement of other comprehensive income until the investment is sold, de-recognized or is determined to be impaired, at which time the cumulative gain or loss previously reported in statement of other comprehensive income is included in profit and loss account. These are sub-categorized as under:

**Quoted**

For investments that are actively traded in organized capital markets, fair value is determined by reference to stock exchange quoted market bids at the close of business on the balance sheet date.

**Unquoted**

Fair value of unquoted investments is determined on the basis of appropriate valuation techniques as allowed by IAS 39 'Financial Instruments: Recognition and Measurement'.

**d) Equity investments in associated companies**

The investments in associates in which the Company does not have significant influence are classified as "Available-for-Sale".

**e) Investment in subsidiary**

Long term investment in subsidiary is accounted for at cost less impairment loss, if any, in accordance with IAS-27 'Consolidated and Separate Financial Statements'.

## **2.8 Inventories**

Inventories, except for stock in transit, waste stock and rejected goods are stated at lower of cost and net realizable value. Cost is determined as follows:

### **Stores, spares and loose tools**

Useable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. In transit stores and spares are valued at cost comprising invoice value plus other charges paid thereon.

### **Stock in Trade**

Cost of raw material is based on weighted average cost.

Cost of work in process and finished goods comprises prime cost and appropriate production overheads determined on weighted average cost. Cost of goods purchased for resale are valued at their respective purchase price by using first-in-first-out method.

Materials in transit are valued at cost comprising invoice value plus other charges paid thereon. Waste stock and rejected goods are valued at net realizable value.

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

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

Non-current assets classified as assets held for sale are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recoverable principally through a sale transaction rather than through a continuing use.

## **2.10 Borrowing cost**

Borrowing costs are recognized as expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing cost, if any, are capitalized as part of the cost of that asset.

## **2.11 Revenue recognition**

- (a) Revenue is recognized when the Company has transferred significant risks and rewards associated with ownership of goods to the buyer. Export sales and local sales are recognized on shipment and dispatch of goods to customer respectively.
- (b) Dividend on equity investment is recognized as income when right to receive payment is established.
- (c) Profit on bank deposits is recognized on a time proportion basis taking into account, the principal outstanding and rates of profits applicable thereon.
- (d) Revenue on sale of electricity is recognized at the time of transmission.

## **2.12 Impairment**

### **a) Financial assets**

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available for sale financial asset is calculated with reference to its current fair value.

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.

### **b) Non financial assets**

The carrying amounts of the Company's non financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit and loss account.

## **2.13 Share capital**

Ordinary shares are classified as share capital.

## **2.14 Financial instruments**

Financial instruments are recognized at fair value when the Company becomes party to the contractual provisions of the instrument by following trade date accounting. Any gain or loss on the subsequent measurement is charged to the profit and loss account except for available for sale investments. The Company derecognizes a financial asset or a portion of financial asset when, and only when, the enterprise loses the control over contractual right that comprises the financial asset or a portion of financial asset. While a financial liability or a part of financial liability is derecognized from the balance sheet when, and only when, it is extinguished, i.e., when the obligation specified in contract is discharged, cancelled or expired.

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

Financial assets are long term investments, trade debts, deposits, loans and advances and other receivables, short term investments and cash and bank balances.

Financial liabilities are classified according to the substance of the contractual agreements entered into. Significant financial liabilities are long term financing, short term borrowings and trade and other payables.

#### **2.14.1 Trade debts and other receivables**

Trade debts are initially measured at fair value and subsequently at amortized cost using effective interest rate method less provision for impairment. A provision is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Trade debts and other receivables considered irrecoverable are written off.

#### **2.14.2 Trade and other payables**

Liabilities for trade and other amounts payable are initially recognized at fair value which is normally the transaction cost.

#### **2.14.3 Mark up bearing borrowings**

Borrowings are recognized initially at fair value and are subsequently stated at amortized cost, any difference between the proceeds and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest rate method.

#### **2.14.4 Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, cash at banks on current accounts, saving and deposit accounts and other short term highly liquid instruments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in values.

### **2.15 Segment reporting**

Segment reporting is based on the operating (business) segments of the Company. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the chief executive officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief executive officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Those income, expenses, assets, liabilities and other balances which can not be allocated to a particular segment on a reasonable basis are reported as unallocated.

The Company has five reportable business segments. Weaving (Producing different quality of greige fabric using yarn), Dyeing (Converting greige fabric into dyed fabric), Hosiery (Knitting of socks), Apparel (stitching of garments using processed fabric), Power Generation (Generating and distributing power).

Transaction among the business segments are recorded at arm's length prices using admissible valuation methods. Inter segment sales and purchases are eliminated from the total.

#### **2.16 Off setting of financial assets and liabilities**

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

#### **2.17 Related party transactions**

Transactions and contracts with related parties are carried out at an arm's length price determined in accordance with comparable uncontrolled price method.

#### **2.18 Dividend and other appropriations**

Dividend to the shareholders is recognized in the period in which it is declared and other appropriations are recognized in the period in which these are approved by the Board of Directors.

#### **2.19 Derivative Financial Instruments**

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as cash flow hedges.

The Company documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss account.

Amounts accumulated in equity are recognized in profit and loss account in the periods when the hedged item will affect profit or loss.

			2010 Rupees	2009 Rupees
<b>3.</b>	<b>AUTHORIZED SHARE CAPITAL</b>			
	<b>2010</b>	<b>2009</b>		
	<b>(NUMBER OF SHARES)</b>			
	80,000,000	80,000,000	Ordinary shares of Rupees 10 each	800,000,000
	30,000,000	30,000,000	Preference shares of Rupees 10 each	300,000,000
	<u>110,000,000</u>	<u>110,000,000</u>		<u>1,100,000,000</u>
<b>4.</b>	<b>ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL</b>			
	<b>2010</b>	<b>2009</b>		
	<b>(NUMBER OF SHARES)</b>			
	28,546,003	28,546,003	Ordinary shares of Rupees 10 each fully paid in cash	285,460,030
	18,780,031	18,780,031	Ordinary shares of Rupees 10 each as fully paid bonus shares	187,800,310
	3,584,977	3,584,977	Ordinary shares of Rupees 10 each issued due to merger with Kohinoor Genertek Limited as per scheme of arrangement	35,849,770
	<u>50,911,011</u>	<u>50,911,011</u>		<u>509,110,110</u>
<b>5.</b>	<b>RESERVES</b>			
	Composition of reserves is as follows:			
	<b>Capital</b>			
				213,406,310
	Share premium (Note 5.1)			213,406,310
	Fair value reserve - net of deferred tax ( Note 5.2 )			29,463,545
				<u>386,719,861</u>
	<b>Revenue</b>			
	General			1,058,027,640
	Accumulated loss			(922,746,949)
				<u>(984,318,167)</u>
				<u>(597,598,306)</u>
				<u>378,150,546</u>

**5.1** This reserve can be utilised by the Company only for the purposes specified in section 83 (2) of the Companies Ordinance, 1984.

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>5.2 FAIR VALUE RESERVE - NET OF DEFERRED TAX</b>		
Opening balance	61,573,772	909,508,083
Fair value adjustment on investments:		
Impairment loss transferred to profit and loss account	60,750,903	46,682,655
Impact of revaluation on investment	112,676,750	(658,961,924)
Fair value gain realised on disposal of investment	-	(235,655,042)
	173,427,653	(847,934,311)
	235,001,425	61,573,772
Less: Deferred tax liability		
Security General Insurance Company Limited	61,687,874	32,110,227
Closing balance	173,313,551	29,463,545
<b>5.2.1</b>	This represents the unrealized gain on remeasurement of available for sale investments at fair value and is not available for distribution. This will be transferred to profit and loss account on realization.	
<b>6. SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS - NET OF DEFERRED TAX</b>		
Opening balance	1,074,078,415	-
Surplus arising on revaluation of fixed assets:		
Lands	-	699,054,391
Buildings	-	375,024,024
	-	1,074,078,415
Less: Incremental depreciation	18,751,201	-
Related deferred tax liability	31,173,872	36,752,354
Closing balance	1,024,153,342	1,037,326,061
<b>7. LONG TERM FINANCING - SECURED</b>		
Financing from banking companies (Note 7.1)	1,270,411,668	1,270,411,668
Less: Current portion shown under current liabilities	924,362,737	322,319,602
	346,048,931	948,092,066

## 7.1

Lender	2010	2009	Rate of markup per annum	Terms of financing and number of installments	Markup repricing	Markup payable	Security
----- Rupees -----							
National Bank of Pakistan	50,000,000	50,000,000	3-Month KIBOR + 1.25%	Five equal quarterly installments commenced from 31 December 2009 and ending on 30 September 2010. Closing balance of this finance includes amount due but not paid of Rupees 40 million (2009: Rupees 10 million)	Quarterly	Quarterly	First pari passu / joint pari passu charge of Rupees 67 million over fixed assets of the Company.
National Bank of Pakistan	45,148,387	45,148,387	SBP rate for LTF - EOP + 2%	Ten equal semi annual installments from 31 December 2004 to 30 June 2010. Closing balance of this finance includes amount due but not paid of Rupees 45.148 million (2009: Nil)	As and when notified by SBP.	Quarterly	First pari passu / joint pari passu charge of Rupees 61 million over fixed assets of the Company.
National Bank of Pakistan	100,000,477	100,000,477	SBP rate for LTF - EOP + 2%	Ten equal semi annual installments commenced from 31 March 2005 and ending on 30 September 2010. Closing balance of this finance includes amount due but not paid of Rupees 49.999 million (2009: Nil)	As and when notified by SBP.	Quarterly	First pari passu / joint pari passu charge of Rupees 134 million over fixed assets of the Company.
National Bank of Pakistan	296,367,918	296,367,918	SBP rate for LTF - EOP + 3%	Twenty four quarterly installments commenced from 20 May 2010 and ending on 20 February 2016. Closing balance of this finance includes amount due but not paid of Rupees 12.349 million (2009: Nil)	As and when notified by SBP.	Quarterly	First pari passu / joint pari passu charge of Rupees 396 million over fixed assets of the Company.
United Bank Limited	32,500,000	32,500,000	SBP rate for LTF - EOP + 2%	Eight equal semi annual installments commenced from 03 February 2006 and ending on 03 August 2010. Closing balance of this finance includes amount due but not paid of Rupees 16.250 million (2009: Nil)	As and when notified by SBP.	Quarterly	First exclusive charge of Rupees 88.64 million on imported knitting machinery of the Company.
Allied Bank Limited	60,073,988	60,073,988	SBP rate for LTF - EOP + 2%	Eight equal semi annual installments commenced from 29 March 2006 and ending on 29 September 2010. Closing balance of this finance includes amount due but not paid of Rupees 30.307 million (2009: Nil)	As and when notified by SBP.	Quarterly	First pari passu charge with 25 % margin over fixed assets of the Company.
Allied Bank Limited	112,500,000	112,500,000	6-Month KIBOR + 1.5% with floor of 5%	Eight equal semi annual installments commenced from 31 March 2007 and ending on 30 September 2010. Closing balance of this finance includes amount due but not paid of Rupees 75 million (2009: Nil)	Half yearly	Quarterly	First pari passu charge with 25% margin on fixed assets of the Company.
The Bank of Punjab	112,500,000	112,500,000	3-Month KIBOR + 3 %	Fourteen quarterly installments commenced from 28 September 2007 and ending on 28 June 2013. Closing balance of this finance includes amount due but not paid of Rupees 16.071 million (2009: Nil)	Quarterly	Quarterly	First pari passu charge of Rupees 566.67 million on all present and future fixed assets of the Company
The Bank of Punjab	300,000,000	300,000,000	3-Month KIBOR + 2.5%	Twelve equal quarterly installments commencing from 13 May 2010 and ending on 13 February 2013. Closing balance of this finance includes amount due but not paid of Rupees 25 million (2009: Nil)	Quarterly	Quarterly	First pari passu charge of Rupees 566.67 Million on all present and future fixed assets of the Company.
The Royal Bank of Scotland Limited	17,479,892	17,479,892	3-Month KIBOR + 2%	Twenty equal quarterly installments commenced from 01 October 2007 and ending on 01 July 2012. Closing balance of this finance includes amount due but not paid of Rupees 6.243 million (2009: Rupees 1.250 million)	Quarterly	Quarterly	First exclusive hypothecation charge over power generators.
The Royal Bank of Scotland Limited	43,841,006	43,841,006	SBP rate for LTF - EOP + 2%	Twenty equal quarterly installments commenced from 01 October 2007 and ending on 01 July 2013. Closing balance of this finance includes amount due but not paid of Rupees 6.320 million (2009: Nil)	As and when notified by SBP.	Quarterly	First exclusive hypothecation charge over power generators.
United Bank Limited	100,000,000	100,000,000	6-Month KIBOR + 2%	10 equal semi annual installments commencing from 18 December 2010 and ending on 18 June 2015.	Quarterly	Quarterly	First pari passu charge of Rupees 200 million over existing and future fixed assets of the Company.
	<u>1,270,411,668</u>	<u>1,270,411,668</u>					

7.2 Long term financing include installements of Rupees 322.687 million (2009: Rupees 11.250 million) due but not paid.

	2010 Rupees	2009 Rupees
<b>8. DEFERRED TAX</b>		
The liability / (asset) for deferred taxation originated due to temporary differences relating to:		
<b>Taxable temporary differences on:</b>		
Accelerated tax depreciation	181,454,251	198,952,991
Surplus on revaluation of operating fixed assets	31,173,872	36,752,354
Surplus on revaluation of investment - available for sale	61,687,874	32,110,227
	274,315,997	267,815,572
<b>Deductible temporary difference on:</b>		
Accumulated tax losses	(330,690,176)	(235,661,321)
Net deferred tax (asset) / liability	(56,374,179)	32,154,251
Less: Deferred tax liability recognized (Note 8.1)	92,861,746	68,862,581
Net deferred tax asset not recognised	149,235,925	36,708,330
<b>8.1</b>	Deferred tax liability on surplus on revaluation of operating fixed assets and surplus on revaluation of investment available for sale - Security General Insurance Company Limited has been recognized in these financial statements. Remaining net deferred tax asset of Rupees 149.236 million (2009: Rupees 36.708 million) has not been recognized in these financial statements as the temporary differences are not expected to reverse in foreseeable future.	
<b>9. TRADE AND OTHER PAYABLES</b>		
Creditors	1,019,295,023	899,589,981
Advances from customers	157,320,644	68,364,642
Sales commission payable	36,987,333	25,475,848
Income tax deducted at source	40,912,824	20,154,408
Security deposits - interest free	508,193	436,778
Payable to provident fund	-	1,657,598
Accrued and other liabilities	76,383,147	86,791,731
Unclaimed dividend	4,731,537	4,731,537
	1,336,138,701	1,107,202,523
<b>10. ACCRUED MARKUP</b>		
Long term financing (Note 10.1)	164,971,306	53,861,539
Short term borrowings (Note 10.2)	329,176,069	111,499,283
	494,147,375	165,360,822
<b>10.1</b>	This includes overdue markup of Rupees 115.407 million (2009: Rupees 14.097 million)	
<b>10.2</b>	This includes overdue markup of Rupees 202.887 million (2009: Rupees 9.019 million)	

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>11. SHORT TERM BORROWINGS</b>		
<b>From banking companies-secured</b>		
Short term running finance (Note 11.1 & 11.2)	605,404,912	164,615,598
SBP refinance (Note 11.1 & 11.3)	2,199,084,000	2,853,695,000
Other short term finances (Note 11.1 & 11.4)	1,703,791,637	1,442,164,750
	4,508,280,549	4,460,475,348

**11.1** These facilities are secured against hypothecation charge on current assets, lien on export contracts / letters of credit, first and second pari passu charge on assets, personal guarantees of directors and ranking charge on fixed assets of the Company. These form part of total credit facility of Rupees 5,530.000 million (2009: Rupees 5,365.000 million) out of which Rupees 1,021.720 million (2009: Rupees 904.525 million) remained unutilized at the end of year.

**11.2** The rate of mark up ranges from 13.84% to 14.27% per annum (2009: 11.25% to 17.52% per annum).

**11.3** The rate of mark up ranges from 7.5% to 9 % per annum (2009: 7.5% per annum) on the balance outstanding.

**11.4** The rates of mark up of local and foreign currency loans range from 12.13 % to 22 % per annum (2009: 11.25% to 23.70% per annum) and 3.96% to 9.62% per annum (2009: 4.15% to 10.78% per annum) respectively.

## **12. CONTINGENCIES AND COMMITMENTS**

### **12.1 Contingencies**

**12.1.1** The Deputy Collector (Refund – Gold) by order dated 19 June 2007 rejected the input tax claim of the Company, for the month of June 2005, amounting to Rupees 10.345 million incurred in zero rated local supplies of textile and articles thereof on the grounds that the input tax claim is in contravention of SRO 992(I)/2005 which states that no registered person engaged in the export of specified goods (including textile and articles thereof) shall, either through zero-rating or otherwise, be entitled to deduct or reclaim input tax paid in respect of stocks of such goods acquired up to 05 June 2005, if not used for the purpose of exports made up to the 31 December 2005. Consequently, the Company has filed an appeal before the Customs Federal Excise and Sales Tax Appellate Tribunal. Pending the outcome of appeal, no provision for inadmissible input tax has been recognized in the financial statements, since the Company has strong grounds against the order of taxation authority.

**12.1.2** The Additional Collector, Sales Tax Department has raised sales tax demand amounting to Rupees 8.956 million alongwith additional tax and penalty, as a result of sales tax audit for the year 1999-2000 conducted by the Sales Tax Department. The Company is contesting the demand and management is confident that decision will be in favour of the Company. Accordingly, no provision for inadmissible input tax has been made in the financial statements.

- 12.1.3 The Additional Commissioner of Income Tax (Audit) has charged turnover tax on local sales aggregating to Rupees 19.880 million for the tax years 2005 (Transitional), 2006 and 2007. Since the issue of minimum tax has been resolved by Honorable Lahore High Court in favour of taxpayers in other identical cases. The Company has filed appeals before Commissioner of Income Tax (Appeals) against the orders. Pending the outcomes of appeals, no provision has been made in these financial statements as the management is confident that decision will be in favour of the Company.
- 12.1.4 The Company has filed a recovery suit of US \$ 93,225 against a customer for goods supplied to him. Matter is pending before Senior Civil Judge, Lahore. Pending the outcome of the case, no provision for doubtful recoverability of debtor is made in these financial statements since the Company and its legal counsel are confident that the outcome of the case will be in favour of the Company.
- 12.1.5 Bank guarantee of Rupees 65.80 million (2009: Rupees 60.50 million) in favour of Sui Northern Gas Pipelines Limited against gas connections.
- 12.1.6 Bank guarantee of Rupees 6.50 million (2009: Rupees 5.50 million) in favour of Director, Excise and Taxation to cover the disputed amount of infrastructure cess contested in Honourable Supreme Court of Pakistan.
- 12.1.7 During the year ended 30 June 2010, Lahore Electric Supply Company Limited (LESCO) has served a notice in connection with violation of Power Purchase Agreement. According to the aforesaid notice, the Company was using gas alongwith Refined Furnace Oil (RFO) in the ratio of 50:50 as co-fuel in order to generate electric power for sale to LESCO whereas tariff was charged to LESCO on the basis of RFO. Neither LESCO nor the Company has filed any suit in any court of law so far. The Company is in the process of resolving the matter amicably under the provisions of above said Power Purchase Agreement. An amount of Rupees 86.833 million receivable by the Company from LESCO is still unpaid. No provision in the books of account has been made against this receivable, as the Company is confident that the said amount will be recovered in full.

## 12.2 Commitments

- 12.2.1 Aggregate commitments for capital expenditures and revenue expenditures are Rupees 0.650 million and Rupees 51.383 million (2009: NIL and Rupees 59.107 million) respectively.
- 12.2.2 Post dated cheques issued to suppliers are amounting to Rupees 27.507 million (2009: Rupees 83.989 million)

	2010 Rupees	2009 Rupees
<b>13. FIXED ASSETS</b>		
<b>Property, plant and equipment</b>		
Operating assets (Note 13.1)	5,141,148,028	5,328,205,754
Capital work in progress (Note 13.2)	37,590,020	70,897,560
	<hr/>	<hr/>
	5,178,738,048	5,399,103,314
Intangible asset - computer software (Note 13.1)	3,031,755	4,982,645
	<hr/>	<hr/>
	<u>5,181,769,803</u>	<u>5,404,085,959</u>

**13.1 Reconciliation of carrying amounts of operating assets at the beginning and end of the year is as follows:**

Description	----- (RUPEES) -----										Intangible asset	
	Freehold land	Residential Building	Factory Building	Plant and machinery	Electric Installations	Furniture, fixtures and equipment	Computers	Motor vehicles	Total			
<b>As at 01 July 2008</b>												
Cost	128,308,609	36,144,317	796,756,582	4,540,563,330	103,447,042	109,234,305	40,437,793	82,708,911	5,837,600,889	9,541,358		
Accumulated depreciation / amortization	-	(18,782,065)	(197,385,347)	(1,604,113,215)	(42,945,062)	(34,925,407)	(20,923,722)	(27,222,741)	(1,946,297,559)	(2,986,102)		
Net book value	128,308,609	17,362,252	599,371,235	2,936,450,115	60,501,980	74,308,898	19,514,071	55,486,170	3,891,303,330	6,555,256		
<b>Year ended 30 June 2009</b>												
Opening net book value	128,308,609	17,362,252	599,371,235	2,936,450,115	60,501,980	74,308,898	19,514,071	55,486,170	3,891,303,330	6,555,256		
Additions	-	118,006	110,133,265	513,153,535	4,012,671	6,052,297	4,812,041	10,869,643	649,151,458	213,091		
Surplus on revaluation	699,054,391	218,345,039	156,678,985	-	-	-	-	-	1,074,078,415	-		
Disposal:												
Cost	-	-	-	(81,421,240)	-	(14,400)	-	(12,576,898)	(94,012,538)	-		
Accumulated Depreciation	-	-	-	60,391,207	-	1,266	-	6,825,835	67,218,308	-		
Depreciation charge / amortization	-	-	-	(21,030,033)	-	(13,134)	-	(5,751,063)	(26,794,230)	-		
Closing net book value	827,363,000	234,946,000	838,038,000	3,226,283,506	58,434,132	73,220,600	17,220,003	52,700,513	5,328,205,754	4,982,645		
<b>As at 30 June 2009</b>												
Cost / revalued amount	827,363,000	254,607,362	1,063,568,832	4,972,295,625	107,459,713	115,272,202	45,249,834	81,001,656	7,466,818,224	9,754,449		
Accumulated depreciation / amortization	-	(19,661,362)	(225,530,832)	(1,746,012,119)	(49,025,581)	(42,051,602)	(28,029,831)	(28,301,143)	(2,138,612,470)	(4,771,804)		
Net book value	827,363,000	234,946,000	838,038,000	3,226,283,506	58,434,132	73,220,600	17,220,003	52,700,513	5,328,205,754	4,982,645		
<b>Year ended 30 June 2010</b>												
Opening net book value	827,363,000	234,946,000	838,038,000	3,226,283,506	58,434,132	73,220,600	17,220,003	52,700,513	5,328,205,754	4,982,645		
Additions	-	-	2,992,907	129,925,991	1,577,930	820,150	1,629,138	4,993,543	141,939,659	-		
Disposal:												
Cost	-	-	-	(60,837,573)	-	(128,296)	(70,800)	(11,344,481)	(72,381,150)	-		
Accumulated Depreciation	-	-	-	47,969,312	-	31,728	39,742	5,128,218	53,169,000	-		
Depreciation charge / amortization	-	-	-	(12,868,261)	-	(96,568)	(31,058)	(6,216,263)	(19,212,150)	-		
Closing net book value	827,363,000	223,189,342	799,139,064	3,113,168,863	54,125,472	66,758,960	13,034,302	44,369,025	5,141,148,028	3,031,755		
<b>As at 30 June 2010</b>												
Cost / revalued amount	827,363,000	254,607,362	1,066,561,739	5,041,384,043	109,037,643	115,964,056	46,808,172	74,650,718	7,536,376,733	9,754,449		
Accumulated depreciation / amortization	-	(31,418,020)	(267,422,675)	(1,928,215,180)	(54,912,171)	(49,205,096)	(33,773,870)	(30,281,693)	(2,395,228,705)	(6,722,694)		
Net book value	827,363,000	223,189,342	799,139,064	3,113,168,863	54,125,472	66,758,960	13,034,302	44,369,025	5,141,148,028	3,031,755		
<b>Depreciation rate % per annum</b>	-	5	5	5 - 10	10	10	30	20	-	20		

**13.1.1** Lands and buildings of the Company were revalued as at 30 June 2009 by independent valuer, Messrs Hamid Mukhtar and Company (Private) Limited. Had there been no revaluation, the value of assets would have been lower by Rupees 1,055.327 million (2009: Rupees 1,074.078 million)

**13.1.2** The book value of lands and buildings on cost basis is Rupees 128.309 million and Rupees 666.056 million (2009: Rupees 128.309 million and Rupees 697.960 million) respectively.

**13.1.3** Detail of operating assets exceeding book value of Rupees 50,000 disposed of during the year is as follows:

Particulars	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchasers
------(RUPEES)-----						
<b>Vehicles</b>						
Club Car	438,552	247,067	191,485	425,000	Negotiation	US Denim Mills (Private) Limited
Santro LRG 0264	499,000	277,588	221,412	310,000	Negotiation	Adnan Rafique, Lahore
Santro LRY 9700	304,473	74,697	229,776	325,000	Negotiation	Nauman Maqbool, Lahore
Toyota corolla LEC - 9874	1,129,500	406,620	722,880	900,000	Negotiation	M.Naeem Azam, Lahore
Toyota Corolla LWH -- 674	968,505	536,252	432,253	900,000	Negotiation	Kamran Shahid (Company employee), Lahore
Hyundai Santro LZF - 1528	610,650	322,750	287,900	400,000	Negotiation	Nouman Khan, Lahore
Suzuki Cultus LEB - 07-1795	618,833	223,468	395,365	600,000	Negotiation	Muhammad Khalid, Lahore
Suzuki Cultus LZU - 9671	673,174	313,006	360,168	450,000	Negotiation	Muhammad Afzaal, Lahore
Honda Civic LZV - 2921	1,167,938	545,135	622,803	895,000	Negotiation	Syed Muhammad Sibtain Jaffri, Lahore
Suzuki Cultus LEA - 07-2641	586,310	239,110	347,200	515,000	Negotiation	Adnan Rafiq Qureshi, Lahore
Suzuki Bolan LZW - 692	486,795	257,779	229,016	305,000	Negotiation	Muhammad Arshad Mehmood, Lahore
Huyndai Santro LRL-5470	312,578	134,656	177,922	345,000	Negotiation	Abid Ali, Lahore
Suzuki Cultus LRD-9805	464,000	203,781	260,219	250,000	Negotiation	Imran Ahmad, Lahore
Toyota Corolla LED-07-5455	1,025,200	348,585	676,615	1,000,000	Negotiation	Sadaf Ali, Lahore
Suzuki Bolan L XO-2965	369,492	303,627	65,865	220,000	Negotiation	Mushtaq Khalid, Lahore
Huyndai Santro LZC-150	598,556	251,979	346,577	400,000	Negotiation	Ijaz Ahmad, Lahore
Hyundai Santro LRQ-9724	371,424	210,417	161,007	350,000	Negotiation	Maqsood Ahmad, Lahore
Suzuki Cultus LEB-6062	661,000	200,248	460,752	460,752	Negotiation	Q-Mart Corporation (Private) Limited
<b>Plant and Machinery</b>						
30 Heald frames 134"	1,123,800	229,191	894,609	1,185,000	Negotiation	B.B. Jan Colours Limited, Lahore
30 Air Jet Looms	59,713,773	47,740,166	11,973,607	9,750,000	Negotiation	Young Gin Limited, Korea
<b>Furniture and fixtures</b>						
Office furniture	128,296	31,728	96,568	96,568	Negotiation	Q-Mart Corporation (Private) Limited
	<b>72,251,849</b>	<b>53,097,849</b>	<b>19,154,000</b>	<b>20,082,320</b>		
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees 50,000	129,301	71,151	58,150	50,983		
	<b>72,381,150</b>	<b>53,169,000</b>	<b>19,212,150</b>	<b>20,133,303</b>		

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>13.1.4</b> The depreciation charge for the year has been allocated as follows:		
Cost of sales (Note 24)	295,199,691	249,430,405
Distribution cost (Note 25)	2,097,689	2,510,578
Administrative expenses (Note 26)	12,487,855	7,592,236
	<u>309,785,235</u>	<u>259,533,219</u>

**13.1.5** The amortization of intangible asset amounting to Rupees 1.951 million (2009: Rupees 1.786 million) is included in administrative expenses.

**13.1.6** Land having cost of Rupees 1.865 million (2009: Rupees 1.865 million) is in the possession of the Punjab Social Security Health Management Company as at 30 June 2010 for which finalization of sale proceeds is pending.

## **13.2 CAPITAL WORK IN PROGRESS**

### **Tangible fixed assets**

Plant and machinery	36,900,020	65,569,609
Civil works on freehold land	-	86,353
Electric Installations	690,000	5,193,448
Unallocated capital expenditures	-	48,150
	<u>37,590,020</u>	<u>70,897,560</u>

## **14. LONG TERM INVESTMENTS**

### **Investment in subsidiary company-at cost**

Q Mart Corporation (Private) Limited - unquoted 30,000,000 (2009: 24,722,950) ordinary shares of Rupees 10 each	300,000,000	247,229,500
Advance for purchase of shares	-	19,400,000
	<u>300,000,000</u>	<u>266,629,500</u>

### **Available for sale**

K-2 Hosiery (Private) Limited - unquoted 1,194,000 (2009: 1,194,000) ordinary shares of Rupees 10 each	11,940,000	11,940,000
Less: Provision for impairment	-	11,940,000
Less: Written off against provision	11,940,000	-
	<u>-</u>	<u>-</u>
	<u>300,000,000</u>	<u>266,629,500</u>

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>15. STORES, SPARES AND LOOSE TOOLS</b>		
Stores and spares	319,959,915	365,327,518
Loose tools	3,649,810	2,705,172
	<u>323,609,725</u>	<u>368,032,690</u>
<b>16. STOCK IN TRADE</b>		
Raw material	226,073,465	252,338,560
Work in process	237,149,479	312,470,941
Finished goods (Note 16.1 and 16.2)	656,556,721	631,137,183
	<u>1,119,779,665</u>	<u>1,195,946,684</u>
<b>16.1</b> This includes finished goods of Rupees 110.941 million (2009: Rupees 82.714 million) valued at net realizable value.		
<b>16.2</b> Finished goods includes stock in transit amounting to Rupees 218.436 million (2009: Rupees 191.907 million).		
<b>17. TRADE DEBTS</b>		
<b>Considered good:</b>		
Secured	360,835,586	499,600,566
Unsecured	413,890,931	372,768,833
	<u>774,726,517</u>	<u>872,369,399</u>
<b>Considered doubtful:</b>	50,283,028	-
	<u>825,009,545</u>	<u>872,369,399</u>
Provision for doubtful debts (Note 27)	(50,283,028)	-
	<u>774,726,517</u>	<u>872,369,399</u>
<b>17.1</b> As on 30 June 2010, trade debts of Rupees 285.146 million (2009 : Rupees 88.020 million) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default. The ageing analysis of these trade debts is as follows:		
Upto 1 month	77,088,699	21,956,606
1 to 6 months	34,609,321	31,820,197
More than 6 months	173,448,349	34,243,369
	<u>285,146,369</u>	<u>88,020,172</u>

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>18. LOANS AND ADVANCES</b>		
Q Mart Corporation (Private) Limited - wholly owned subsidiary company	5,039,032	4,866,856
<b>Others</b>		
Advances to:		
staff (Note 18.1)	9,498,602	11,724,971
suppliers	267,970,066	179,572,792
contractors	5,163,570	9,176,987
Letters of credit	42,319,297	34,133,375
	<u>329,990,567</u>	<u>239,474,981</u>
<b>18.1</b> This includes interest free advances to executives amounting to Rupees 4.305 million (2009: Rupees 1.994 million) and the maximum amount of advances outstanding at the end of any month during the year was Rupees 4.884 million (2009: Rupees 3.506 million)		
<b>19. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS</b>		
Security deposits	8,818,500	1,117,866
Short term prepayments	2,758,934	2,090,713
	<u>11,577,434</u>	<u>3,208,579</u>
<b>20. OTHER RECEIVABLES</b>		
Advance income tax	84,941,445	83,176,948
Export rebate and claims	62,955,138	37,472,933
Research and development support receivable	4,640,876	16,744,234
Receivable from provident fund	9,153,876	-
Miscellaneous receivables	19,103,965	21,255,007
	<u>180,795,300</u>	<u>158,649,122</u>

	2010 Rupees	2009 Rupees
<b>21. SHORT TERM INVESTMENTS</b>		
<b>Available for sale</b>		
<b>Quoted</b>		
Maple leaf Cement Factory Limited 11,251,000 (2009: 11,251,000) ordinary shares of Rupees 10 each	169,431,065	169,431,065
Deficit on revaluation of investment	-	(60,750,902)
Impairment loss charged to profit and loss account ( Note 27)	(134,440,455)	(60,750,903)
	34,990,610	47,929,260
<b>Unquoted</b>		
Security General Insurance Company Limited - Associated undertaking (Note 21.1)		
2,076,608 (2009: 2,076,608) fully paid ordinary shares of Rupees 10 each	2,271,806	2,271,806
Surplus on revaluation of investment	235,001,424	122,324,674
	237,273,230	124,596,480
	272,263,840	172,525,740

**21.1** Fair value of investment in Security General Insurance Company Limited is determined by independent valuer, Messrs Uzair Hammad Faisal & Company, Chartered Accountants. Fair value of Rupees 114.26 per share is determined on net assets basis. Previously, in June 2009 the Company sold 4 million shares of Security General Insurance Company Limited at the price of Rupees 60 per share. Therefore, it was more appropriate to value the remaining 2,076,608 shares of Security General Insurance Company Limited at the rate of Rupees 60 per share as on 30 June 2009. This fair value was based on arm's length transaction between knowledgeable willing parties as allowed by IAS 39, 'Financial Instruments: Recognition and Measurement'. It is impracticable to determine the financial impact of this change in accounting estimate as the arm's length price of this unquoted investment is not known at balance sheet date. Therefore, financial impact of this change in accounting estimate is not being disclosed in these financial statements.

**21.2** Security General Insurance Company Limited is associated undertaking due to common directorship.

**21.3** The management intends to sell these short term available for sale investments as soon as it is practicable.

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>22. CASH AND BANK BALANCES</b>		
Cash in hand (Note 22.1)	4,381,881	2,189,860
Cash with banks:		
On current accounts (Note 22.2)	52,561,488	22,772,130
On deposit accounts (Note 22.3)	18,374,755	254,484,242
	70,936,243	277,256,372
	<u>75,318,124</u>	<u>279,446,232</u>
<b>22.1</b>	Cash in hand includes foreign currency of US\$ 1,063, Euro 3,095, Canadian Dollars 1,000, Chinese Yuan 1,410, GBP 1,200, ASD 200 (2009: US\$ 2,500, Euro 4,394, Canadian Dollars 1,000, Indian Rupees 50, Chinese Yuan 1,410)	
<b>22.2</b>	Cash with banks in current accounts includes foreign currency balances of US\$ 33.20 ( 2009: US\$ 34,989).	
<b>22.3</b>	Rate of profit on bank deposits ranges from 5.06 % to 8 % (2009: 3.78% to 7.8%) per annum.	
<b>23. SALES</b>		
Export (Note 23.1)	4,735,533,061	5,460,647,068
Local (Note 23.2)	1,476,176,416	2,117,810,110
	<u>6,211,709,477</u>	<u>7,578,457,178</u>
<b>23.1</b>	Net exchange gain due to currency rate fluctuation relating to export sales amounting to Rupees 34.294 million (2009: net exchange loss of Rupees 14.185 million) has been included in the exports sales.	
<b>23.2</b>	Local sales	
	1,528,208,093	2,220,726,687
Less: Sales tax	49,369,391	100,519,456
Less: Electricity duty and withholding tax	2,662,286	2,397,121
	<u>1,476,176,416</u>	<u>2,117,810,110</u>

	2010 Rupees	2009 Rupees
<b>24. COST OF SALES</b>		
Raw material consumed (Note 24.1)	4,096,729,571	4,620,017,817
Chemical consumed	612,588,557	744,614,124
Salaries, wages and other benefits	290,315,182	400,552,701
Employees' provident fund contributions	12,307,522	14,434,259
Cloth conversion and processing charges	38,210,858	73,241,218
Fuel, oil and power	84,478,176	103,237,522
Stores, spares and loose tools consumed	186,298,871	126,869,968
Packing material consumed	96,706,257	136,768,152
Repair and maintenance	31,572,829	29,071,226
Insurance	6,050,041	10,853,230
Other manufacturing expenses	39,875,784	72,840,945
Depreciation (Note 13.1.4)	295,199,691	249,430,405
	<hr/>	<hr/>
	5,790,333,339	6,581,931,567
Work-in-process inventory		
As on 01 July	312,470,941	380,593,492
As on 30 June	(237,149,479)	(312,470,941)
	<hr/>	<hr/>
	75,321,462	68,122,551
Cost of goods manufactured	5,865,654,801	6,650,054,118
Cost of yarn and cloth purchased for resale	46,875,845	154,943,957
	<hr/>	<hr/>
	5,912,530,646	6,804,998,075
Finished goods inventory		
As on 01 July	631,137,183	745,458,300
As on 30 June	(656,556,721)	(631,137,183)
	<hr/>	<hr/>
	(25,419,538)	114,321,117
	<hr/>	<hr/>
	5,887,111,108	6,919,319,192
	<hr/> <hr/>	<hr/> <hr/>
<b>24.1 RAW MATERIAL CONSUMED</b>		
Opening stock	252,338,560	472,678,888
Purchased during the year	4,070,464,476	4,399,677,489
	<hr/>	<hr/>
	4,322,803,036	4,872,356,377
Closing stock	(226,073,465)	(252,338,560)
	<hr/>	<hr/>
	4,096,729,571	4,620,017,817
	<hr/> <hr/>	<hr/> <hr/>

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>25. DISTRIBUTION COST</b>		
Salaries, wages and other benefits	42,609,016	47,394,871
Employee's provident fund contributions	2,082,038	2,302,226
Travelling, conveyance and entertainment	25,619,289	39,231,296
Printing and stationery	2,170,159	4,975,029
Communications	17,926,370	19,614,557
Vehicles' running	2,995,511	3,808,168
Insurance	1,381,226	2,107,359
Fee, subscription and taxes	208,016	223,652
Repair and maintenance	18,384	16,216
Commission	151,388,595	116,959,371
Outward freight and handling	138,912,370	201,316,566
Clearing and forwarding	34,606,327	43,607,269
Sales promotion and advertising	1,716,260	2,515,084
Depreciation (Note 13.1.4)	2,097,689	2,510,578
Miscellaneous	4,030,847	13,146,317
	427,762,097	499,728,559
<b>26. ADMINISTRATIVE EXPENSES</b>		
Salaries, wages and other benefits	98,056,491	102,738,570
Employees' provident fund contributions	3,268,825	3,304,167
Travelling, conveyance and entertainment	30,368,804	40,372,105
Printing and stationery	6,481,828	9,415,925
Communications	4,203,728	5,201,754
Vehicles' running	11,817,556	13,387,237
Legal and professional	6,656,168	5,829,032
Insurance	4,249,592	3,051,931
Fee, subscription and taxes	694,701	1,027,080
Repair and maintenance	859,647	1,930,618
Electricity, gas and water	301,185	1,162,277
Sales promotion and advertising	225,360	466,814
Auditor's remuneration (Note 26.1)	1,240,000	985,625
Depreciation (Note 13.1.4)	12,487,855	7,592,236
Amortization (Note 13.1.5)	1,950,890	1,785,702
Miscellaneous	15,630,794	22,024,877
	198,493,424	220,275,950

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>26.1 AUDITORS' REMUNERATION</b>		
Audit fee	1,000,000	750,000
Half yearly review	150,000	150,000
Reimbursable expenses	40,000	35,625
Other certification fee	50,000	50,000
	1,240,000	985,625
<b>27. OTHER OPERATING EXPENSES</b>		
Donations (Note 27.1)	46,681	196,494
Impairment loss on equity investment (Note 21)	73,689,552	60,750,903
Exchange loss	12,457,502	141,491,105
Provision for doubtful debts (Note 17)	50,283,028	-
Others	1,421,141	-
	137,897,904	202,438,502
<b>27.1</b> None of the directors and their spouses have any interest in the donee's fund.		
<b>28. OTHER OPERATING INCOME</b>		
<b>Income from financial assets</b>		
Gain on sale of shares	-	235,655,042
Dividend on equity investment Security General Insurance Company Limited - Associated Company	4,153,216	15,191,520
Return on bank deposits	2,286,212	767,834
<b>Income from non financial assets</b>		
Scrap sales and others	68,719,670	52,236,119
Gain on sale of fixed assets	921,153	3,992,953
	76,080,251	307,843,468
<b>29. FINANCE COST</b>		
Markup on long term financing	124,397,560	153,257,406
Mark up on short term borrowings	525,651,325	457,226,262
Bank commission and other financial charges	74,004,304	45,664,444
Loss on cross currency swap	-	50,151,341
	724,053,189	706,299,453

	2010 Rupees	2009 Rupees
<b>30. PROVISION FOR TAXATION</b>		
Current (Nore 30.1)	54,478,371	54,332,493
Prior year	(3,656,326)	6,458,060
Deferred tax	(1,837,598)	-
	48,984,447	60,790,553
	48,984,447	60,790,553

**30.1** Provision for current income tax represents final tax on exports sales under section 169 and minimum tax on local sales under section 113 of Income Tax Ordinance 2001. As the Company has carry forwardable tax losses of Rupees 944.829 million (2009: Rupees 673.318 million), therefore, it is impracticable to prepare the tax charge reconciliation for the years presented.

### 31. LOSS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic loss per share, which is based on:

Loss attributable to ordinary shareholder	(Rupees)	(1,136,512,441)	(722,551,563)
Weighted average number of ordinary shares	(Numbers)	50,911,011	50,911,011
Loss per share	(Rupees)	(22.32)	(14.19)

### 32. REMUNERATION TO CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in these financial statements for remuneration, including all benefits to chief executive, directors and other executives are as follows:

	2010			2009		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	----- (Rupees) -----					
Managerial remuneration	2,640,000	7,711,000	18,887,142	2,640,000	6,600,000	20,788,920
House rent	660,000	1,851,441	5,242,800	660,000	1,650,000	5,413,221
Utilities	264,000	740,573	1,888,473	264,000	660,000	2,243,719
Special allowance	528,000	1,481,150	3,256,468	528,000	1,320,000	3,504,521
Contribution to provident fund	264,000	771,100	1,888,582	264,000	660,000	2,078,892
Other allowances	444,000	2,131,236	2,313,132	444,000	721,500	2,130,472
	4,800,000	14,686,500	33,476,597	4,800,000	11,611,500	36,159,745
	4,800,000	14,686,500	33,476,597	4,800,000	11,611,500	36,159,745
Number of persons	1	4	23	1	3	26

**32.1** Chief executive, directors and executives of the company are provided with free use of company's owned and maintained cars.

**32.2** Meeting fee of Rupees 180,000 was paid to two directors for attending meetings during the year (2009: Rupees 180,000 paid to two directors for attending meetings.)

### **33. TRANSACTIONS WITH RELATED PARTIES**

Related parties comprises of subsidiary company, associated undertakings, other related parties, key management personnel and provident fund trust. The company in the normal course of business carries out transactions with related parties. Detail of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>Q Mart Corporation (Private) Limited - Subsidiary Company</b>		
Sale of goods	1,132,601	-
Purchase of goods	2,770,298	5,786,160
Advance against purchase of shares	-	19,400,000
Sale of fixed assets - book value	585,045	-
Purchase of fixed asset - book value	521,600	-
<b>Associated Company</b>		
Dividend income	4,153,216	15,191,520
<b>Other Related Party</b>		
Sale proceeds against disposal of investment in Security General Insurance Company Limited	-	240,000,000

## 34. SEGMENT INFORMATION

	Weaving		Dyeing		Hosiery		Power Generation		Apparel		Elimination of Inter-segment transactions		Total - Company	
	Year ended	30 June 09	Year ended	30 June 09	Year ended	30 June 09	Year ended	30 June 09	Year ended	30 June 09	Year ended	30 June 09	Year ended	30 June 09
Sales	1,271,960,524	1,494,399,636	3,782,957,136	3,936,576,265	861,627,982	1,234,189,634	607,801,745	8,491,580	305,489,898	-	-	6,211,709,477	7,578,457,178	
- Intersegment	1,170,272,331	1,056,784,918	2,173,562	1,263,548,111	-	1,269,218	496,320,308	549,487,045	-	-	-	-	-	
Cost of sales	2,442,232,855	2,551,184,554	3,804,692,783	4,062,931,076	861,627,982	1,235,458,852	1,157,288,730	8,491,580	305,489,898	-	-	6,211,709,477	7,578,457,178	
Gross profit / (loss)	(2,370,199,782)	(2,371,464,567)	(3,464,071,657)	(3,608,022,668)	(667,051,980)	(1,190,245,964)	(640,943,475)	(35,192,480)	(495,399,585)	(1,688,328,266)	(1,733,895,992)	(5,887,111,108)	(6,919,519,192)	
Distribution cost	72,033,073	179,719,987	340,621,106	454,908,408	(5,403,998)	45,134,488	(57,959,912)	169,284,730	(24,700,900)	(189,509,687)	-	-	324,598,369	
Administrative expenses	(65,296,949)	(84,294,685)	(287,148,966)	(249,967,814)	(71,784,963)	(132,454,093)	(21,757,403)	(23,637,702)	(3,551,219)	(33,011,967)	-	-	(42,762,097)	
Other operating income	(118,450,241)	(132,796,548)	(347,641,389)	(304,944,612)	(1,322,981,199)	(208,460,198)	(21,757,403)	(23,637,702)	(6,108,289)	(50,165,449)	-	-	(198,499,424)	
Profit / (loss) from operations before taxation and unallocated income / expenses	(46,417,168)	46,923,439	(7,020,283)	149,963,796	(1,377,021,197)	(163,325,710)	(79,708,315)	145,647,088	(30,809,189)	(240,075,136)	-	-	(301,657,152)	
Unallocated income and expenses:														
Finance cost													(706,299,453)	
Other operating expenses													(202,438,502)	
Other operating income													76,080,251	
Taxation													(48,984,447)	
Loss after taxation													(661,685,040)	
													(1,136,512,441)	
													(722,551,563)	

## 34.1 SEGMENT ASSETS

	Weaving		Dyeing		Hosiery		Power Generation		Apparel		Total - Company	
	30 June 10	30 June 09	30 June 10	30 June 09	30 June 10	30 June 09	30 June 10	30 June 09	30 June 10	30 June 09	30 June 10	30 June 09
SEGMENT ASSETS	2,660,808,520	2,797,779,444	2,502,319,690	2,571,363,945	1,657,199,163	1,638,337,776	978,316,363	1,185,497,089	317,866,157	416,283,969	8,116,509,893	8,609,282,223
Unallocated Assets:											575,473,663	441,949,929
											8,691,983,556	9,051,232,152

34.2 During the year ended 30 June 2010, operations of apparel division have been temporarily shutdown due to working capital shortfall. The management has intention to start the operations after restructuring of financing and injection of fresh equity in the company.

## 34.3 SEGMENT LIABILITIES

	Weaving		Dyeing		Hosiery		Power Generation		Apparel		Total - Company	
	30 June 10	30 June 09	30 June 10	30 June 09	30 June 10	30 June 09	30 June 10	30 June 09	30 June 10	30 June 09	30 June 10	30 June 09
SEGMENT LIABILITIES	298,316,697	274,197,296	388,606,754	398,981,803	297,919,643	243,849,858	339,503,525	169,348,591	11,792,082	20,824,975	1,336,138,701	1,107,202,523
Long term financing - secured											1,270,411,668	1,270,411,668
Accrued markup											494,147,375	165,360,822
Short term borrowings - secured											4,508,280,549	4,460,475,348
Deferred tax											92,861,746	68,862,581
Provision for taxation											54,478,371	54,332,493
											7,756,318,410	7,126,645,485

## 34.4 Geographical Information

The Company's revenue from external customers by geographical location is detailed below:

	2010	2009
	Rupees	Rupees
Australia	241,621,810	276,570,225
Asia	24,067,924,478	19,377,123,564
Europe	10,851,573,319	14,277,320,327
United States of America and Canada	957,519,055	1,788,376,357
Africa	74,502,399	30,667,805
Pakistan	14,761,764,416	2,117,810,110
	62,117,094,777	75,784,571,778

34.5 All non-current assets of the Company as at reporting dates are located and operating in Pakistan.

34.6 Revenue from major customers  
The Company's revenues is earned from a large mix of customers.

	2010	2009
<b>35. PLANT CAPACITY AND PRODUCTION</b>		
<b>Weaving</b>		
Number of looms in operation	174	174
Number of looms inoperative	104	134
	278	308
Rated capacity of operative looms converted to 60 picks (square meter)	48,892,878	48,892,878
Actual production converted to 60 picks (square meter)	36,053,220	45,024,713
Number of days worked during the year (3 shifts per day)	365	365
<b>Dyeing</b>		
Rated capacity in 3 shifts (linear meter)	30,000,000	30,000,000
Actual production for three shifts	26,566,797	29,099,936
No. of days worked during the year (3 shifts per day)	360	364
<b>Hosiery</b>		
Number of knitting machines installed	480	480
Number of knitting machines worked	242	320
Rated capacity per day per machine 50 Dozs	8,760,000	8,760,000
Actual production in Dozs	3,046,707	4,330,422
Number of days worked during the year (3 shifts per day)	364	347
<b>Apparel</b>		
Number of stitching machines	300	300
Number of stitching machines worked	-	175
Rated capacity in linear meters - Apparel	2,304,000	2,304,000
Actual production in linear meters - Apparel	-	1,300,688
Number of days worked during the year	-	283
<b>Genertek</b>		
Number of generators installed	9	9
Number of generators worked	7	7
Installed capacity (Mega Watt Hours)	291,446	291,446
Actual generation (Mega Watt Hours)	70,080	166,896
<b>Standby generators</b>		
Nigatta / Caterpillars generators (Mega Watt Hours)	8,935	8,935
Number of generators	2	2
Plant operation capacity is based on 365 days (2009: 365 days)		

**35.1** Underutilization of available capacity for weaving, dyeing, hosiery and apparel divisions is due to normal maintenance and shortage of working capital.

**35.2** Actual power generation in Genertek in comparison to installed is low due to periodical scheduled and unscheduled maintenance of generators and low demand. During the maintenance period electricity is supplied from standby generators.

## 36. FINANCIAL RISK MANAGEMENT

### 36.1 Financial risk factors

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

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

#### (a) Market risk

##### (i) Currency risk

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

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD), Euro and GBP. Currently, the Company's foreign exchange risk exposure is restricted to foreign currency in hand, bank balances, the amounts receivable from / payable to the foreign entities. The Company uses forward exchange contracts to hedge its foreign currency risk, when considered appropriate. The Company's exposure to currency risk was as follows:

	2010	2009
Cash in hand - USD	1,063	2,500
Cash in hand - Euro	3,095	4,394
Cash in hand - GBP	1,200	-
Cash at banks - USD	33.20	34,989
Trade debts - USD	6,112,072	6,369,637
Trade debts - Euro	269,676	269,470
Trade debts - GBP	190,310	115,611
Trade and other payable - USD	78,979	321,870
Net exposure - USD	6,034,189	6,085,256
Net exposure - Euro	272,771	273,864
Net exposure - GBP	191,510	115,611

The following significant exchange rates were applied during the year:

#### Rupees per US Dollar

Average rate	84.27	78.02
Reporting date rate	84.60	81.10

#### Rupees per Euro

Average rate	116.35	110.24
Reporting date rate	104.50	114.54

#### Rupees per GBP

Average rate	132.49	122.37
Reporting date rate	134.64	135.05

### Sensitivity analysis

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD, Euro and GBP with all other variables held constant, the impact on loss after taxation for the year would have been Rupees 26.731 million, Rupees 1.425 million and Rupees 1.289 million (30 June 2009: Rupees 24.417 million, Rupees 1.553 million and Rupees 0.773 million) respectively higher / lower, mainly as a result of exchange losses / gains on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

#### (ii) Other price risk

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

### Sensitivity analysis

The table below summarises the impact of increase / decrease in the Karachi Stock Exchange (KSE) Index on the Company's loss after taxation for the year and on equity (fair value reserve). The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Company's equity instruments moved according to the historical correlation with the index:

Index	Impact on loss after taxation		Impact on other components of equity (fair value reserve)			
	2010 Rupees	2009 Rupees	2010 Rupees	2009 Rupees		
KSE 100 (5% increase)	Decrease in loss	1,749,531	1,198,231	Increase in fair value reserve	-	1,198,231
KSE 100 (5% decrease)	Increase in loss	1,749,531	1,198,231	Decrease in fair value reserve	-	1,198,231

Equity (fair value reserve) would increase / decrease as a result of gains / losses on equity investment classified as available for sale.

#### (iii) Interest rate risk

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

The Company has no significant long-term interest-bearing assets except for saving bank accounts on which rate of return is minimal. The Company's interest rate risk arises from long term financing and short term borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk. Borrowings obtained at fixed rate expose the Company to fair value interest rate risk.

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

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>Fixed rate instruments</b>		
<b>Financial liabilities</b>		
Long term financing	577,931,776	577,931,776
Short term borrowings	2,199,084,000	2,853,695,000
<b>Floating rate instruments</b>		
<b>Financial assets</b>		
Bank balances- saving accounts	18,374,755	254,484,242
<b>Financial liabilities</b>		
Long term financing	692,479,892	692,479,892
Short term borrowings	2,309,196,549	1,606,780,348

#### **Fair value sensitivity analysis for fixed rate instruments**

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

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

If interest rates at the year end date, fluctuates by 1% higher / lower with all other variables held constant, loss for the year would have been Rupees 30.017 million (30 June 2009: Rupees 22.993 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of liabilities outstanding at balance sheet dates were outstanding for the whole year.

#### **(b) Credit risk**

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

	2010 Rupees	2009 Rupees
Investments	272,263,840	172,525,740
Loans and advances	14,537,634	16,591,827
Deposits	10,259,251	2,733,617
Trade debts	774,726,517	872,369,399
Other receivables	19,103,965	21,255,007
Bank balances	70,936,243	277,256,372
	1,161,827,450	1,362,731,962

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

	Rating			2010	2009
	Short Term	Long Term	Agency	----- Rupees -----	
<b>Banks</b>					
National Bank of Pakistan	A-1+	AAA	JCR-VIS	62,875	1,326,813
Allied Bank Limited	A1+	AA	PACRA	673,491	623,239
Askari Bank Limited	A1+	AA	PACRA	743,347	1,203,743
Bank Alfalah Limited	A1+	AA	PACRA	151,124	343,246
Faysal Bank Limited	A-1+	AA	JCR-VIS	356,401	742,071
Habib Bank Limited	A-1+	AA+	JCR-VIS	13,498,723	11,236,135
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	1,537,328	-
The Bank of Punjab	A1+	AA-	PACRA	4,094	40,359
Soneri Bank	A1+	AA-	PACRA	7,985	8,751
MCB Bank Limited	A1+	AA+	PACRA	20,530	1,211,313
NIB Bank Limited	A1+	AA -	PACRA	15,366,018	4,290,134
The Royal Bank of Scotland Limited	A1+	AA	PACRA	67,155	189,287
Silkbank Limited	A-3	A -	JCR-VIS	20,680,011	909,738
Standard Chartered Bank Limited	A1+	AAA	PACRA	3,415,470	254,714,734
United Bank Limited	A-1+	AA+	JCR-VIS	70,807	275,338
Al-Baraka Islamic Bank	A-1	A	JCR-VIS	14,225,950	131,471
HSBC Middle East Bank Limited	F1+	AA-	Fitch	44,934	-
Barclays Bank PLC	P-1	Aa3	Moody's	10,000	10,000
				70,936,243	277,256,372
<b>Investments</b>					
Maple leaf Cement Factory Limited - quoted	B	BB	PACRA	34,990,610	47,929,260
Security General Insurance Company Limited-Associated undertaking - unquoted	A	-	JCR-VIS	237,273,230	124,596,480
				272,263,840	172,525,740
				343,200,083	449,782,110

The Company's exposure to credit risk and impairment losses related to trade debts is disclosed in Note 17.

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly the credit risk is minimal.

### (c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At 30 June 2010, the Company had Rupees 1,021 million available borrowing limits from financial institutions and Rupees 75.318 million cash and bank balances. In spite of the fact that the Company is in a negative working capital position at the year end, management believes the liquidity risk to be low. Following are the contractual maturities of financial liabilities, including interest payments. The amount disclosed in the table are undiscounted cash flows:

Contractual maturities of financial liabilities as at 30 June 2010

	Carrying amount	Contractual cash flows	6 month or less	6-12 month	1-2 Year	More than 2 Years
----- (Rupees) -----						
Long term financing	1,270,411,668	1,475,743,844	648,867,266	144,269,072	268,075,116	414,532,390
Trade and other payables	1,137,905,233	1,137,905,233	1,137,905,233	-	-	-
Accrued mark-up	494,147,375	494,147,375	494,147,375	-	-	-
Short term borrowings	4,508,280,549	4,790,012,236	4,790,012,236	-	-	-
	<u>7,410,744,825</u>	<u>7,897,808,688</u>	<u>7,070,932,110</u>	<u>144,269,072</u>	<u>268,075,116</u>	<u>414,532,390</u>

Contractual maturities of financial liabilities as at 30 June 2009

	Carrying amount	Contractual cash flows	6 month or less	6-12 month	1-2 Year	More than 2 Years
----- (Rupees) -----						
Long term financing	1,270,411,668	1,616,528,657	157,175,431	331,036,448	444,021,851	684,294,927
Accrued mark-up	165,360,822	165,360,822	165,360,822	-	-	-
Trade and other payables	1,017,025,875	1,017,025,875	1,017,025,875	-	-	-
Short term borrowings	4,460,475,348	4,700,343,607	4,511,035,669	189,307,938	-	-
	<u>6,913,273,713</u>	<u>7,499,258,961</u>	<u>5,850,597,797</u>	<u>520,344,386</u>	<u>444,021,851</u>	<u>684,294,927</u>

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / mark up rates effective as at 30 June. The rates of interest / mark up have been disclosed in note 7 and note 11 to these financial statements.

### 36.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which fair value is observable:

	Level 1	Level 2	Level 3	Total
	..... Rupees.....			
<b>As at 30 June 2010</b>				
<b>Assets</b>				
Available for sale financial assets	34,990,610	-	237,273,230	272,263,840
<b>As at 30 June 2009</b>				
<b>Assets</b>				
Available for sale financial assets	47,929,260	-	124,596,480	172,525,740

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial instruments held by the company is the current bid price. These financial instruments are classified under level 1 in above referred table.

The fair value of financial instruments that are not traded in active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimate. If all significant inputs required to fair value a financial instrument are observable, those financial instruments are classified under level 2. The company has no such type of financial instruments at balance sheet date.

If one or more of the significant inputs is not based on observable market data, the financial instrument is classified under level 3. The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

### 36.3 Financial instruments by categories

	Loans and receivables	Available for sale	Total
	..... Rupees.....		
<b>As at 30 June 2010</b>			
<b>Assets as per balance sheet</b>			
Investments	-	272,263,840	272,263,840
Loans and advances	14,537,634	-	14,537,634
Deposits	10,259,251	-	10,259,251
Trade debts	774,726,517	-	774,726,517
Other receivables	19,103,965	-	19,103,965
Cash and bank balances	75,318,124	-	75,318,124
	893,945,491	272,263,840	1,166,209,331

	<b>Financial liabilities at amortized cost</b>
	<b>Rupees</b>
<b>Liabilities as per balance sheet</b>	
Long term financing	1,270,411,668
Accrued mark-up	494,147,375
Short term borrowings	4,508,280,549
Trade and other payables	1,137,905,233
	7,410,744,825

	<b>Loans and receivables</b>	<b>Available for sale</b>	<b>Total</b>
	..... Rupees.....		
<b>As at 30 June 2009</b>			
<b>Assets as per balance sheet</b>			
Investments	-	172,525,740	172,525,740
Loans and advances	16,591,827	-	16,591,827
Deposits	2,733,617	-	2,733,617
Trade debts	872,369,399	-	872,369,399
Other receivables	21,255,007	-	21,255,007
Cash and bank balances	279,446,232	-	279,446,232
	1,192,396,082	172,525,740	1,364,921,822

	<b>Financial liabilities at amortized cost</b>
	<b>Rupees</b>
<b>Liabilities as per balance sheet</b>	
Long term financing	1,270,411,668
Accrued mark-up	165,360,822
Short term borrowings	4,460,475,348
Trade and other payables	1,017,025,875
	6,913,273,713

### 36.4 Capital Risk Management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stake holders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to share holders, issue new shares or sell assets to reduce debt.

**37. AUTHORIZATION OF FINANCIAL STATEMENTS**

These financial statements are approved and issued by the Board of Directors for issue on October 02, 2010.

**38. EVENTS AFTER THE REPORTING DATE**

The Board of Directors of the Company in its meeting held on October 02, 2010 has proposed Nil (2009: Nil) cash dividend for the year ended 30 June 2010.

**39. CORRESPONDING FIGURES**

Corresponding figures have been rearranged / regrouped, wherever necessary, for the purpose of comparison. However, no significant rearrangement / regrouping have been made.

**40. GENERAL**

Figures have been rounded off to nearest of Rupee.

  
**AAMIR FAYYAZ SHEIKH**  
Chief Executive

  
**SYED MOHSIN RAZA NAQVI**  
Director





Kohinoor Mills Limited

## CONSOLIDATED FINANCIAL STATEMENTS

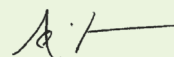
## DIRECTORS' REPORT

The Directors present the consolidated audited results of Kohinoor Mills Limited and its subsidiary Q-Mart Corporation (Private) Limited (the Group) for the year ended 30 June, 2010. The group results are being presented as required by section 237 of the Companies Ordinance, 1984 and in accordance with the requirements of International Accounting Standard-27 (Consolidated and Separate Financial Statements).

During the financial year ended June 30, 2010, the Group made a net loss after tax of Rupees 1,168.99 million, compared to net loss of Rupees 740.14 million during the preceding financial year. Higher raw material prices, massive gas-load shedding and under-utilization of capacity due to constricted liquidity resulted in depressing the overall performance of the Group. Going forward, the management has devised a detailed strategy for debt-restructuring, negotiations for which are at finalization stage, and fresh equity injection. This, through enhanced liquidity, will ensure full capacity utilization in Kohinoor Mills, which together with increased sales turnover expected in Q-Mart Corporation will curtail our losses, going forward.

The Directors' Report giving a detailed analysis of the performance of Kohinoor Mills Limited and Q-Mart Corporation (Private) Limited for the year ended 30 June 2010, has also been presented separately.

On behalf of the Board



**Aamir Fayyaz Sheikh**

Chief Executive

Lahore:  
October 02, 2010

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Kohinoor Mills Limited (the Holding Company) and its Subsidiary Company, Q Mart Corporation (Private) Limited as at 30 June 2010 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Kohinoor Mills Limited and its Subsidiary Company, Q Mart Corporation (Private) Limited. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of Kohinoor Mills Limited and its Subsidiary Company, Q Mart Corporation (Private) Limited as at 30 June 2010 and the results of their operations for the year then ended.

Without qualifying our opinion, we draw attention to note 1.2 to the consolidated financial statements, which indicates that the group has incurred a net loss of Rupees 1,168.993 million during the year ended 30 June 2010. Equity of the Group has been eroded due to accumulated losses of Rupees 2,122.875 million as on 30 June 2010. At balance sheet date, the group's current liabilities exceeded its current assets by Rupees 4,114.047 million. The Holding Company could not meet its obligation in respect of repayment of long term financing, short term borrowings and finance cost accrued thereon. These conditions, alongwith other matters as set forth in the note 1.2, indicate the existence of material uncertainty which may cast doubt about the group's ability to continue as a going concern.

These consolidated financial statements have however been prepared on a going concern basis subject to the assumptions of injection of new share capital through right shares in Holding Company and support from lending institutions with restructuring of existing financing facilities, reduction in markup rates and sanctioning of new working capital facility for the Holding Company.

As stated in note 2.1(d)(i) to the consolidated financial statements, the Group has changed its accounting policies and disclosures arising from standards and amendments to published approved accounting standards, with which we concur.

### **RIAZ AHMAD & COMPANY**

Chartered Accountants

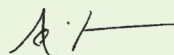
Name of engagement partner:  
Syed Mustafa Ali

Lahore:  
October 02, 2010

# CONSOLIDATED BALANCE SHEET

	Note	2010 Rupees	2009 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
Authorized share capital	3	<u>1,100,000,000</u>	<u>1,100,000,000</u>
Issued, subscribed and paid up share capital	4	509,110,110	509,110,110
Reserves	5	(678,127,614)	330,101,669
<b>Total equity</b>		(169,017,504)	839,211,779
<b>Surplus on revaluation of operating fixed assets</b>	6	1,024,153,342	1,037,326,061
<b>Non-current liabilities</b>			
Long term financing - secured	7	346,048,931	948,092,066
Deferred income tax liability	8	92,861,746	68,862,581
		438,910,677	1,016,954,647
<b>Current liabilities</b>			
Trade and other payables	9	1,381,503,518	1,147,863,697
Accrued markup	10	494,147,375	165,360,822
Short term borrowings - secured	11	4,508,280,549	4,460,475,348
Current portion of long term financing	7	924,362,737	322,319,602
Provision for taxation		55,513,164	54,458,171
		7,363,807,343	6,150,477,640
<b>Total Liabilities</b>		7,802,718,020	7,167,432,287
<b>Contingencies and commitments</b>	12		
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>8,657,853,858</u>	<u>9,043,970,127</u>

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



**AAMIR FAYYAZ SHEIKH**

Chief Executive

# AS AT JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	13	5,348,301,588	5,568,535,396
Goodwill		33,884,785	33,884,785
Long term investment	14	-	-
Long term security deposits		3,658,673	3,833,673
Deferred income tax asset	15	22,248,858	22,248,857
		<u>5,408,093,904</u>	<u>5,628,502,711</u>
<b>Current assets</b>			
Stores, spares and loose tools	16	323,609,725	368,032,690
Stock-in-trade	17	1,155,317,441	1,226,956,394
Trade debts	18	774,726,517	872,369,399
Loans and advances	19	333,321,596	242,098,522
Trade deposits and short term prepayments	20	12,111,297	3,504,104
Other receivables	21	181,514,579	159,790,633
Sales tax recoverable		120,360,426	88,960,634
Short term investments	22	272,263,843	172,525,740
Cash and bank balances	23	76,534,530	281,229,300
		<u>3,249,759,954</u>	<u>3,415,467,416</u>
<b>TOTAL ASSETS</b>		<u><u>8,657,853,858</u></u>	<u><u>9,043,970,127</u></u>



**SYED MOHSIN RAZA NAQVI**  
Director

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 Rupees	2009 Rupees
SALES	24	6,408,881,678	7,708,698,790
COST OF SALES	25	(6,055,349,858)	(7,032,939,895)
GROSS PROFIT		353,531,820	675,758,895
DISTRIBUTION COST	26	(429,616,413)	(502,177,599)
ADMINISTRATIVE EXPENSES	27	(258,423,277)	(268,888,606)
OTHER OPERATING EXPENSES	28	(138,969,482)	(203,421,651)
		(827,009,172)	(974,487,856)
OTHER OPERATING INCOME	29	(473,477,352) 78,951,387	(298,728,961) 310,621,673
PROFIT / (LOSS) FROM OPERATIONS		(394,525,965)	11,892,712
FINANCE COST	30	(724,447,667)	(706,782,104)
LOSS BEFORE TAXATION		(1,118,973,632)	(694,889,392)
PROVISION FOR TAXATION	31	(50,019,240)	(45,248,384)
LOSS AFTER TAXATION		(1,168,992,872)	(740,137,776)
LOSS PER SHARE - BASIC AND DILUTED	32	(22.96)	(14.54)

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

  
**AAMIR FAYYAZ SHEIKH**  
 Chief Executive

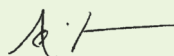
  
**SYED MOHSIN RAZA NAQVI**  
 Director

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	2010 Rupees	2009 Rupees
LOSS AFTER TAXATION	(1,168,992,872)	(740,137,776)
OTHER COMPREHENSIVE INCOME / (LOSS)		
Impairment loss taken to profit and loss account	60,750,903	46,682,655
Surplus / (deficit) on remeasurement of available for sale investment	112,676,749	(658,961,924)
Surplus realised on disposal of investment	-	(235,655,042)
Deferred income tax relating to surplus / (deficit) on available for sale investment	(29,577,646)	218,889,842
Other comprehensive income / (loss) for the year - net of deferred tax	143,850,006	(629,044,469)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(1,025,142,866)</u>	<u>(1,369,182,245)</u>

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



**AAMIR FAYYAZ SHEIKH**  
Chief Executive



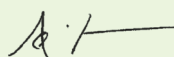
**SYED MOHSIN RAZA NAQVI**  
Director

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2010

	2010 Rupees	2009 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Loss before taxation</b>	(1,118,973,632)	(694,889,392)
<b>Adjustment for non cash charges and other items:</b>		
Gain on sale of operating assets	(2,422,222)	(3,924,135)
Depreciation	323,789,101	272,679,421
Amortization of intangible asset	2,815,339	2,687,423
Dividend income	(4,153,216)	(15,191,520)
Gain on sale of investments	-	(235,655,042)
Impairment loss on equity investment	73,689,552	60,750,903
Provision for doubtful debts	50,283,028	-
Finance cost	724,447,667	706,782,104
<b>CASH FLOWS FROM OPERATING ACTIVITIES BEFORE ADJUSTMENT OF WORKING CAPITAL</b>	49,475,617	93,239,762
<b>(INCREASE) / DECREASE IN CURRENT ASSETS</b>		
Stores, spares and loose tools	44,422,965	15,610,069
Stock-in-trade	71,638,953	392,350,838
Trade debts	47,359,854	(97,356,203)
Loans and advances	(91,223,074)	327,791,567
Trade deposits and short term prepayments	(8,607,193)	(553,368)
Other receivables	(19,685,484)	45,358,404
Sales tax recoverable	(31,399,792)	25,903,045
<b>INCREASE IN CURRENT LIABILITIES</b>		
Trade and other payables	233,639,821	225,528,325
<b>EFFECT ON CASH FLOWS DUE TO WORKING CAPITAL CHANGES</b>	246,146,050	934,632,677
<b>CASH GENERATED FROM OPERATIONS</b>	295,621,667	1,027,872,439
Income tax paid	(52,840,330)	(41,892,726)
Gratuity paid	-	(1,034,248)
Finance cost paid	(395,661,114)	(655,317,240)
	(448,501,444)	(698,244,214)
<b>NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES</b>	(152,879,777)	329,628,225
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditure on property, plant and equipment	(127,153,367)	(563,982,425)
Capital expenditure on intangible asset	(793,300)	(539,291)
Proceeds from disposal of property, plant and equipment	23,998,257	31,607,183
Dividend on equity investments received	4,153,216	15,191,520
Investment made	-	(538,604)
Proceeds from sale of investment	-	240,569,642
Long term security deposits	175,000	205,000
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	(99,620,194)	(277,486,975)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of redeemable capital	-	(39,999,125)
Long term financing - net	-	(122,040,313)
Short term borrowings - secured - net	47,805,201	333,095,696
Dividend paid	-	(6,902)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	47,805,201	171,049,356
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(204,694,770)	223,190,606
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	281,229,300	58,038,694
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	76,534,530	281,229,300

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



**AAMIR FAYYAZ SHEIKH**  
Chief Executive



**SYED MOHSIN RAZA NAQVI**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

	RESERVES							Total equity	
	SHARE CAPITAL		CAPITAL		REVENUE				Total
	Share Premium	Fair value reserve	Sub-Total	General	Accumulated Loss	Sub-Total	Total		
<b>Balance as on 30 June 2008</b>	509,110,110	213,406,310	658,508,014	871,914,324	1,058,027,640	(230,658,050)	827,369,590	1,699,283,914	2,208,394,024
Total comprehensive loss for the year ended 30 June 2009	-	-	(629,044,469)	(629,044,469)	-	(740,137,776)	(740,137,776)	(1,369,182,245)	(1,369,182,245)
<b>Balance as on 30 June 2009</b>	509,110,110	213,406,310	29,463,545	242,869,855	1,058,027,640	(970,795,826)	87,231,814	330,101,669	839,211,779
Transfer from surplus on revaluation of operating fixed assets - net of deferred tax	-	-	-	-	-	16,913,583	16,913,583	16,913,583	16,913,583
Total comprehensive loss for the year ended 30 June 2010	-	-	143,850,006	143,850,006	-	(1,168,992,872)	(1,168,992,872)	(1,025,142,866)	(1,025,142,866)
<b>Balance as on 30 June 2010</b>	509,110,110	213,406,310	173,313,551	386,719,861	1,058,027,640	(2,122,875,115)	(1,064,847,475)	(678,127,614)	(169,017,504)

----- RUPEES -----

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



**AAMIR FAYYAZ SHEIKH**  
Chief Executive



**SYED MOHSIN RAZA NAQVI**  
Director

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

## 1. LEGAL STATUS AND NATURE OF BUSINESS

### 1.1 THE GROUP

The Group consists of:

#### **Holding Company**

- Kohinoor Mills Limited

#### **Subsidiary Company (wholly owned)**

- Q Mart Corporation (Private) Limited

#### **Kohinoor Mills Limited**

Kohinoor Mills Limited ("the Company") is a public limited company incorporated on 21 December 1987 in Pakistan under the Companies Ordinance, 1984 and its shares are quoted on Karachi, Lahore and Islamabad Stock Exchanges of Pakistan. The registered office of the Company is situated at 8-K.M., Manga Raiwind Road, District Kasur. The Company is principally engaged in the business of textile manufacturing covering weaving, knitting, bleaching, dyeing, stitching, buying, selling and otherwise dealing in yarn, bed linen, home furnishing, socks, cloth and other goods and fabrics made from raw cotton and synthetic fiber, to generate, distribute and sell electricity.

#### **Q Mart Corporation (Private) Limited**

Q Mart Corporation (Private) Limited ("the Company"), a wholly owned subsidiary of Kohinoor Mills Limited was incorporated in Pakistan on 18 July 2005 as a private limited company under the Companies Ordinance, 1984. The registered office of the Company is situated at 87/2, Arif Jan Road, Lahore Cantt. The principal activity of the Company is to carry on business as a retailer in all types of general merchandise.

### 1.2 Going Concern Assumption

The Group incurred loss after taxation of Rupees 740.138 million in the preceding financial year ended 30 June 2009 and further incurred loss after taxation of Rupees 1,168.993 million for the current year ended 30 June 2010. These losses have resulted in erosion of equity of the Group and depletion of working capital base. In order to turn the current state of affairs around and replenish its lost working capital, the management has devised a detailed strategy, including injection of further fresh share capital in the Holding Company. The Holding Company is in advanced stages of negotiation with its major bankers for restructuring of its existing debt, converting most of its existing short term borrowings into long term financing with a moratorium in principal repayments of two years and reduction in mark up rates and sanctioning of new working capital facility of Rupees 400 million. The Holding Company is also considering to raise fresh equity through rights issue of shares. These funds will enable the Holding Company to operate again at an optimum level. The current order book of the Holding Company is quite healthy and it has confirmed orders upto December 2010 at full capacity in all of its divisions. Therefore, the management is confident

that these steps will bring the Group out of the existing financial crisis and it will continue as a going concern. These consolidated financial statements, therefore, do not include any adjustment relating to realization of its assets and liquidation of any liabilities that might be necessary should the Group be unable to continue as a going concern.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **2.1 Basis of Preparation**

#### **a) Statement of Compliance**

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

#### **b) Accounting Convention**

These consolidated financial statements have been prepared under the historical cost convention, except for lands and buildings of Holding Company which are carried at revalued amounts and certain financial instruments which are carried at their fair value.

#### **c) Critical accounting estimates and judgments**

The preparation of these consolidated financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to these consolidated financial statements or where judgments were exercised in application of accounting policies are as follows:

- **Financial instruments**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques based on assumptions that are dependent on conditions existing at the balance sheet date.

- **Useful lives, patterns of economic benefits and impairments**

Estimates with respect to residual values and useful lives and pattern of flow of economic benefits are based on the analysis of the management. Further, the values of assets are reviewed for possible impairments on an annual basis. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

- **Taxation**

In making the estimates for income tax liability, the management takes into account the current income tax law and the decisions of appellate authorities on certain issues in the past.

- **Provision for doubtful debts**

Receivables are reviewed against any provision required for any doubtful balances on an ongoing basis. The provision is made while taking into consideration expected recoveries, if any.

- d) **Standards and amendments to published approved accounting standards that are effective in current year**

- i) **Changes in accounting policies and disclosures arising from standards and amendments to published approved accounting standards that are effective in the current year**

IAS 1 (Revised) 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 7 (Amendment) 'Financial instruments: Disclosures' (effective for annual periods beginning on or after 01 January 2009). This amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

IFRS 8 'Operating Segments' (effective for annual periods beginning on or after 01 January 2009). It introduces the "management approach" to segment reporting. IFRS 8 requires presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's chief operating decision makers in order to assess each

segment's performance and to allocate resources to them. Previously, the Group did not present segment information as IAS 14 limited reportable segments to those that earn a majority of their revenue from sales to external customers and therefore did not require the different stages of vertically integrated operations to be identified as separate segments. Under the management approach, the Group has determined operating segments on the basis of business activities i.e Weaving, Dyeing, Hosiery, Apparel and Power Generation. As the change in accounting policy only results in additional disclosures of segment information, there is no impact on earnings per share.

**ii) Other amendment to published approved accounting standards that is effective in the current year**

IAS 23 (Amendment) 'Borrowing Costs' (effective for annual periods beginning on or after 01 January 2009). It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for its intended use or sale) as part of the cost of that asset. The Group's accounting policy on borrowing cost, as disclosed in note 2.11, complies with the above mentioned requirements to capitalize borrowing cost and hence this change has not impacted the Group's accounting policy.

**e) Standards, interpretations and amendments to published approved accounting standards that are effective in current year but not relevant**

There are other new standards, interpretations and amendments to the published approved accounting standards that are mandatory for accounting periods beginning on or after 01 July 2009 but are considered not to be relevant or do not have any significant impact on the Group's financial statements and are therefore not detailed in these financial statements.

**f) Standards and amendments to published approved accounting standards that are not yet effective but relevant**

Following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 01 July 2010 or later periods:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2013). IFRS 9 has superseded the IAS 39 'Financial Instruments: Recognition and Measurement'. It requires that all equity investments are to be measured at fair value while eliminating the cost model for unquoted equity investments. Certain categories of financial instruments available under IAS 39 will be eliminated. Moreover, it also amends certain disclosure requirements relating to financial instruments under IFRS 7. The management of the Group is in the process of evaluating impacts of the aforesaid standard on the Group's financial statements.

There are other amendments resulting from annual improvements projects initiated by International Accounting Standards Board in April 2009 and May 2010, specifically in IFRS 7 'Financial Instruments: Disclosures', IFRS 8 'Operating Segments', IAS 1 'Presentation of Financial Statements', IAS 7 'Statement of Cash Flows', IAS 24 'Related Party Disclosures',

IAS 27 'Consolidated and Separate Financial Statements' and IAS 36 'Impairment of Assets' that are considered relevant to the Group's financial statements. These amendments are unlikely to have a significant impact on the Group's financial statements and have therefore not been analyzed in detail.

**g) Standards, interpretations and amendments to published approved accounting standards that are not effective in current year and not considered relevant**

There are other accounting standards, amendments to published approved accounting standards and new interpretations that are mandatory for accounting periods beginning on or after 01 July 2010 but are considered not to be relevant or do not have any significant impact on the Group's financial statements and are therefore not detailed in these financial statements.

## **2.2 Consolidation**

### **Subsidiary**

Subsidiaries are those entities in which Holding Company directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and appoint more than 50% of its directors. The financial statements of the Subsidiary Company are included in the consolidated financial statements from the date control commences until the date that control ceases.

The assets and liabilities of Subsidiary Company have been consolidated on a line by line basis and the carrying value of investment held by the Holding Company is eliminated against Holding Company's share in paid up capital of the Subsidiary Company.

Inter Group balances and transactions have been eliminated.

Minority interests are that part of net results of the operations and of net assets of the Subsidiary Company attributable to interest which are not owned by the Holding Company. Minority interests are presented as a separate item in the consolidated financial statements.

## **2.3 Employee Benefit**

The Holding Company operates a funded contributory provident fund scheme for its permanent employees. The Holding Company and employees make equal monthly contributions of 10 percent of the basic salary, towards the fund. The Holding Company's contribution is charged to the profit and loss account.

## **2.4 Provisions**

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

## **2.5 Taxation**

### **Current**

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

### **Deferred**

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

## **2.6 Foreign Currencies**

These consolidated financial statements are prepared in Pak Rupees, which is the Group's functional and presentation currency.

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into Pak Rupees at the spot rate. All non-monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined. Exchange gain and loss where applicable are recognized in the profit and loss account.

## **2.7 Fixed Assets**

### **2.7.1 Property, plant and equipment and depreciation**

#### **Owned**

##### **a) Cost**

Property, plant and equipment except freehold land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land is stated at revalued amount, buildings are stated at revalued amount less accumulated depreciation and impairment losses, if any, while capital work in progress is stated at cost.

Cost of tangible assets consists of historical cost, borrowing cost pertaining to erection / construction period and other directly attributable cost of bringing the asset to working condition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

**b) Depreciation**

Depreciation on all operating fixed assets is charged to income on a reducing balance method so as to write off historical cost of an asset over its estimated useful life at the rates as disclosed in note 13.1. Depreciation on additions is charged from the month in which the asset is put to use and on disposal up to the month of disposal.

**c) Derecognition**

An item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

**Leased**

**a) Finance leases**

Leases where the Group has substantially all the risk and rewards of ownership are classified as finance lease. Assets subject to finance lease are capitalized at the commencement of the lease term at the lower of present value of minimum lease payments under the lease agreements and the fair value of the leased assets, each determined at the inception of the lease.

The related rental obligation net of finance cost, is included in liabilities against assets subject to finance lease. The liabilities are classified as current and long term depending upon the timing of payments.

Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the balance outstanding. The finance cost is charged to income over the lease term.

Depreciation of assets subject to finance lease is recognized in the same manner as for owned assets. Depreciation of the leased assets is charged to income.

**b) Operating leases**

Leases where significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income on a straight-line basis over the period of lease.

**2.7.2 Intangible Assets**

Intangible assets, which are non-monetary assets without physical substance, are recognized at cost, which comprise purchase price, non-refundable purchase taxes and other directly attributable expenditures relating to their implementation and customization. After initial recognition an intangible asset is carried at cost less accumulated amortization and impairment losses, if any. Intangible assets are amortized from the month, when these assets are available for use, using the straight line method, whereby the cost of the intangible asset is amortized over its estimated useful life over which economic benefits are expected to flow to the Group. The useful life and amortization method is reviewed and adjusted, if appropriate, at each balance sheet date.

**2.8 Investments**

The management determines the appropriate classification of its investments at the time of purchase.

Investments are initially measured at fair value plus transaction costs directly attributable to acquisition, except for “investments at fair value through profit or loss”.

**a) Investments at fair value through profit or loss**

Investments classified as held-for-trading and those designated as such are included in this category. Investments are classified as held-for-trading if they are acquired for the purpose of selling in the short term.

Gains or losses on investments held-for-trading are recognized in profit and loss account.

**b) Held-to-maturity**

Investments with fixed or determinable payments and fixed maturity are classified as held-to-maturity when there is positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held to maturity are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

**c) Available-for-sale**

Investments intended to be held for an indefinite period of time, which may be sold in response to need for liquidity, or changes to interest rates or equity prices are classified as available-for-sale. After initial recognition, investments which are classified as available-for-sale are measured at fair value. Gains or losses on available-for-sale investments are recognized directly in statement of other comprehensive income until the investment is sold, de-recognized or is determined to be impaired, at which time the cumulative gain or loss previously reported in statement of other comprehensive income is included in profit and loss account. These are sub-categorized as under:

**Quoted**

For investments that are actively traded in organized capital markets, fair value is determined by reference to stock exchange quoted market bids at the close of business on the balance sheet date.

**Unquoted**

Fair value of unquoted investments is determined on the basis of appropriate valuation techniques as allowed by IAS 39 'Financial Instruments: Recognition and Measurement'.

**d) Equity investments in associated companies**

The investments in associates, in which there is no significant influence, are classified as "Available-for-Sale".

**2.9 Inventories**

Inventories, except for stock in transit, waste stock and rejected goods are stated at lower of cost and net realizable value. Cost is determined as follows:

**Stores, spares and loose tools**

Useable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. In transit stores and spares are valued at cost comprising invoice value plus other charges paid thereon.

**Stock in Trade**

Cost of raw material is based on weighted average cost.

Cost of work in process and finished goods comprises prime cost and appropriate production overheads determined on weighted average cost. Costs of goods purchased for resale are valued at their respective purchase price by using first-in-first-out method.

Materials in transit are valued at cost comprising invoice value plus other charges paid thereon. Waste stock and rejected goods are valued at net realizable value.

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

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

Non-current assets classified as assets held for sale are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recoverable principally through a sale transaction rather than through a continuing use.

## **2.11 Borrowing cost**

Borrowing costs are recognized as expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing cost, if any, are capitalized as part of the cost of that asset.

## **2.12 Revenue recognition**

- (a) Revenue is recognized when the Group has transferred significant risks and rewards associated with ownership of goods to the buyer. Export sales and local sales are recognized on shipment and dispatch of goods to customer respectively.
- (b) Dividend on equity investment is recognized as income when right to receive payment is established.
- (c) Profit on bank deposits is recognized on a time proportion basis taking into account, the principal outstanding and rates of profits applicable thereon.
- (d) Revenue on sale of electricity is recognized at the time of transmission.

## **2.13 Impairment**

### **a) Financial assets**

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available for sale financial asset is calculated with reference to its current fair value.

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.

## **b) Non financial assets**

The carrying amounts of the Group's non financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit and loss account.

### **2.14 Share capital**

Ordinary shares are classified as share capital.

### **2.15 Financial instruments**

Financial instruments are recognized at fair value when the Group becomes party to the contractual provisions of the instrument by following trade date accounting. Any gain or loss on the subsequent measurement is charged to the profit and loss account except for available for sale investments. The Group derecognizes a financial asset or a portion of financial asset when, and only when, the enterprise loses the control over contractual right that comprises the financial asset or a portion of financial asset. While a financial liability or a part of financial liability is derecognized from the balance sheet when, and only when, it is extinguished, i.e., when the obligation specified in contract is discharged, cancelled or expired.

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

Financial assets are long term investments, trade debts, deposits, loans and advances and other receivables, short term investments and cash and bank balances.

Financial liabilities are classified according to the substance of the contractual agreements entered into. Significant financial liabilities are long term financing, short term borrowings and trade and other payables.

#### **2.15.1 Trade debts and other receivables**

Trade debts are initially measured at fair value and subsequently at amortized cost using effective interest rate method less provision for impairment. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Trade debts and other receivables considered irrecoverable are written off.

### **2.15.2 Trade and other payables**

Liabilities for trade and other amounts payable are initially recognized at fair value which is normally the transaction cost.

### **2.15.3 Mark up bearing borrowings**

Borrowings are recognized initially at fair value and are subsequently stated at amortized cost, any difference between the proceeds and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest rate method.

### **2.15.4 Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, cash at banks on current accounts, saving and deposit accounts and other short term highly liquid instruments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in values.

## **2.16 Segment reporting**

Segment reporting is based on the operating (business) segments of the Group. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Those income, expenses, assets, liabilities and other balances which can not be allocated to a particular segment on a reasonable basis are reported as unallocated.

The Group has six reportable business segments. Weaving (Producing different quality of greige fabric using yarn), Dyeing (Converting greige fabric into dyed fabric), Hosiery (Knitting of socks), Apparel (Stitching of garments from processed fabric), Power Generation (Generating and distributing power) and Retail (Selling all type of general merchandise).

Transaction among the business segments are recorded at arm's length prices using admissible valuation methods. Inter segment sales and purchases are eliminated from the total.

## **2.17 Off setting of financial assets and liabilities**

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

## **2.18 Related party transactions**

Transactions and contracts with related parties are carried out at an arm's length price determined in accordance with comparable uncontrolled price method.

## **2.19 Dividend and other appropriations**

Dividend to the shareholders is recognized in the period in which it is declared and other appropriations are recognized in the period in which these are approved by the Board of Directors.

## **2.20 Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognized immediately through the income statement and is not subsequently reversed.

## **2.21 Derivative Financial Instruments**

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The management designates certain derivatives as cash flow hedges.

The management documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The management also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss account.

Amounts accumulated in equity are recognized in profit and loss account in the periods when the hedged item will affect profit or loss.

			<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>3.</b>	<b>AUTHORIZED SHARE CAPITAL</b>			
	<b>2010 (NUMBER OF SHARES)</b>	<b>2009 (NUMBER OF SHARES)</b>		
	80,000,000	80,000,000	Ordinary shares of Rupees 10 each	800,000,000
	30,000,000	30,000,000	Preference shares of Rupees 10 each	300,000,000
	<u>110,000,000</u>	<u>110,000,000</u>		<u>1,100,000,000</u>
<b>4.</b>	<b>ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL</b>			
	<b>2010 (NUMBER OF SHARES)</b>	<b>2009 (NUMBER OF SHARES)</b>		
	28,546,003	28,546,003	Ordinary shares of Rupees 10 each fully paid in cash	285,460,030
	18,780,031	18,780,031	Ordinary shares of Rupees 10 each as fully paid bonus shares	187,800,310
	3,584,977	3,584,977	Ordinary shares of Rupees 10 each issued due to merger with Kohinoor Genertek Limited as per scheme of arrangement	35,849,770
	<u>50,911,011</u>	<u>50,911,011</u>		<u>509,110,110</u>
<b>5</b>	<b>RESERVES</b>			
	<b>Composition of reserves is as follows:</b>			
	<b>Capital</b>			
			Share premium (Note 5.1)	213,406,310
			Fair value reserve - net of deferred tax ( Note 5.2 )	173,313,551
				<u>386,719,861</u>
	<b>Revenue</b>			
			General	1,058,027,640
			Accumulated loss	(2,122,875,115)
				<u>(1,064,847,475)</u>
				<u>330,101,669</u>

**5.1** This reserve can be utilised only for the purposes specified in section 83 (2) of the Companies Ordinance, 1984.

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>5.2 FAIR VALUE RESERVE - NET OF DEFERRED TAX</b>		
Opening balance	61,573,772	909,508,083
Fair value adjustment on investments:		
Impairment loss transferred to profit and loss account	60,750,903	46,682,655
Impact of revaluation on investments	112,676,749	(658,961,924)
Surplus realised on disposal of investment	-	(235,655,042)
	173,427,652	(847,934,311)
	235,001,424	61,573,772
Less: Deferred tax liability		
Security General Insurance Company Limited	61,687,873	32,110,227
Closing balance	173,313,551	29,463,545

**5.2.1** This represents the net unrealized gain on remeasurement of available for sale investments at fair value and is not available for distribution. This will be transferred to profit and loss account on realization.

## **6 SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS - HOLDING COMPANY**

Opening balance	1,074,078,415	-
Add: Surplus arising on revaluation of fixed assets:		
Lands	-	699,054,391
Buildings	-	375,024,024
	-	1,074,078,415
Less: Incremental depreciation	18,751,201	-
Less: Related deferred tax liability	31,173,872	36,752,354
Closing balance	1,024,153,342	1,037,326,061

## **7 LONG TERM FINANCING-SECURED Obtained by Holding Company**

Financing from banking companies (Note 7.1)	1,270,411,668	1,270,411,668
Less: Current portion shown under current liabilities	924,362,737	322,319,602
	346,048,931	948,092,066

## 7.1

Lender	2010	2009	Rate of markup per annum	Terms of financing and number of installments	Markup repricing	Markup payable	Security
	----- Rupees -----						
National Bank of Pakistan	50,000,000	50,000,000	3-Month KIBOR + 1.25%	Five equal quarterly installments commenced from 31 December 2009 and ending on 30 September 2010. Closing balance of this finance includes amount due but not paid of Rupees 40 million (2009: Rupees 10 million)	Quarterly	Quarterly	First pari passu / joint pari passu charge of Rupees 67 million over fixed assets of the Company.
National Bank of Pakistan	45,148,387	45,148,387	SBP rate for LTF - EOP + 2%	Ten equal semi annual installments from 31 December 2004 to 30 June 2010. Closing balance of this finance includes amount due but not paid of Rupees 45.148 million (2009: Nil)	As and when notified by SBP.	Quarterly	First pari passu / joint pari passu charge of Rupees 61 million over fixed assets of the Company.
National Bank of Pakistan	100,000,477	100,000,477	SBP rate for LTF - EOP + 2%	Ten equal semi annual installments commenced from 31 March 2005 and ending on 30 September 2010. Closing balance of this finance includes amount due but not paid of Rupees 49.999 million (2009: Nil)	As and when notified by SBP.	Quarterly	First pari passu / joint pari passu charge of Rupees 134 million over fixed assets of the Company.
National Bank of Pakistan	296,367,918	296,367,918	SBP rate for LTF - EOP + 3%	Twenty four quarterly installments commenced from 20 May 2010 and ending on 20 February 2016. Closing balance of this finance includes amount due but not paid of Rupees 12.349 million (2009: Nil)	As and when notified by SBP.	Quarterly	First pari passu / joint pari passu charge of Rupees 396 million over fixed assets of the Company.
United Bank Limited	32,500,000	32,500,000	SBP rate for LTF - EOP + 2%	Eight equal semi annual installments commenced from 03 February 2006 and ending on 03 August 2010. Closing balance of this finance includes amount due but not paid of Rupees 16.250 million (2009: Nil)	As and when notified by SBP.	Quarterly	First exclusive charge of Rupees 88.64 million on imported knitting machinery of the Company.
Allied Bank Limited	60,073,988	60,073,988	SBP rate for LTF - EOP + 2%	Eight equal semi annual installments commenced from 29 March 2006 and ending on 29 September 2010. Closing balance of this finance includes amount due but not paid of Rupees 30.307 million (2009: Nil)	As and when notified by SBP.	Quarterly	First pari passu charge with 25 % margin over fixed assets of the Company.
Allied Bank Limited	112,500,000	112,500,000	6-Month KIBOR + 1.5% with floor of 5%.	Eight equal semi annual installments commenced from 31 March 2007 and ending on 30 September 2010. Closing balance of this finance includes amount due but not paid of Rupees 75 million (2009: Nil)	Half yearly	Quarterly	First pari passu charge with 25% margin on fixed assets of the Company.
The Bank of Punjab	112,500,000	112,500,000	3-Month KIBOR + 3 %	Fourteen quarterly installments commenced from 28 September 2007 and ending on 28 June 2013. Closing balance of this finance includes amount due but not paid of Rupees 16.071 million (2009: Nil)	Quarterly	Quarterly	First pari passu charge of Rupees 566.67 million on all present and future fixed assets of the Company
The Bank of Punjab	300,000,000	300,000,000	3-Month KIBOR + 2.5%	Twelve equal quarterly installments commenced from 13 May 2010 and ending on 13 February 2013. Closing balance of this finance includes amount due but not paid of Rupees 25 million (2009: Nil)	Quarterly	Quarterly	First pari passu charge of Rupees 566.67 Million on all present and future fixed assets of the Company.
The Royal Bank of Scotland Limited.	17,479,892	17,479,892	3-Month KIBOR + 2%	Twenty equal quarterly installments commenced from 01 October 2007 and ending on 01 July 2012. Closing balance of this finance includes amount due but not paid of Rupees 6.243 million (2009: Nil)	Quarterly	Quarterly	First exclusive hypothecation charge over power generators.
The Royal Bank of Scotland Limited	43,841,006	43,841,006	SBP rate for LTF - EOP + 2%	Twenty equal quarterly installments commenced from 01 October 2007 and ending on 01 July 2013. Closing balance of this finance includes amount due but not paid of Rupees 6.320 million (2009: Nil)	As and when notified by SBP.	Quarterly	First exclusive hypothecation charge over power generators.
United Bank Limited	100,000,000	100,000,000	6-Month KIBOR + 2%	10 equal semi annual installments commencing from 18 December 2010 and ending on 18 June 2015.	Quarterly	Quarterly	First pari passu charge of Rupees 200 million over existing and future fixed assets of the Company.
	<b>1,270,411,668</b>	<b>1,270,411,668</b>					

7.2 Long term financing include installments of Rupees 322.687 million (2009: Rupees 11.250 million) due but not paid by the Holding Company.

	2010 Rupees	2009 Rupees
<b>8. DEFERRED INCOME TAX LIABILITY</b>		
The liability / (asset) for deferred taxation originated due to temporary differences relating to:		
<b>Taxable temporary differences of holding company on:</b>		
Accelerated tax depreciation	181,454,251	198,952,991
Surplus on revaluation of operating fixed assets	31,173,872	36,752,354
Surplus on revaluation of investment - available for sale	61,687,874	32,110,227
	274,315,997	267,815,572
<b>Deductible temporary difference of holding company on:</b>		
Accumulated tax losses	(330,690,176)	(235,661,321)
Net deferred tax (asset) / liability	(56,374,179)	32,154,251
Less: Deferred tax liability recognized (Note 8.1)	92,861,746	68,862,581
Net deferred tax asset not recognised	149,235,925	36,708,330
<b>8.1</b>	Deferred tax liability on surplus on revaluation of operating fixed assets and surplus on revaluation of investment available for sale - Security General Insurance Company Limited has been recognized in these consolidated financial statements. Remaining net deferred tax asset of Holding Company aggregating to Rupees 149.236 (2009: Rupees 36.708 million) has not been recognized in these consolidated financial statements as the temporary differences are not expected to reverse in foreseeable future.	
<b>9. TRADE AND OTHER PAYABLES</b>		
Creditors	1,062,496,135	936,111,082
Advances from customers	157,320,644	68,364,642
Sales commission payable	36,987,333	25,475,848
Income tax deducted at source	41,256,683	20,287,619
Security deposits - interest free	508,193	436,778
Payable to provident fund	-	3,365,203
Accrued and other liabilities (Note 9.1)	78,202,993	89,090,988
Unclaimed dividend	4,731,537	4,731,537
	1,381,503,518	1,147,863,697
<b>9.1</b>	This includes an amount of Rupees 627,198 (2009: Rupees 627,198) payable to Ex-Chief Operating Officer of Subsidiary Company in respect of his full and final settlement.	
<b>10. ACCRUED MARKUP</b>		
Long term financing (Note 10.1)	164,971,306	53,861,539
Short term borrowings (Note 10.2)	329,176,069	111,499,283
	494,147,375	165,360,822
<b>10.1</b>	This includes overdue markup of Rupees 115.407 million (2009: Rupees 14.097 million)	
<b>10.2</b>	This includes overdue markup of Rupees 202.887 million (2009: Rupees 9.019 million)	

	2010 Rupees	2009 Rupees
<b>11. SHORT TERM BORROWINGS - SECURED</b>		
<b>Obtained by holding company</b>		
<b>From banking companies</b>		
Short term running finance (Note 11.1 & 11.2)	605,404,912	164,615,598
SBP refinance (Note 11.1 & 11.3)	2,199,084,000	2,853,695,000
Other short term finances (Note 11.1 & 11.4)	1,703,791,637	1,442,164,750
	4,508,280,549	4,460,475,348

**11.1** These facilities are secured against hypothecation charge on current assets, lien on export contracts / letters of credit, first and second pari passu charge on assets, personal guarantees of directors and ranking charge on fixed assets of the Holding Company. These form part of total credit facility of Rupees 5,530.000 million (2009: Rupees 5,365.000 million) out of which Rupees 1,021.720 million (2009: Rupees 904.525 million) remained unutilized at the end of year.

**11.2** The rate of mark up ranges from 13.84% to 14.27% per annum (2009: 11.25% to 17.52% per annum).

**11.3** The rate of mark up ranges from 7.5% to 9 % per annum (2009: 7.5% per annum) on the balance outstanding.

**11.4** The rates of mark up of local and foreign currency loans range from 12.13 % to 22 % per annum (2009: 11.25% to 23.70% per annum) and 3.96% to 9.62% per annum (2009: 4.15% to 10.78% per annum) respectively.

## **12. CONTINGENCIES AND COMMITMENTS**

### **12.1 Contingencies**

#### **Holding Company**

**12.1.1** The Deputy Collector (Refund – Gold) by order dated 19 June 2007 rejected the input tax claim of the Holding Company, for the month of June 2005, amounting to Rupees 10.345 million incurred in zero rated local supplies of textile and articles thereof on the grounds that the input tax claim is in contravention of SRO 992(I)/2005 which states that no registered person engaged in the export of specified goods (including textile and articles thereof) shall, either through zero-rating or otherwise, be entitled to deduct or reclaim input tax paid in respect of stocks of such goods acquired up to 05 June 2005, if not used for the purpose of exports made up to the 31 December 2005. Consequently, the Holding Company has filed an appeal before the Customs Federal Excise and Sales Tax Appellate Tribunal. Pending the outcome of appeal no provision for inadmissible input tax has been recognized in the consolidated financial statements, since the Holding Company has strong grounds against the order of taxation authority.

- 12.1.2** The Additional Collector, Sales Tax Department has raised sales tax demand amounting to Rupees 8.956 million alongwith additional tax and penalty, as a result of sales tax audit for the year 1999-2000 conducted by the Sales Tax Department. The Holding Company is contesting the demand and management is confident that decision will be in favour of the Holding Company. Accordingly, no provision for inadmissible input tax has been made in the consolidated financial statements.
- 12.1.3** The Additional Commissioner of Income Tax (Audit) has charged turnover tax on local sales aggregating to Rupees 19.880 million for the tax years 2005 (Transitional), 2006 and 2007. Since the issue of minimum tax has been resolved by Honorable Lahore High Court in favour of taxpayers in other identical cases. The Holding Company has filed appeals before Commissioner of Income Tax (Appeals) against the orders. Pending the outcomes of appeals, no provision has been made in the books of account as the management is confident that decision will be in favour of the Holding Company.
- 12.1.4** The Holding Company has filed a recovery suit of US \$ 93,225 against a customer for goods supplied to him. Matter is pending before Senior Civil Judge, Lahore. Pending the outcome of the case, no provision for doubtful recoverability of debtor is made in these consolidated financial statements since the Holding Company and its legal counsel are confident that the outcome of the case will be in favour of the Holding Company.
- 12.1.5** Bank guarantee of Rupees 65.80 million (2009: Rupees 60.50 million) in favour of Sui Northern Gas Pipelines Limited against gas connections.
- 12.1.6** Bank guarantee of Rupees 6.5 million (2009: Rupees 5.5 million) in favour of Director, Excise and Taxation to cover the disputed amount of infrastructure cess contested in Honourable Supreme Court of Pakistan.
- 12.1.7** During the year ended 30 June 2010, Lahore Electric Supply Company Limited (LESCO) has served a notice in connection with violation of Power Purchase Agreement to the Company. According to the aforesaid notice, the Holding Company was using gas alongwith Refined Furnace Oil (RFO) in the ratio of 50:50 as co-fuel in order to generate electric power for sale to LESCO whereas tariff was charged to LESCO on the basis of RFO. Neither LESCO nor the Holding Company has filed any suit in any court of law so far. The Holding Company is in the process of resolving the matter amicably under the provisions of above said Power Purchase Agreement. An amount of Rupees 86.833 million receivable by the Holding Company from LESCO is still unpaid. No provision in the books of account has been made against this receivable as the Holding Company is confident that the said amount will be recovered in full.

### **Subsidiary Company**

#### **Land**

- 12.1.8** The Subsidiary Company had acquired a piece of freehold land and paid token (bayana) of Rupees 500,000 but the sellers has filed a suit for the increase of price in the local court as explained in note 13.2.1. The management is confident that case will be decided in their favour.

### Employees Old Age Benefits Institute (EOBI)

**12.1.9** The Subsidiary Company has received a notice from EOBI for the payment of employees benefits amounting to Rupees 0.209 million. The case is still pending in the Court of EOBI adjudication, Authority but the management is confident that case will be decided in their favour.

### 12.2 Commitments Holding Company

**12.2.1** Aggregate commitments for capital expenditures and revenue expenditures are Rupees 0.650 million and Rupees 51.383 million (2009: NIL and Rupees 59.107 million) respectively.

**12.2.2** Post dated cheques issued to suppliers amounting to Rupees 27.507 million (2009: Rupees 83.989 million).

### Subsidiary Company

**12.2.3** Post dated cheques issued to suppliers are amounting to Rupees 4.485 million (2009: Rupees 2.685 million)

<b>13</b>	<b>FIXED ASSETS</b>	<b>2010 Rupees</b>	<b>2009 Rupees</b>
	Property, plant and equipment		
	Operating assets (Note 13.1)	5,299,081,071	5,483,272,820
	Capital work in progress (Note 13.2)	42,653,027	76,673,047
		<hr/>	<hr/>
		5,341,734,098	5,559,945,867
	Intangible asset - computer software (Note 13.1)	6,567,490	8,589,529
		<hr/>	<hr/>
		5,348,301,588	5,568,535,396
		<hr/> <hr/>	<hr/> <hr/>

**13.1 Reconciliation of carrying amounts of operating fixed assets at the beginning and end of the year is as follows:**

Description	Freehold Land	Residential building	Factory building	Building on leasehold land	Plant and machinery	Electric Installations	Furniture, fixtures and equipment	Computers	Motor vehicles	Total	Intangible asset
<b>As at 01 July 2008</b>											
Cost	152,106,616	129,070,848	796,756,582	3,611,914	4,540,563,330	120,852,072	133,166,088	41,782,568	86,727,512	6,004,637,530	14,546,404
Accumulated depreciation - amortization	-	(23,080,759)	(197,385,347)	(277,840)	(1,604,113,215)	(44,181,524)	(37,017,270)	(21,977,372)	(27,722,057)	(1,955,575,384)	(3,808,743)
Net book value	152,106,616	105,990,089	599,371,235	3,334,074	2,936,450,115	76,670,548	96,148,818	19,805,196	59,005,455	4,048,882,146	10,737,661
<b>Year ended 30 June 2009</b>											
Opening net book value	152,106,616	105,990,089	599,371,235	3,334,074	2,936,450,115	76,670,548	96,148,818	19,805,196	59,005,455	4,048,882,146	10,737,661
Additions	-	118,006	110,333,971	6,164,493	513,153,535	5,879,581	7,118,958	5,476,616	12,429,568	660,674,728	539,291
Surplus on revaluation	699,054,391	218,345,039	156,678,985	-	-	-	-	-	-	1,074,078,415	-
Disposal:											
Cost	-	-	-	-	(81,421,240)	-	(14,400)	-	(14,013,565)	(95,449,205)	-
Accumulated Depreciation	-	-	-	-	60,391,207	-	1,266	-	7,373,684	67,766,157	-
Depreciation charge / amortization	-	(879,297)	(32,581,373)	(2,466,634)	(2,103,033)	(7,793,377)	(13,134)	(7,264,650)	(6,639,881)	(27,683,048)	-
Closing net book value	85,116,007	323,573,837	833,802,818	7,031,933	3,226,283,506	74,756,752	92,561,835	18,017,162	56,083,970	5,483,272,820	8,589,529
<b>As at 30 June 2009</b>											
Cost / revalued amount	85,116,007	347,533,893	1,063,769,538	9,776,407	4,972,295,625	126,731,653	140,270,646	47,259,184	85,143,515	7,643,941,468	15,085,695
Accumulated depreciation - amortization	-	(23,960,056)	(229,966,720)	(2,744,474)	(1,746,012,119)	(51,974,901)	(47,708,811)	(29,242,022)	(29,059,545)	(2,160,668,648)	(6,496,166)
Net book value	85,116,007	323,573,837	833,802,818	7,031,933	3,226,283,506	74,756,752	92,561,835	18,017,162	56,083,970	5,483,272,820	8,589,529
<b>Year ended 30 June 2010</b>											
Opening net book value	85,116,007	323,573,837	833,802,818	7,031,933	3,226,283,506	74,756,752	92,561,835	18,017,162	56,083,970	5,483,272,820	8,589,529
Additions	-	-	2,992,907	4,777,969	129,925,991	4,532,148	8,168,072	6,013,114	4,763,186	161,173,387	793,300
Disposal:											
Cost	(2,800,000)	-	-	-	(60,837,573)	-	-	(9,800)	(11,087,481)	(74,734,854)	-
Accumulated Depreciation	-	-	-	-	47,969,312	-	-	6,468	5,185,039	53,158,819	-
Depreciation charge / amortization	-	(15,976,291)	(41,891,843)	(3,236,033)	(12,866,261)	(7,720,172)	(9,135,451)	(3,332)	(5,904,442)	(21,576,035)	-
Closing net book value	848,361,007	307,597,546	794,903,882	8,573,869	3,113,168,863	71,568,728	91,594,456	16,146,885	47,165,835	5,299,081,071	6,567,490
<b>As at 30 June 2010</b>											
Cost / revalued amount	848,361,007	347,533,893	1,066,762,445	14,554,376	5,041,384,043	131,263,801	148,438,718	53,262,498	78,819,220	7,730,380,001	15,878,995
Accumulated depreciation / amortization	-	(39,936,347)	(271,858,563)	(5,980,507)	(1,928,215,180)	(59,695,073)	(56,844,262)	(37,115,613)	(31,653,585)	(2,431,296,930)	(9,311,505)
Net book value	848,361,007	307,597,546	794,903,882	8,573,869	3,113,168,863	71,568,728	91,594,456	16,146,885	47,165,835	5,299,081,071	6,567,490
Depreciation rate % per annum	-	5	5	33	5 - 10	10	10	30	20	-	20

**13.1.1** Lands and buildings of the Holding Company were revalued by an independent valuer, Messrs Hamid Mukhtar and Company (Private) Limited as on 30 June 2009. Surplus on revaluation of lands and buildings of Subsidiary Company, based on valuation carried out by Messrs. Hasib Associates (Private) Limited as on 30 June 2009, was Rupees 449,918 Rupees 74,987 respectively. Impact of this surplus on revaluation was considered immaterial and not incorporated in these consolidated financial statements. Had there been no revaluation, the book value of assets of the Holding Company would have been lower by Rupees 1,055.327 million (2009: Rupees 1,074.078 million).

**13.1.2** The book value of lands and buildings of Holding Company on cost basis is Rupees 128.309 million and Rupees 666.056 million (2009: Rupees 128.309 million and Rupees 697.960 million) respectively.

**13.1.3** Detail of operating assets exceeding book value of Rupees 50,000 disposed of during the year is as follows:

Particulars	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchasers
------(RUPEES)-----						
<b>Vehicles</b>						
Club Car	438,552	247,067	191,485	425,000	Negotiation	U.S Denim Mills (Private) Limited
Santro LRG 0264	499,000	277,588	221,412	310,000	Negotiation	Adnan Rafique, Lahore
Santro LRY 9700	304,473	74,697	229,776	325,000	Negotiation	Nauman Maqbool, Lahore
Toyota Corola LEC- 9874	1,129,500	406,620	722,880	900,000	Negotiation	M.Naeem Azam, Lahore
Toyota Corrolla - LWH 674	968,505	536,252	432,253	900,000	Negotiation	Kamran Shahid (company employee), Lahore
Hyundai Santro LZF-1528	610,650	322,750	287,900	400,000	Negotiation	Nouman Khan, Lahore
Suzuki Cultus LEB-07 1795	618,833	223,468	395,365	600,000	Negotiation	Muhammad Khalid, Lahore
Suzuki Cultus LZU-9671	673,175	313,006	360,169	450,000	Negotiation	Muhammad Afzaal, Lahore
Honda Civic LZV-2921	1,167,938	545,135	622,803	895,000	Negotiation	Syed Muhammad Sibtain Jaffri, Lahore
Suzuki Cultus LEA-07-2641	586,310	239,110	347,200	515,000	Negotiation	Adnan Rafiq Qureshi, Lahore
Suzuki Bolan LZW-692	486,795	257,779	229,016	305,000	Negotiation	Muhammad Arshad Mehmood, Lahore
Hyundai Santro LRL-5470	312,578	134,656	177,922	345,000	Negotiation	Abad Ali, Lahore
Suzuki Cultus LRD-9805	464,000	203,781	260,219	250,000	Negotiation	Imran Ahmed, Lahore
Toyota Corolla LED-07-5455	1,025,200	348,585	676,615	1,000,000	Negotiation	Sadaf Ali, Lahore
Suzuki Bolan LXO-2965	369,492	303,627	65,865	220,000	Negotiation	Mushtaq Khalid, Lahore
Hyundai Santro LZC-150	598,556	251,979	346,577	400,000	Negotiation	Ijaz Ahmed, Lahore
Huyundai Santro LRQ-9724	371,424	210,417	161,007	350,000	Negotiation	Maqsood Ahmad, Lahore
Suzuki Bolan LWL -3667	404,000	255,069	148,931	250,000	Negotiation	Sadaf Ali, Lahore
<b>Land</b>						
Plot sold	2,800,000	-	2,800,000	4,200,000	Negotiation	Mr Liaqat bajwa, Mandi Bahuddin -
<b>Plant and Machinery</b>						
30 Heald Frames 134"	1,123,800	229,191	894,609	1,185,000	Negotiation	B.B. Jan Colours Limited, Lahore
30 Air Jet Looms	59,713,773	47,740,121	11,973,652	9,750,000	Negotiation	Young Gin Limited, Korea.
	74,666,554	53,120,898	21,545,656	23,975,000		
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees 50,000	68,300	37,921	30,379	23,257		
	<b>74,734,854</b>	<b>53,158,819</b>	<b>21,576,035</b>	<b>23,998,257</b>		

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>13.1.4</b> The depreciation charge for the year has been allocated as follows:		
Cost of sales (Note 25)	295,199,691	249,430,406
Distribution cost (Note 26)	2,159,129	2,523,015
Administrative expenses (Note 27)	26,430,281	20,726,000
	<u>323,789,101</u>	<u>272,679,421</u>

**13.1.5** The amortization of intangible asset amounting to Rupees 2.815 million (2009: Rupees 2.687 million) is included in administrative expenses.

**13.1.6** Holding Company's land having cost of Rupees 1.865 million (2009: Rupees 1.865 million) is in the possession of the Punjab Social Security Health Management Company as at 30 June 2010 for which finalization of sale proceeds is pending.

**13.1.7** Freehold land of Subsidiary Company includes two pieces of land having carrying value of Rupees 15.406 million and Rupees 3.672 million which are in the name of Mr. Aamir Fayyaz Sheikh (Director) and Mrs. Aamir Fayyaz Sheikh respectively.

## **13.2 CAPITAL WORK IN PROGRESS**

### **Tangible fixed assets**

Land	500,000	500,000
Plant and machinery	36,900,021	65,569,609
Civil works on freehold land	4,563,006	5,361,840
Electric Installations	690,000	5,193,448
Unallocated Capital Expenditures	-	48,150
	<u>42,653,027</u>	<u>76,673,047</u>

**13.2.1** The Subsidiary Company had acquired a piece of freehold land measuring more than one Kanal situated at Umer Park Chak No. 47 North Tehsil and District Sargodha for Rupees 3.000 million against which Rupees 0.500 million has been paid as token (baiyana). The Subsidiary Company has the possession of land and has started the construction thereon. However, the owner has filed a suit against the Subsidiary Company for the increase in the price of the land.

## **14. LONG TERM INVESTMENT**

### **Available for sale**

K-2 Hosiery (Private) Limited - unquoted 1,194,000 (2009: 1,194,000) ordinary shares of Rupees 10 each	11,940,000	11,940,000
Less: Provision for impairment	-	11,940,000
Less: Written off against provision	11,940,000	-
	<u>-</u>	<u>-</u>

	2010 Rupees	2009 Rupees
<b>15. DEFERRED INCOME TAX ASSET</b>		
<b>Taxable temporary difference of Subsidiary Company on:</b>		
Accelerated tax depreciation and amortization	(24,516,703)	(25,806,837)
<b>Deductible temporary difference of Subsidiary Company on:</b>		
Accumulated tax loss	71,952,258	58,657,262
<b>Deferred income tax asset - net</b>	47,435,555	32,850,425
<b>Deferred income tax asset net - not recognized in financial statements</b>	25,186,697	10,601,568
<b>Deferred income tax asset - net, recognized in financial statements</b>	22,248,858	22,248,857

**15.1** The company is in growth phase and expects that taxable profits upto a extent will be available to utilize its tax losses.

**16. STORES, SPARES AND LOOSE TOOLS**

Stores and spares	319,959,915	365,327,518
Loose tools	3,649,810	2,705,172
	323,609,725	368,032,690

**17. STOCK IN TRADE**

Raw material	226,073,465	252,338,560
Work in process	237,149,479	312,470,941
Finished goods (Note 17.1 and 17.2)	656,556,721	631,137,183
Stock of Subsidiary Company	35,537,776	31,009,710
	1,155,317,441	1,226,956,394

**17.1** This includes finished goods of Rupees 110.941 million (2009: Rupees 82.714 million) valued at net realizable value.

**17.2** Finished goods include stock in transit amounting to Rupees 218.436 million (2009: Rupees 191.907 million).

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>18. TRADE DEBTS</b>		
<b>Considered good:</b>		
Secured	360,835,586	499,600,566
Unsecured	413,890,931	372,768,833
	<u>774,726,517</u>	<u>872,369,399</u>
<b>Considered doubtful:</b>	50,283,028	-
	<u>825,009,545</u>	<u>872,369,399</u>
Provision for doubtful debts (Note 28)	(50,283,028)	-
	<u>774,726,517</u>	<u>872,369,399</u>
<b>18.1</b> As on 30 June 2010, trade debts of Rupees 285.146 million (2009 : Rupees 88.020 million) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default. The ageing analysis of these trade debts is as follows:		
Upto 1 month	77,088,699	21,956,606
1 to 6 months	34,609,321	31,820,197
More than 6 months	173,448,349	34,243,369
	<u>285,146,369</u>	<u>88,020,172</u>
<b>19. LOANS AND ADVANCES</b>		
Advances to:		
staff (Note 19.1)	10,664,024	12,962,193
suppliers	275,174,705	185,825,967
contractors	5,163,570	9,176,987
Letters of credit	42,319,297	34,133,375
	<u>333,321,596</u>	<u>242,098,522</u>
<b>19.1</b> This includes interest free advances to executives amounting to Rupees 4.305 million (2009:Rupees 1.994 million) and the maximum amount of advances outstanding at the end of any month during the year was Rupees 4.884 million (2009: Rupees 3.506 million).		
<b>20. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS</b>		
Security deposits	8,878,500	1,177,866
Short term prepayments	3,232,797	2,326,238
	<u>12,111,297</u>	<u>3,504,104</u>

	2010 Rupees	2009 Rupees
<b>21. OTHER RECEIVABLES</b>		
Advance income tax	85,797,140	83,758,678
Export rebate and claims	62,955,137	37,603,407
Research and development support receivable	4,640,876	16,744,234
Receivable from provident fund	8,012,723	-
Miscellaneous receivables	20,108,703	21,684,314
	181,514,579	159,790,633
<b>22. SHORT TERM INVESTMENTS</b>		
<b>Available for sale</b>		
<b>Quoted</b>		
Maple leaf Cement Factory Limited 11,251,000 (2009: 11,251,000) ordinary shares of Rupees 10 each	169,431,065	169,431,065
Deficit on revaluation of investment	-	(60,750,902)
Impairment loss charged to profit and loss account (Note 28)	(134,440,455)	(60,750,903)
	34,990,610	47,929,260
<b>Unquoted</b>		
Security General Insurance Company Limited-Associated undertaking 2,076,608 (2009: 2,076,608) fully paid ordinary shares of Rupees 10 each (Note 22.1)	2,271,806	2,271,806
Add: Surplus on revaluation of investment	235,001,427	122,324,674
	237,273,233	124,596,480
	272,263,843	172,525,740

**22.1** Fair value of investment in Security General Insurance Company Limited is determined by independent valuer, Messrs Uzair Hammad Faisal & Company, Chartered Accountants. Fair value of Rupees 114.26 per share is determined on net assets basis. Previously, in June 2009 the company sold 4 million shares of Security General Insurance Company Limited at the price of Rupees 60 per share. Therefore, it was more appropriate to value the remaining 2,076,608 shares of Security General Insurance Company Limited at the rate of Rupees 60 per share as on 30 June 2009. This fair value was based on arm's length transaction between knowledgeable willing parties as allowed by IAS - 39, 'Financial Instruments: Recognition and measurement'. It is impracticable to determine the financial impact of this change in accounting estimate as the arm's length price of this unquoted investment is not known at balance sheet date. Therefore, financial impact of this change in accounting estimate is not being disclosed in these financial statements.

**22.2** Security General Insurance Company Limited is associated undertaking due to common directorship.

**22.3** The management intends to sell these short term available for sale investments as soon as it is practicable.

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>23. CASH AND BANK BALANCES</b>		
Cash in hand (Note 23.1)	4,755,082	2,787,731
Cash with banks:		
On current accounts (Note 23.2)	52,934,308	23,622,009
On deposit accounts (Note 23.3)	18,845,140	254,819,560
	71,779,448	278,441,569
	<u>76,534,530</u>	<u>281,229,300</u>

**23.1** Cash in hand includes foreign currency of US\$ 1,063, Euro 3,095, Canadian Dollars 1,000, Chinese Yuan 1,410, GBP 1,200, ASD 200 (2009: US\$ 2,500, Euro 4,394, Canadian Dollars 1,000, Indian Rupees 50, Chinese Yuan 1,410).

**23.2** Cash with banks in current accounts includes foreign currency balances of US\$ 33.20 ( 2009: US\$ 34,989).

**23.3** Rate of profit on bank deposits ranges from 5% to 8% (30 June 2009: 3.78% to 7.8% ) per annum.

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>24. SALES</b>		
Export (Note 24.1)	4,735,533,060	5,460,647,068
Local (Note 24.2)	1,673,348,618	2,248,051,722
	<u>6,408,881,678</u>	<u>7,708,698,790</u>

**24.1** Net exchange gain due to currency rate fluctuation relating to export sales amounting to Rupees 34.294 million (2009: net exchange loss of Rupees 14.185 million) has been included in the exports sales.

<b>24.2</b> Local sales	1,727,080,823	2,351,947,265
Less: sales tax	50,821,366	101,498,422
Less: Electricity duty and withholding tax	2,910,839	2,397,121
	<u>1,673,348,618</u>	<u>2,248,051,722</u>

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>25. COST OF SALES</b>		
<b>Holding Company</b>		
Raw material consumed (Note 25.1)	4,096,729,571	4,620,017,817
Chemical consumed	612,588,557	744,614,124
Salaries, wages and other benefits	290,315,182	400,552,701
Employees' provident fund contributions	12,307,522	14,434,259
Cloth conversion and processing charges	38,210,858	73,241,218
Fuel, oil and power	84,478,176	103,237,522
Stores, spares and loose tools consumed	183,528,573	126,836,927
Packing material consumed	96,706,257	136,768,152
Repair and maintenance	31,572,829	29,071,226
Insurance	6,050,041	10,853,230
Other manufacturing expenses	39,875,784	72,840,944
Depreciation (Note 13.1.4)	295,199,691	249,430,406
	<hr/>	<hr/>
	5,787,563,041	6,581,898,526
Work-in-process inventory		
As on 01 July	312,470,941	380,593,492
As on 30 June	(237,149,479)	(312,470,941)
	<hr/>	<hr/>
	75,321,462	68,122,551
Cost of goods manufactured	5,862,884,503	6,650,021,077
Cost of yarn and cloth purchased for resale	46,875,845	154,943,957
	<hr/>	<hr/>
	5,909,760,348	6,804,965,034
Finished goods inventory		
As on 01 July	631,137,183	745,458,300
As on 30 June	(656,556,721)	(631,137,183)
	<hr/>	<hr/>
	(25,419,538)	114,321,117
	<hr/>	<hr/>
	5,884,340,810	6,919,286,151
<b>Stock consumed - Subsidiary Company</b>		
Opening stock	31,009,710	20,576,552
Purchased during the year	175,537,114	124,086,902
	<hr/>	<hr/>
	206,546,824	144,663,454
Closing stock	(35,537,776)	(31,009,710)
	<hr/>	<hr/>
	171,009,048	113,653,744
	<hr/>	<hr/>
Cost of sales	6,055,349,858	7,032,939,895

	<b>2010</b> <b>Rupees</b>	<b>2009</b> <b>Rupees</b>
<b>25.1 RAW MATERIAL CONSUMED</b>		
Opening stock	252,338,560	472,678,888
Purchased during the year	4,070,464,476	4,399,677,489
	<u>4,322,803,036</u>	<u>4,872,356,377</u>
Closing stock	(226,073,465)	(252,338,560)
	<u>4,096,729,571</u>	<u>4,620,017,817</u>
<b>26. DISTRIBUTION COST</b>		
Salaries, wages and other benefits	43,179,016	47,925,888
Employee's provident fund contributions	2,082,038	2,307,476
Travelling, conveyance and entertainment	25,656,242	39,233,666
Printing and stationery	2,170,159	4,975,029
Communications	17,975,320	19,686,063
Vehicles' running	3,140,711	3,982,383
Insurance	1,381,226	2,107,359
Fee, subscription and taxes	208,016	223,652
Repair and maintenance	130,154	104,526
Commission	151,388,595	116,959,371
Outward freight and handling	138,912,370	201,316,566
Clearing and forwarding	34,606,327	43,607,269
Sales promotion and advertising	2,596,263	4,079,019
Depreciation (Note 13.1.4)	2,159,129	2,523,015
Miscellaneous	4,030,847	13,146,317
	<u>429,616,413</u>	<u>502,177,599</u>
<b>27. ADMINISTRATIVE EXPENSES</b>		
Salaries, wages and other benefits	117,972,357	121,697,680
Employees' provident fund contributions	3,268,825	3,477,320
Travelling, conveyance and entertainment	32,847,539	41,667,831
Printing and stationery	6,872,155	6,055,319
Communications	5,538,787	6,724,296
Vehicles' running	16,170,935	17,568,994
Legal and professional	6,970,483	6,313,056
Insurance	4,431,868	3,580,164
Fee, subscription and taxes	7,325,454	5,527,848
Repair and maintenance	2,935,939	3,696,137
Electricity, gas and water	3,995,673	4,959,044
Sales promotion and advertising	225,360	466,814
Auditor's remuneration (Note 27.1)	1,441,000	1,186,725
Depreciation (Note 13.1.4)	26,430,281	20,726,000
Amortization of intangible asset (Note 13.1.5)	2,815,339	2,687,423
Miscellaneous	19,181,282	22,553,955
	<u>258,423,277</u>	<u>268,888,606</u>

	<b>2010 Rupees</b>	<b>2009 Rupees</b>
<b>27.1 AUDITORS' REMUNERATION</b>		
<b>Holding Company</b>		
Audit fee	1,000,000	750,000
Half yearly review	150,000	150,000
Reimbursable expenses	40,000	35,625
Other certification fee	50,000	50,000
	<hr/>	<hr/>
	1,240,000	985,625
<b>Subsidiary Company</b>		
Audit fee	200,000	200,000
Reimbursable expenses	1,000	1,100
	<hr/>	<hr/>
	201,000	201,100
	<hr/>	<hr/>
	1,441,000	1,186,725
<b>28. OTHER OPERATING EXPENSES</b>	<hr/> <hr/>	<hr/> <hr/>
Donations (Note 28.1)	87,132	196,494
Impairment loss on equity investment (Note 22)	73,689,552	60,750,903
Provision for doubtful debts	50,283,028	-
Pilferage / expiry	1,031,127	983,148
Exchange loss	12,457,502	141,491,106
Other	1,421,141	
	<hr/>	<hr/>
	138,969,482	203,421,651
	<hr/> <hr/>	<hr/> <hr/>
<b>28.1</b> None of the directors and their spouses have any interest in the donee's fund.		
<b>29. OTHER OPERATING INCOME</b>		
<b>Income from financial assets</b>		
Gain on sale of investments	-	235,655,042
Dividend on equity investment		
Security General Insurance Company Limited - associated company	4,153,216	15,191,520
Return on bank deposits	2,535,238	893,117
<b>Income from non financial assets</b>		
Scrap sales and others	68,964,148	52,306,112
Gain on sale of fixed assets	2,422,222	3,924,135
Rental income	525,563	149,164
Advertisement income	351,000	2,502,583
	<hr/>	<hr/>
	78,951,387	310,621,673
	<hr/> <hr/>	<hr/> <hr/>

	<b>2010</b> <b>Rupees</b>	<b>2009</b> <b>Rupees</b>
<b>30. FINANCE COST</b>		
Markup on long term financing	124,397,560	153,257,406
Mark up on short term borrowings	525,651,325	457,226,262
Bank commission and other financial charges	74,398,782	46,147,095
Loss on cross currency swap	-	50,151,341
	<u>724,447,667</u>	<u>706,782,104</u>
<b>31. PROVISION FOR TAXATION</b>		
<b>Current year</b>		
Current tax (Note 31.1)	55,513,164	54,339,951
Deferred tax	(1,837,598)	(15,324,503)
<b>Prior year</b>		
Current tax	<u>(3,656,326)</u>	<u>6,232,936</u>
	<u>50,019,240</u>	<u>45,248,384</u>
<b>31.1</b>	The Holding Company's provision for current income tax represents final tax on export sales under section 169 and minimum tax on local sales under section 113 of the Income Tax Ordinance, 2001. Provision for current income tax of Subsidiary Company represents minimum tax on turnover under section 113 of the Income Tax Ordinance, 2001 and tax on income subject to final tax. Therefore, it is impracticable to prepare the tax charge reconciliation for the years presented. The Holding Company and Subsidiary Company have carry forwardable tax losses of Rupees 944.829 million and Rupees 205.578 million (2009: Rupees 673.318 million and Rupees 171.438 million) respectively.	
<b>32. LOSS PER SHARE - BASIC AND DILUTED</b>		
There is no dilutive effect on the basic loss per share, which is based on:		
Loss attributable to ordinary shareholder	(Rupees) <u>(1,168,992,872)</u>	<u>(740,137,776)</u>
Weighted average number of ordinary shares	(Numbers) <u>50,911,011</u>	<u>50,911,011</u>
Loss per share	(Rupees) <u>(22.96)</u>	<u>(14.54)</u>
<b>33. TRANSACTIONS WITH RELATED PARTIES</b>		
Related parties comprises of associated undertakings, other related parties, key management personnel and provident fund trust. The group in the normal course of business carries out transactions with related parties. Detail of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:		
<b>Associated company</b>		
Dividend income	4,153,216	15,191,520
<b>Other Related Party:</b>		
Sale proceeds against disposal of investment in Security General Insurance Company Limited	-	240,000,000

	2010	2009
<b>34. PLANT CAPACITY AND PRODUCTION</b>		
<b>Holding Company</b>		
<b>Weaving</b>		
Number of looms in operation	174	174
Number of looms inoperative	104	134
	278	308
Rated capacity of operative looms converted to 60 picks (square meter)	48,892,878	48,892,878
Actual production converted to 60 picks (square meter)	36,053,220	45,024,713
Number of days worked during the year (3 shifts per day)	365	365
<b>Dyeing</b>		
Rated capacity in 3 shifts (linear meter)	30,000,000	30,000,000
Actual production for three shifts	26,566,797	29,099,936
No. of days worked during the year ( 3 shifts per day)	360	364
<b>Hosiery</b>		
Number of knitting machines installed	480	480
Number of knitting machines worked	242	320
Rated capacity per day per machine 50 Dozs	8,760,000	8,760,000
Actual production in Dozs	3,046,707	4,330,422
Number of days worked during the year (3 Shifts per day)	364	347
<b>Apparel</b>		
Number of stitching machines	300	300
Number of stitching machines worked	-	175
Rated capacity in linear meters - Apparel	2,304,000	2,304,000
Actual production in linear meters - Apparel	-	1,300,688
Number of days worked during the year	-	283
<b>Genertek</b>		
Number of generators installed	9	9
Number of generators worked	7	7
Installed capacity (Mega Watt Hours)	291,446	291,446
Actual generation (Mega Watt Hours)	70,080	166,896
<b>Standby generators</b>		
Nigatta / Caterpillars generators (Mega Watt Hours)	8,935	8,935
Number of generators	2	2
Plant operation capacity is based on 365 days (2009: 365 days)		

**34.1** Underutilization of available capacity for weaving, dyeing, hosiery and hometex / apparel division is due to normal maintenance and shortage of working capital.

**34.2** Actual power generation in Genertek in comparison to installed is low due to periodical scheduled and unscheduled maintenance of generators and low demand. During the maintenance period electricity is supplied from standby generators.



### 36. REMUNERATION TO CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in these financial statements for remuneration, including all benefits to chief executive, directors and other executives are as follows:

	2010			2009		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	----- (Rupees) -----					
Managerial remuneration	2,640,000	7,711,000	20,075,142	2,640,000	6,600,000	23,087,920
House rent	660,000	1,851,441	5,539,800	660,000	1,650,000	6,180,571
Utilities	264,000	740,573	2,007,273	264,000	660,000	2,473,574
Special allowance	528,000	1,481,150	3,494,068	528,000	1,320,000	3,770,721
Contribution to provident fund	264,000	771,100	1,888,582	264,000	660,000	2,110,792
Miscellaneous	444,000	2,131,236	2,550,732	444,000	721,500	2,747,067
	<u>4,800,000</u>	<u>14,686,500</u>	<u>35,555,597</u>	<u>4,800,000</u>	<u>11,611,500</u>	<u>40,370,645</u>
Number of persons	1	4	25	1	3	30

**36.1** Chief executive, directors and executives of the Holding Company are provided with free use of company's owned and maintained cars.

**36.2** No remuneration was paid to the directors and chief executive of the Subsidiary Company.

**36.3** Meeting fee of Rupees 180,000 was paid to two directors for attending meetings during the year (2009: Rupees 180,000 paid to three directors for attending meetings.)

### 37. FINANCIAL RISK MANAGEMENT

#### 37.1 Financial risk factors

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

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

(a) **Market risk**

(i) **Currency risk**

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

The Group is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD), Euro and GBP. Currently, the Group's foreign exchange risk exposure is restricted to foreign currency in hand, bank balances and the amounts receivable from / payable to the foreign entities. The Group uses forward exchange contracts to hedge its foreign currency risk, when considered appropriate. The Group's exposure to currency risk was as follows:

	<b>2010</b>	<b>2009</b>
Cash in hand - USD	1,063	2,500
Cash in hand - Euro	3,095	4,394
Cash in hand - GBP	1,200	-
Cash at banks - USD	33	34,989
Trade debts - USD	6,112,072	6,369,637
Trade debts - Euro	269,676	269,470
Trade debts - GBP	190,310	115,611
Trade and other payable - USD	78,979	321,870
Net exposure - USD	6,034,189	6,085,256
Net exposure - Euro	272,771	273,864
Net exposure - GBP	191,510	115,611

The following significant exchange rates were applied during the year:

**Rupees per US Dollar**

Average rate	84.27	78.02
Reporting date rate	84.60	81.10

**Rupees per Euro**

Average rate	116.35	110.24
Reporting date rate	104.50	114.54

**Rupees per GBP**

Average rate	132.49	122.37
Reporting date rate	134.64	135.05

**Sensitivity analysis**

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD, Euro and GBP with all other variables held constant, the impact on loss after taxation for the year would have been Rupees 26.731 million, Rupees 1.425 million and Rupees 1.289 million (2009:

Rupees 24.417 million, Rupees 1.553 million and Rupees 0.773 million) respectively higher / lower, mainly as a result of exchange losses / gains on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

**(ii) Other price risk**

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

**Sensitivity analysis**

The table below summarises the impact of increase / decrease in the Karachi Stock Exchange (KSE) Index on the loss after taxation for the year and on equity (fair value reserve). The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index:

Index	Impact on loss after taxation		Impact on other components of equity (fair value reserve)			
	2010 Rupees	2009 Rupees	2010 Rupees	2009 Rupees		
KSE 100 (5% increase)	Decrease in loss	1,749,531	1,198,231	Increase in fair value reserve	-	1,198,231
KSE 100 (5% decrease)	Increase in loss	1,749,531	1,198,231	Decrease in fair value reserve	-	1,198,231

\*Equity (fair value reserve) would increase / decrease as a result of gains / losses on equity investment classified as available for sale.

**(iii) Interest rate risk**

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

The Group has no significant long-term interest-bearing assets except for saving bank accounts on which rate of return is minimal. Interest rate risk arises from long term financing and short term borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rate expose the Group to fair value interest rate risk.

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

	2010 Rupees	2009 Rupees
<b>Fixed rate instruments</b>		
<b>Financial liabilities</b>		
Long term financing	577,931,776	577,931,776
Short term borrowings	2,199,084,000	2,853,695,000
<b>Floating rate instruments</b>		
<b>Financial assets</b>		
Bank balances- saving accounts	18,845,140	254,819,560
<b>Financial liabilities</b>		
Long term financing	692,479,892	692,479,892
Short term borrowings	2,309,196,549	1,606,780,348

#### **Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Group.

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

If interest rates at the year end date, fluctuates by 1% higher / lower with all other variables held constant, loss for the year would have been Rupees 30.017 million (2009: Rupees 22.993 million) higher / lower, mainly as a result of lower / higher interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of liabilities outstanding at balance sheet dates were outstanding for the whole year.

#### **(b) Credit risk**

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

Investments	272,263,843	172,525,740
Loans and advances	10,664,024	12,962,193
Deposits	12,537,173	5,011,539
Trade debts	774,726,517	872,369,399
Other receivables	20,108,703	21,684,314
Bank balances	71,779,448	278,441,569
	1,162,079,708	1,362,994,754
	1,162,079,708	1,362,994,754

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

	Rating			2010	2009
	Short Term	Long Term	Agency	----- Rupees -----	
<b>Banks</b>					
National Bank of Pakistan	A-1+	AAA	JCR-VIS	62,875	1,326,813
Allied Bank Limited	A1+	AA	PACRA	763,108	1,341,987
Askari Bank Limited	A1+	AA	PACRA	743,347	1,203,743
Bank Alfalah Limited	A1+	AA	PACRA	797,707	514,726
Faysal Bank Limited	A-1+	AA	JCR-VIS	356,401	742,071
Habib Bank Limited	A-1+	AA+	JCR-VIS	13,498,723	11,236,135
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	1,537,328	-
The Bank of Punjab	A1+	AA-	PACRA	4,094	40,359
Soneri Bank	A1+	AA-	PACRA	7,985	8,751
MCB Bank Limited	A1+	AA+	PACRA	20,530	1,211,313
NIB Bank Limited	A1+	AA -	PACRA	15,366,018	4,290,134
The Royal Bank of Scotland Limited	A1+	AA	PACRA	134,035	219,672
Silkbank Limited	A-3	A -	JCR-VIS	20,680,011	909,738
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	3,455,595	254,979,318
United Bank Limited	A-1+	AA+	JCR-VIS	70,807	275,338
Al-Baraka Islamic Bank	A-1	A	JCR-VIS	14,225,950	131,471
Barclays Bank PLC	P-1	Aa3	Moody's	10,000	10,000
HSBC Middle East Bank LTD	F1+	AA-	Fitch	44,934	-
				71,779,448	278,441,569
<b>Investments</b>					
Maple leaf Cement Factory Limited	B	BB	PACRA	34,990,610	47,929,260
Security General Insurance Company Limited-Associated undertaking - unquoted	A	-	JCR-VIS	237,273,233	124,596,480
				272,263,843	172,525,740
				344,043,291	450,967,309

The Group's exposure to credit risk and impairment losses related to trade debts is disclosed in Note 18.

Due to the Group's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing. The management does not expect non-performance by these counter parties on their obligations to the Group. Accordingly the credit risk is minimal.

### (c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At 30 June 2010, the Group had Rupees 1,021 million available borrowing limits from financial institutions and Rupees 76.535 million cash and bank balances. In spite of the fact that the Group is in a negative working capital position at the year end, management believes the liquidity risk to be low. Following are the contractual maturities of financial liabilities, including interest payments. The amount disclosed in the table are undiscounted cash flows:

Contractual maturities of financial liabilities as at 30 June 2010

	Carrying amount	Contractual cash flows	6 month or less	6-12 month	1-2 Year	More than 2 Years
	----- (Rupees) -----					
Long term financing	1,270,411,668	1,475,743,844	648,867,266	144,269,072	268,075,116	414,532,390
Trade and other payables	1,182,926,191	1,182,926,191	1,182,926,191	-	-	-
Accrued mark-up	494,147,375	494,147,375	494,147,375	-	-	-
Short term borrowings	4,508,280,549	4,790,012,236	4,790,012,236	-	-	-
	<u>7,455,765,783</u>	<u>7,942,829,646</u>	<u>7,115,953,068</u>	<u>144,269,072</u>	<u>268,075,116</u>	<u>414,532,390</u>

Contractual maturities of financial liabilities as at 30 June 2009

	Carrying amount	Contractual cash flows	6 month or less	6-12 month	1-2 Year	More than 2 Years
	----- (Rupees) -----					
Long term financing	1,270,411,668	1,616,528,657	157,175,431	331,036,448	444,021,851	684,294,927
Trade and other payables	1,055,846,233	1,055,846,233	1,055,846,233	-	-	-
Accrued mark-up	165,360,822	165,360,822	165,360,822	-	-	-
Short term borrowings	4,460,475,348	4,700,343,607	4,511,035,669	189,307,938	-	-
	<u>6,952,094,071</u>	<u>7,538,079,319</u>	<u>5,889,418,155</u>	<u>520,344,386</u>	<u>444,021,851</u>	<u>684,294,927</u>

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / mark up rates effective as at 30 June. The rates of interest / mark up have been disclosed in note 7 and note 11 to these financial statements.

### 37.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which fair value is observable:

	Level 1	Level 2	Level 3	Total
	.....Rupees .....			
<b>As at 30 June 2010</b>				
<b>Assets</b>				
Available for sale financial assets	34,990,610	-	237,273,230	272,263,840
<b>As at 30 June 2009</b>				
<b>Assets</b>				
Available for sale financial assets	47,929,260	-	124,596,480	172,525,740

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial instruments held by the group is the current bid price. These financial instruments are classified under level 1 in above referred table.

The fair value of financial instruments that are not traded in active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimate. If all significant inputs required to fair value a financial instrument are observable, those financial instruments are classified under level 2 in above referred table. The Group has no such type of financial instruments at balance sheet date.

If one or more of the significant inputs is not based on observable market data, the financial instrument is classified under level 3. The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

### 37.3 Financial instruments by categories

	Loans and receivables	Available for sale	Total
	.....Rupees .....		
<b>As at 30 June 2010</b>			
<b>Assets as per balance sheet</b>			
Investments	-	272,263,843	272,263,843
Loans and advances	10,664,024	-	10,664,024
Deposits	12,537,173	-	12,537,173
Trade debts	774,726,517	-	774,726,517
Other receivables	20,108,703	-	20,108,703
Cash and bank balances	76,534,530	-	76,534,530
	894,570,947	272,263,843	1,166,834,790

	<b>Financial liabilities at amortized cost</b>
	<b>Rupees</b>
<b>Liabilities as per balance sheet</b>	
Long term financing	1,270,411,668
Accrued mark-up	494,147,375
Short term borrowings	4,508,280,549
Trade and other payables	1,182,926,191
	7,455,765,783

	<b>Loans and receivables</b>	<b>Available for sale</b>	<b>Total</b>
	.....Rupees .....		
<b>As at 30 June 2009</b>			
<b>Assets as per balance sheet</b>			
Investments	-	172,525,740	172,525,740
Loans and advances	12,962,193	-	12,962,193
Deposits	5,011,539	-	5,011,539
Trade debts	872,369,399	-	872,369,399
Other receivables	21,684,314	-	21,684,314
Cash and bank balances	281,229,300	-	281,229,300
	1,193,256,745	172,525,740	1,365,782,485

	<b>Financial liabilities at amortized cost</b>
	<b>Rupees</b>
<b>Liabilities as per balance sheet</b>	
Long term financing	1,270,411,668
Accrued mark-up	165,360,822
Short term borrowings	4,460,475,348
Trade and other payables	1,055,846,233
	6,952,094,071

### 37.4 Capital Risk Mangement

The Group's objectives when managing capital are to safe guard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stake holders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to share holders, issue new shares or sell assets to reduce debt.

### **38. AUTHORIZATION OF FINANCIAL STATEMENTS**

These consolidated financial statements are approved and issued by the Board of Directors for issue on 02 October 2010.

### **39. EVENTS AFTER THE REPORTING DATE**

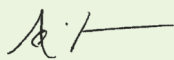
The Board of Directors of Kohinoor Mills Limited - Holding Company in its meeting held on 02 October 2010 has proposed NIL (2009: NIL ) cash dividend for the year ended 30 June 2010.

### **40. CORRESPONDING FIGURES**

Corresponding figures have been rearranged / regrouped, wherever necessary, for the purpose of comparison.

### **41. GENERAL**

Figures have been rounded off to nearest of Rupee.



**AAMIR FAYYAZ SHEIKH**  
Chief Executive



**SYED MOHSIN RAZA NAQVI**  
Director

## PATTERN OF SHAREHOLDING

1. CUI Number	17194
2. Name of Company	KOHINOOR MILLS LIMITED
3. Pattern of holding of shares held by the shareholders as at	June 30, 2010

4. Number of Shareholders	Shares held Range		Total Shares held	Percentage	
	From	To			
366	1	-	100	9,093	0.02
829	101	-	500	179,001	0.35
147	501	-	1000	107,937	0.21
234	1001	-	5000	548,699	1.08
33	5001	-	10000	235,151	0.46
18	10001	-	15000	232,301	0.46
13	15001	-	20000	224,045	0.44
12	20001	-	25000	276,849	0.54
4	25001	-	30000	113,415	0.22
2	30001	-	35000	65,925	0.13
1	35001	-	40000	39,128	0.08
3	40001	-	45000	123,932	0.24
3	45001	-	50000	139,025	0.27
1	50001	-	55000	55,000	0.11
2	55001	-	60000	116,658	0.23
1	60001	-	65000	62,664	0.12
1	65001	-	70000	66,100	0.13
2	70001	-	75000	149,492	0.29
3	75001	-	80000	231,292	0.46
1	80001	-	85000	81,367	0.16
1	130001	-	135000	132,261	0.26
1	140001	-	145000	141,000	0.28
1	285001	-	290000	286,000	0.56
1	295001	-	300000	300,000	0.59
1	360001	-	365000	361,484	0.71
1	390001	-	395000	392,166	0.77
1	415001	-	420000	418,180	0.82
1	520001	-	525000	520,685	1.02
1	545001	-	550000	547,932	1.08
1	680001	-	685000	683,549	1.34
1	765001	-	770000	768,500	1.51
1	930001	-	935000	934,626	1.84
1	1005001	-	1010000	1,007,700	1.98
1	1090001	-	1095000	1,090,700	2.14
1	1230001	-	1235000	1,232,257	2.42
1	1470001	-	1475000	1,471,661	2.89
1	2760001	-	2765000	2,762,357	5.43
1	4520001	-	4525000	4,522,059	8.88
1	10090001	-	10095000	10,090,514	19.82
2	10095001	-	10100000	20,190,306	39.66
<b>1,697</b>	<b>T o t a l</b>			<b>50,911,011</b>	<b>100.00</b>

Note: The slabs not applicable, have not been shown.

5. Categories of Shareholders	No. of Shareholders	Shares held	Grand Total	% age
<b>5.1 Directors, Chief Executive Officer, their Spouse and Minor Children</b>				
Mr. Aamir Fayyaz Sheikh (Chief Executive/Director)		10,095,178		19.8291
Mr. Asad Fayyaz Sheikh (Director)		10,095,128		19.8290
Mr. Ali Fayyaz Sheikh (Director)		10,090,514		19.8199
Syed Mohsin Raza Naqvi (Director)		1,007,700		1.9793
Mr. Rashid Ahmed (Director)		3,850		0.0076
Mr. Kamran Shahid (Director)		1,000		0.0020
Mr. Aamir Amin (NIT Nominee)	7	-		
			31,293,370	
<b>5.2. Associated Companies, Undertakings and Related Parties</b>				
-				
<b>5.3 NIT and ICP</b>				
Investment Corporation Of Pakistan		2,200		0.0043
National Bank of Pakistan, Trustee Deptt.	2	4,585,323		9.0065
			4,587,523	
<b>5.4 Banks, Development Financial Institutions, &amp; Non-Banking Financial Institutions</b>	12	2,750,737	2,750,737	5.4030
<b>5.5 Insurance Companies</b>	3	1,774,374	1,774,374	3.4852
<b>5.6 Modarabas and Mutual Funds</b>	6	2,263,101	2,263,101	4.4452
<b>5.7 Share holders holding 10% and more</b>				
Refer 5.1				
<b>5.8 General Public</b>				
a. Local	1615	6,710,640		13.1811
b. Foreign	5	116,538		0.2389
c. Joint Stock Companies	40	458,694		0.9010
			7,285,872	
<b>5.9 Others</b>				
LAHORE STOCK EXCHANGE		680		0.0013
TRUSTEE-KOHINOOR MILLS LTD. STAFF PROV FUND		909,500		1.7865
MANAG COMMTT OF TAMEER-E-MILLAT FOUND		673		0.0013
TRUSTEES AL-MAL GROUP STAFF PROVIDENT FUND		1,695		0.0033
TRUSTEES MOOSA LAWAI FOUNDATION		9,015		0.0177
TRUSTEES SAEEDA AMIN WAKF		11,180		0.0220
TRUSTEES MOHAMAD AMIN WAKF ESTATE		23,291		0.0457
	7		956,034	
<b>Total</b>	<b>1,697</b>		<b>50,911,011</b>	<b>100.00</b>



# FORM OF PROXY

23<sup>rd</sup> Annual General Meeting 2010

I / We \_\_\_\_\_  
of \_\_\_\_\_  
being a member of Kohinoor Mills Limited, hereby appoint \_\_\_\_\_  
\_\_\_\_\_  
of \_\_\_\_\_  
or failing him/her \_\_\_\_\_  
of \_\_\_\_\_

member(s) of the Company, as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the 23<sup>rd</sup> Annual General Meeting of the Company to be held on 30 October 2010 (Saturday), at 03.00 p.m. at 8-Km, Manga Raiwind Road, Distt. Kasur, Pakistan.

as witness my / our hand seal this \_\_\_\_\_ day of \_\_\_\_\_ 2010

Signed by the said member \_\_\_\_\_

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

Please  
affix  
revenue  
stamp of  
Rs. 5

Signature(s) of Member(s)

Witness 1

Signature of witness .....

Name .....

Address .....

.....

CNIC # .....

Witness 2

Signature of witness .....

Name .....

Address .....

.....

CNIC # .....

Please quote:

Folio No.	Shares held	CDC A/C. NO

**IMPORTANT:** Proxies in order to be effective, must be received at the Registered Office of the Company at 8-Km, Manga Raiwind Road, Distt. Kasur, Pakistan not later than 48 hours before the time for holding the Annual General Meeting and must be duly stamped, signed and witnessed.

The Company Secretary

KOHINOOR MILLS LIMITED  
8-Km, Manga Raiwind Road,  
Distt. Kasur,  
Pakistan.

AFFIX  
CORRECT  
POSTAGE