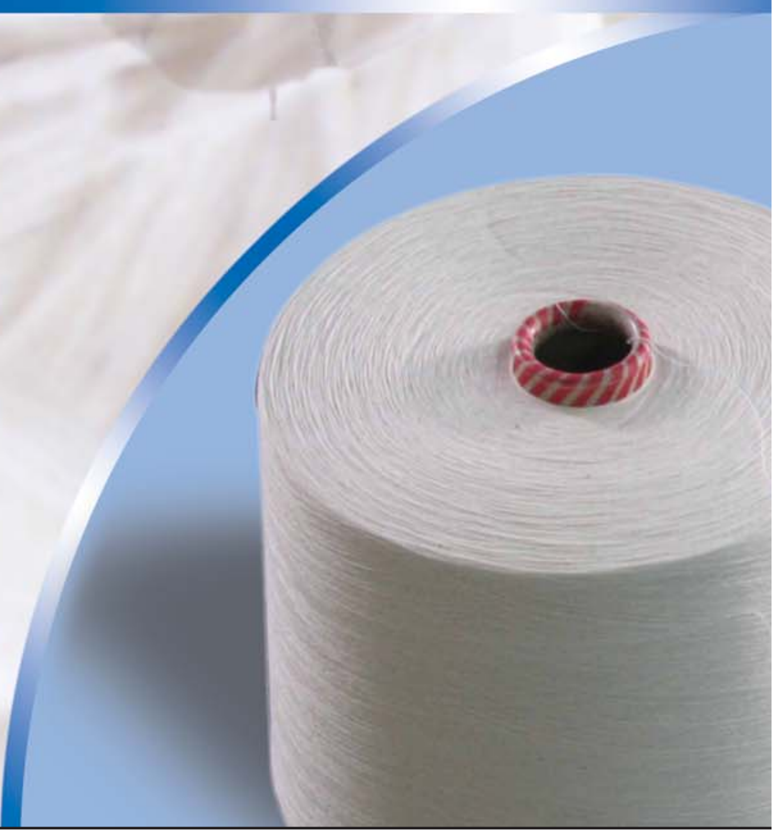
# Fazal Textile Mills Limited

## 2010 Annual Report



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## 48th Annual Report 2010

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

| | |
|---|---|
| Mr. M. Yunus A. Aziz | (Chairman) |
| Mr. Sohail M. Yunus | (Chief Executive) |
| Mr. Muhammad Ali A. Razzak | |
| Mr. Imran M. Yunus | |
| Mr. Javed M. Yunus | |
| Miss Mariam Razzak | |
| Mr. Ilyas Ismail | |
| Mrs. Raheela Aleem | |
| Mr. Abdul Rahman Yaqoob | |

## CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

Toufique Yusuf
FCA FICS

## AUDIT COMMITTEE

| | |
|---|---|
| Mr. Sohail M. Yunus | Chairman |
| Mr. Muhammad Ali A. Razzak | Member |
| Mr. Imran M. Yunus | Member |

## AUDITORS

Hyder Bhimji Co.
Chartered Accountants

## LEGAL ADVISOR

Mr. Mohammad Aleem
(Advocate)

## BANKERS

Bank Al-Habib Limited
Bank Al-Falah Limited (Islamic Division)
Habib Bank Limited
Habib Metropolitan Bank Limited
Meezan Bank Limited

## REGISTERED OFFICE AND MILLS

LA-2/B Block # 21,
Rashid Minhas Road,
Federal 'B' Area, Karachi - 75950.
Phones : 6321311-6322048
Fax : 92-21-6313372
E-mail : finance@fazaltextile.com
Website : www.fazaltextile.com

# MISSION STATEMENT

**Fazal Textile Mills Limited through its innovative technology and effective resource management has maintained high ethical and professional standards. The core values are its commitment, integrity, excellence, teamwork, transparency and creativity.**

**Fazal Textile is committed to:-**

- **produce quality and fault free products for its valued customers by continual improvements by providing proper training and development programmes, upgrading of resources, setting quality objectives by analyzing customer's feedback.**

- **provides good returns and security to its shareholders**

- **fulfill obligation towards creditors, employees and the society.**

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 48th Annual General Meeting of the Members of the Fazal Textile Mills Limited will be held at Registered office of the Company located at L-A, 2/B, Block 21, Rashid Minhas Road, Federal "B" Area, Karachi on Tuesday the 26th October 2010 at 11.00 a.m to transact the following business.

1. To confirm the minutes of the Extra Ordinary General Meeting held on 14th September 2010.

2. To receive consider and adopt the Audited accounts for the year ended June 30, 2010 together with the Directors and Auditors report thereon.

3. To approve cash dividend of Rs 10.00 per share of Rs 10/- each for the year ended 30th June 2010 as recommended by the Board.

4. To appoint Auditors for the year ending 30th June 2011 and to fix their remuneration.

5 To elect eight directors as fixed by the Board of Directors in accordance with the provisions of the Companies Ordinance 1984 for a period of three years commencing from December 27, 2010. The following nine directors will retire and are eligible for reappointment.

1) Mr. M. Yunus A. Aziz
2) Mr. Sohail M. Yunus
3) Mr. M. Ali A. Razzak
4) Mr. Imran M. Yunus
5) Mr. Jawed M. Yunus
6) Mrs. Mariam Razzak
7) Mrs. Raheela Aleem
8) Mr. Ilyas Ismail
9) Mr. A. Rahman Yaqoob

6 To transact any other business with the permission of the Chairman

**By order of the Board**
**M. Toufique Yusuf**
**Company Secretary**

Karachi : September 24, 2010

**Notes :**

1. The share transfer books of the Company will remain closed from October 21, 2010 to October 27, 2010 (both days inclusive)

2. A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote for him/her. Proxy forms must be deposited at the registered office of the Company not later than 48 hours before the time of holding the meeting.

3. Nomination from shareholders for the office of Director must be received at least 14 days before the time of meeting at the Registered Office of the Company.

4. An individual beneficial owner of shares from CDC must bring his/her original NIC or Passport, Account and Participant's I.D numbers to prove his/her identity. A representative of Corporate member of the Company or CDC must bring the Board of Directors' Resolution and/or Power of Attorney and the specimen signature of the nominee.

5. Members are requested to notify the Company of any change in their addresses immediately.

# DIRECTORS' REPORT TO THE MEMBERS

We are pleased to welcome the Members at the 48th Annual General Meeting and have pleasure in presenting the Annual Report together with the Company's audited accounts for the year ended June 30, 2010.

**Financial and operational results**

The financial results for the year under review are as follows:

| | (Rs in 000) | |
|---|---|---|
| | Year Ended 30 June 2010 | Year Ended 30 June 2009 |
| Sales | 4,075,778 | 2,819,019 |
| Gross Profit | 839,111 | 220,351 |
| Profit before taxation | 675,792 | 48,219 |
| Provision for taxation | 51,209 | 22,926 |
| **Profit after taxation** | **624,583** | **25,293** |
| Unappropriated profit brought forward | 4,804 | 3,792 |
| **Profit Accumulated Loss available for appropriation** | **629,387** | **29,085** |
| **Appropriation:** | | |
| Proposed Cash Dividend | 61,875 | 9,281 |
| Transfer from general reserve | 560,000 | 15,000 |
| | 621,875 | 24,281 |
| Unappropriated profit carried forward | 7,512 | 4,804 |

**Overview**

By the Grace of Almighty God, your Company achieved another milestone in operating performance, outstripping all past records. The Company recorded an incredible growth in turnover, scaling an all time high of Rs 4.075 billion ( 2009 : Rs 2.819 billion) an increase of 44.58%. The gross margin increase to Rs 839.111 million as compared to Rs 220.351 million in the corresponding year. Your Company earned a record profit after tax of Rs 624.583 million as compared to Rs 25.292 million in the corresponding year.

This one-off scintillating performance during the year is attributable to an upbeat yarn market and inventory gain. With well-focused raw material planning and procurement policies in place and aided by comfortable liquidity position, the Company took full advantage of the buying the raw material at cheaper price early in the season.

**Earning per share**

The profit per share after tax was Rs. 100.94 for the year ended June 30, 2010 as compared to Rs 4.09 for the year ended June 30, 2009.

**Dividend**

The Board of Directors have recomended a dividend of Rs 10.00 per shares (i.e. 100%) for the year ended June 30, 2010.

**Future Prospects**

The devastation caused by one of the worst floods in the country, the crop for the coming season was estimated to be around 14.00 million bales, has been revised at less than 10 million bales which has resulted prices of lint cotton soared to Rs 7,500 per mds. The situation has further worsened due to higher global prices, consequently the prices of cotton are soaring day by day. Given the short supply against the demand, the spinners will not have easy time finding lint at a reasonable price without compromising quality. The energy crisis, inflation, erosion of value of Pak rupee etc could effect the profitability of coming periods. Notwithstanding the foregoing constraints, your director would like to assure you that every endeavour will be made to achieve better results in the coming year.

**Shifting of production facilities**

Your Company has recently received the approval from the members for carrying out the construction of the Mall and the Apartments. In order to begin the construction activity the production facilities will be relocated to Nooriabad (Super Highway) very soon, the civil work, electrification & humidification etc at Nooriabad (Super Highway) has been already completed.

**Election of directors**

The three years term of the office of existing Board of Directors is been completed on December 26, 2010 and an election of Directors for the next three years commencing from December 27, 2010 has been schedule on October 26, 2010 as per Article 90 and 97 of the Article of Association of the Company and section 174 and 178 of the Companies Ordinance 1984. The Board has fixed 8 number of directors to be elected in the coming election of Directors.

**Statement of Compliance with Code of Corporate Governance**

The management is fully aware of the Company's obligation for compliance with the Code of Corporate Governance as incorporated in the Listing Regulations of all Stock Exchanges in Pakistan and step are being taken for its effective implementation within the allowed time frame. The various statements, as required by the Code, are given below:

" **Presentation of financial statements.** The financial statements under review have been prepared by the management and are in accordance with the provisions of the Companies Ordinance 1984. These financial statements present fairly the Company's state of affairs, the results of its operation, cash flow and changes in equity.

" **Books of account.** The Company has maintained proper books of account.

" **Accounting policies.** Appropriate accounting policies have been applied in preparation of financial statements.

" **Compliance of International Accounting Standards (IAS).** International Accounting Standards (IAS) as applicable in Pakistan have been followed in preparation of financial statements.

" **Internal Control System.** The system of internal control of the company is in place and is sound in design and is being effectively monitored.

" **Going Concern.** There are no significant doubts upon the Company's ability to continue as a going concern.

" **Best practices of Corporate Governance.** There has been no material departure from the Best Practices of Corporate Governance, as detailed in the listing regulations wherever applicable to the Company for the period ended June 30, 2005.

" **Outstanding statutory dues.** The Company has paid all the statutory dues due, there are no unpaid disputed balances payable. The amount payable if any but not due are disclosed in note no 18 to the annexed audited financial statements.

" **BOD meetings.** During the period under review the Board convened 5 times and the attendance of the respective Directors was as under :-

| S. No | Name of Directors | Meetings attended |
|---|---|---|
| 1 | Mr. M. Yunus A. Aziz | 2 |
| 2 | Mr. M. Sohail Yunus | 5 |
| 3 | Mr. Muhammad Ali A Razzak | 4 |
| 4 | Mr. Imran M. Yunus | 3 |
| 5 | Mr Jawed M Yunus | 4 |
| 6 | Miss Mariam Razzak | 3 |
| 7 | Mrs Raheela Amin | 3 |
| 8 | Mr. Ilyas Ismail | 2 |
| 9 | Mr. Abdul Rahman Yaqoob | 2 |

Leaves of absence in accordance to the law were granted to the Directors who could not attend the Board Meeting.

**Pattern of shareholding.**

The pattern of shareholding and the additional information as required by the Code of Corporate Governance is enclosed.

**Auditors.**

The present auditors Hyder Bhimji & Co., Chartered Accountants, retire and have offered themselves for reappointment.

As suggested by the audit committee, the Board recommends their appointment as Auditors for of the Company for the year ended June 30, 2011.

**Thanks and appreciation**

We would like to place on record our deep appreciation for the efforts of the executives, officers and other staff members and workers for their hard work, co-operation and sincerity to the company in achieving best possible results. The Board also wishes to place in record the appreciation to all banks for continued support to the company with zeal and dedications. The management is quite confident that these relation and cooperation will continue in the years to come.

**On behalf of the Board**
**Sohail M. Yunus**
**Chief Executive**

Dated : September 24, 2010

# KEY FINANCIAL AND OPERATIONAL DATA

**Rupees "000"**

| PARTICULARS | YEARS | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009-2010 | 2008-2009 | 2007-2008 | 2006-2007 | 2005-2006 | 2004-2005 | 2003-2004 | 2002-2003 | 2001-2002 | 2000-2001 | 1999-2000 |
| Export Sales | 2,890,868 | 1,815,119 | 1,910,247 | 1,805,767 | 1,328,054 | 1,001,278 | 1,565,173 | 1,360,729 | 1,127,193 | 1,486,691 | 1,614,582 |
| Local Sales | 1,381,290 | 1,130,386 | 672,118 | 575,401 | 801,791 | 801,963 | 936,049 | 916,739 | 1,021,300 | 826,276 | 631,732 |
| Gross Sales | 4,272,158 | 2,945,505 | 2,582,365 | 2,381,168 | 2,129,845 | 1,803,241 | 2,501,222 | 2,277,468 | 2,148,493 | 2,312,967 | 2,246,314 |
| Net Sales | 4,075,778 | 2,819,019 | 2,444,146 | 2,263,195 | 2,027,303 | 1,642,382 | 2,265,602 | 2,060,705 | 1,915,960 | 2,090,444 | 2,051,484 |
| Gross Profit | 839,111 | 220,351 | 139,904 | 121,177 | 175,570 | 162,291 | 91,857 | 172,892 | 146,329 | 225,159 | 509,142 |
| Gross Profit Ratio | 20.59 | 7.82 | 5.72 | 5.35 | 8.66 | 9.88 | 4.05 | 8.39 | 7.64 | 10.77 | 24.82 |
| Profit Before Tax | 675,792 | 48,219 | 26,361 | 1,236 | 51,459 | 78,167 | 21,743 | 104,111 | 63,317 | 107,768 | 391,196 |
| Profit Before Tax Ratio | 16.58 | 1.71 | 1.08 | 0.05 | 2.54 | 4.76 | 0.96 | 5.05 | 3.30 | 5.16 | 19.07 |
| Profit/(Loss) After Tax | 624,583 | 25,293 | 10,040 | (20,461) | 48,619 | 40,882 | 29,828 | 86,967 | 43,838 | 63,905 | 282,955 |
| Profit/(Loss) After Tax Ratio | 15.32 | 0.90 | 0.41 | (0.90) | 2.40 | 2.49 | 1.32 | 4.22 | 2.29 | 3.06 | 13.79 |
| Cost of Fixed Assets | 1,636,775 | 1,625,504 | 1,597,122 | 1,550,952 | 1,407,892 | 1,395,754 | 1,284,882 | 1,141,310 | 1,126,429 | 998,738 | 887,793 |
| Book Value of Fixed Assets | 629,584 | 672,849 | 719,115 | 741,516 | 652,327 | 666,272 | 602,889 | 514,066 | 535,231 | 445,411 | 364,500 |
| Total Assets Employed | 3,679,757 | 2,884,682 | 3,328,731 | 1,824,287 | 1,868,796 | 1,699,360 | 1,387,082 | 1,087,737 | 1,019,702 | 1,209,972 | 1,156,566 |
| Shareholders Equity | 1,351,262 | 735,960 | 719,948 | 709,908 | 745,838 | 712,688 | 681,087 | 657,447 | 585,663 | 530,397 | 497,429 |
| Breakup Value Per Share | 218.38 | 119.10 | 116.35 | 114.73 | 120.54 | 115.18 | 110.07 | 106.25 | 94.65 | 85.72 | 80.39 |
| Earning Per Share Before Tax | 109.22 | 7.79 | 4.42 | 0.20 | 8.31 | 12.63 | 3.51 | 16.82 | 10.23 | 17.41 | 63.22 |
| Earning/(Loss) Per Share After Tax | 100.94 | 4.09 | 1.62 | (3.31) | 7.86 | 6.61 | 4.82 | 14.06 | 7.08 | 10.33 | 45.73 |
| Production Capacity (20/s) (lbs) | 48,990,026 | 48,990,026 | 48,990,026 | 47,879,424 | 48,341,510 | 34,725,150 | 45,397,909 | 43,970,027 | 41,869,613 | 41,414,443 | 41,414,443 |
| Production converted into 20/s (lbs) | 48,858,410 | 48,739,567 | 48,607,000 | 47,425,336 | 48,032,726 | 34,454,142 | 45,380,876 | 43,811,943 | 41,758,683 | 41,412,415 | 41,189,365 |
| Capacity Utilization | 99.73 | 99.49 | 99.22 | 99.05 | 99.36 | 99.22 | 99.96 | 99.64 | 99.74 | 100.00 | 99.46 |

# PATTERN OF SHAREHOLDING
# FORM "34"
# SHAREHOLDERS STATISTICS
# AS AT JUNE 30, 2010

| NUMBER OF SHARE HOLDERS | SHARE HOLDING | | | TOTAL SHARES HELD |
|---|---|---|---|---|
| | FROM | | TO | |
| 403 | 1 | - | 100 | 23,102 |
| 150 | 101 | - | 500 | 50,329 |
| 28 | 501 | - | 1000 | 22,186 |
| 39 | 1001 | - | 5000 | 96,473 |
| 10 | 5001 | - | 10000 | 74,501 |
| 4 | 10001 | | 15000 | 49,378 |
| 2 | 15001 | - | 20000 | 38,715 |
| 3 | 20001 | - | 25000 | 65,791 |
| 1 | 30001 | - | 35000 | 31,300 |
| 1 | 40001 | - | 45000 | 40,977 |
| 1 | 65001 | - | 70000 | 67,755 |
| 1 | 70001 | - | 75000 | 70,785 |
| 3 | 135001 | - | 140000 | 407,806 |
| 1 | 160001 | - | 165000 | 160,174 |
| 2 | 165001 | - | 170000 | 333,504 |
| 1 | 170001 | - | 175000 | 172,996 |
| 4 | 175001 | - | 180000 | 712,556 |
| 1 | 200001 | - | 205000 | 201,346 |
| 3 | 225001 | - | 230000 | 683,912 |
| 1 | 240000 | - | 245000 | 241,395 |
| 2 | 260001 | - | 265000 | 524,534 |
| 1 | 270001 | - | 275000 | 272,250 |
| 1 | 350001 | - | 355000 | 351,656 |
| 1 | 400001 | - | 405000 | 403,553 |
| 1 | 1105001 | - | 1110001 | 1,090,529 |
| 665 | | | | 6,187,503 |

| S.NO. | CATAGORIES OF SHAREHOLDERS | NUMBER OF SHARE HOLDERS | TOTAL SHARES HELD | PERCENTAGE |
|---|---|---|---|---|
| 1 | Individual | 633 | 4,468,108 | 72.21 |
| 2 | Investment Companies | 1 | 300 | 0.00 |
| 3 | Joint Stock Companies | 17 | 1,157,567 | 18.71 |
| 4 | Financial Institutions | 8 | 136,499 | 2.21 |
| 5 | Modaraba Companies | 1 | 907 | 0.01 |
| 6 | Others | 5 | 424,122 | 6.85 |
| | | 665 | 6,187,503 | 100.00 |

# DETAIL OF PATTERN OF SHAREHOLDING AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE

| CATEGORIES OF SHAREHOLDER | NOS | SHARES HELD | % |
|---|---|---|---|
| **DIRECTORS, CEO, THEIR SPOUSE AND CHILDREN** | | | |
| Mr. M. Yunus s/o A. Aziz - Director | 1 | 272,250 | 4.40 |
| Mr. M. Sohail s/o M. Yunus - Chief Executive | 1 | 262,267 | 4.24 |
| Mr. Muhammad Ali s/o A. Razzak - Director | 2 | 351,656 | 5.68 |
| Mr. M. Imran s/o M. Yunus - Director | 2 | 440,406 | 7.12 |
| Mr. M. Jawed s/o M. Yunus - Director | 1 | 419,534 | 6.78 |
| Miss Mariam A Razzak - Director | 1 | 172,996 | 2.80 |
| Mr. M. Ilyas s/o Ismail Moten - Director | 1 | 228,242 | 3.69 |
| Mr. A. Rahman Yaqoob s/o M. Yaqoob - Director | 1 | 2,500 | 0.04 |
| Mrs Kulsum A. Razzak | 1 | 160,174 | 2.59 |
| Miss Amina A. Razzak | 2 | 344,328 | 5.56 |
| Miss Zulekha A Razzak | 1 | 201,346 | 3.25 |
| Miss Raheela A Razzak | 2 | 345,454 | 5.58 |
| Mrs Khairunnissa M Yunus | 1 | 70,785 | 1.14 |
| Mrs. Maimoona Siddiqui | 1 | 136,050 | 2.20 |
| Mrs. Nasreen Abdul Rauf | 1 | 136,050 | 2.20 |
| Mrs. Yasmeen Ismail | 1 | 135,706 | 2.19 |
| Mrs. Aslam Ismail | 1 | 227,428 | 3.68 |
| Mr. Arif Ismail | 1 | 228,242 | 3.69 |
| **ASSOCIATED COMPANY** | | | |
| Lucky Energy (Pvt) Limited | 2 | 1,111,411 | 17.96 |
| Yunus Textile Mills Limited | 1 | 31,300 | 0.51 |
| **NIT/ICP** | | | |
| National Bank of Pakistan | 2 | 67,836 | 1.10 |
| Investment Corporation of Pakistan | 1 | 300 | 0.00 |
| **PUBLIC SECTOR COMPANIES & CORPORATION** | 4 | 43,144 | 0.70 |
| **BANK, DEVELOPMENT FINANCIAL INSTITUTIONS, NON BANKING FINANCIAL INSTITUTIONS.** | 2 | 25,519 | 0.41 |
| **MODARABAS AND MUTUAL FUND** | 1 | 907 | 0.01 |
| **General Public (local)** | **611** | 332,694 | 5.38 |
| **Others** | **19** | 438,978 | 7.09 |
| **Total** | **665** | **6187503** | **100.00** |

| SHARHOLDERS HOLDING MORE THAN 10% OR MORE | | | |
|---|---|---|---|
| Lucky Energy (Pvt) Limited | 2 | 1,111,411 | 17.96 |

# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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

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

1. The board comprises nine directors, including the CEO. The number of executive director on the board is one.

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

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

4. 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 adopted by the board of directors and 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 are under process of approval.

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 director, 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 the purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Chief Executive recommends that members of the Board should approach him, should they feel any necessity to conduct other orientation courses in this regard.

10. The appointment of head of internal audit and his remuneration and terms and conditions have been approved by the Board.

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

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

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

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

15. The Audit Committee comprises of three members including the Chairman.

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

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

18. 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.

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

**Sohail M.Younus**
**Chief Executive**

# REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BESTPRACTICES OF CODEOF 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 **Fazal Textile Mills Limited** to comply with the Listing Regulation no 37 of the Karachi Stock Exchange and (Chapter XIII) of the Lahore 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's personnel and review of various documents prepared by the Company to comply with the Code.

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

Further, Sub Regulation (xiii a) of Listing Regulation No. 35 of Karachi and Lahore 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 to check the approval of the 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 period ended June 30, 2010.

Hyder Bhimji.

**HYDER BHIMJI CO.**
**CHARTERED ACCOUNTANTS**

# AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of **Fazal Textile Mills Limited** as at June 30, 2010 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

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

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

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

b) in our opinion:

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

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2008 and of the loss its cash flows and changes in equity for the year then ended; and

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

Hyder Bhimji.

**HYDER BHIMJI & CO**
Chartered Accountants

# BALANCE SHEET
AS AT JUNE 30, 2010

| | Note | June 2010 | June 2009 |
|---|---|---|---|
| | | Rs in 000 | |
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, Plant and equipment | | | |
| Operating fixed assets | 3 | **629,583** | 679,842 |
| Capital work in progress | 4 | **1,685,793** | 1,325,830 |
| | | **2,315,376** | 2,005,672 |
| **LONG TERM LOANS AND ADVANCES** | 5 | **9,456** | 9,213 |
| **LONG TERM DEPOSITS - Security deposits** | | **532** | 532 |
| | | **2,325,364** | 2,015,417 |
| **CURRENT ASSETS** | | | |
| Stores, spares and loose tools | 6 | **50,677** | 43,078 |
| Stock in trade | 7 | **408,158** | 501,080 |
| Trade debts | 8 | **458,638** | 204,001 |
| Loans & advances | 9 | **102,111** | 106,409 |
| Deposits, prepayments and other receivables | 10 | **28,111** | 8,050 |
| Taxation- Net | 11 | **7,563** | 824 |
| Cash and bank balances | 12 | **299,135** | 3,610 |
| | | **1,354,393** | 867,052 |
| **TOTAL ASSETS** | | **3,679,757** | 2,882,469 |
| **EQUITY AND LIABILITIES** | | | |
| **SHARE CAPITAL AND RESERVES** | | | |
| Authorized Capital | 13 | **150,000** | 150,000 |
| Issued, subscribed and paid-up capital | 14 | **61,875** | 61,875 |
| Reserves | 15 | **1,289,387** | 674,085 |
| | | **1,351,262** | 735,960 |
| **NON-CURRENT LIABILITIES** | | | |
| Long Term Finance | 16 | **-** | 1,000,000 |
| Deferred gratuity | 17 | **40,802** | 38,796 |
| Deferred taxation | 18 | 62,633 | 44,032 |
| | | **103,435** | 1,082,828 |
| **CURRENT LIABILITIES** | | | |
| Current maturity of loang term loan | 16 | **1,000,000** | - |
| Trade and other payables | 19 | **622,182** | 664,494 |
| Accrued markup | | **38,114** | 42,434 |
| Short term finances | 20 | **564,764** | 356,753 |
| | | **2,225,060** | 1,063,681 |
| **Contingencies and Commitment** | 21 | **-** | - |
| **TOTAL EQUITY AND LIABILITIES** | | **3,679,757** | 2,882,469 |

The annexed notes from 1 to 40 forms an integral part of these financial statements

Karachi : September 24, 2010

**M. Yunus A. Aziz**
Chairman

**Sohail M. Yunus**
Chief Executive

# PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED JUNE 30, 2010

| | Note | June 2010 | June 2009 |
|---|---|---|---|
| | | Rupees "000" | |
| Sales - net | 22 | **4,075,778** | 2,819,019 |
| Cost of sales | 23 | **3,236,667** | 2,598,668 |
| Gross profit | | **839,111** | 220,351 |
| Selling & distribution expenses | 24 | **48,251** | 17,353 |
| General & administrative expenses | 25 | **51,064** | 35,614 |
| Other operating expenses | 26 | **33,598** | 2,538 |
| | | **132,913** | 55,505 |
| | | **706,198** | 164,846 |
| Other operating income | 27 | **6,979** | 4,191 |
| Operating profit | | **713,177** | 169,037 |
| Finance cost | 28 | **37,385** | 120,819 |
| Profit before taxation | | **675,792** | 48,218 |
| Taxation : | | | |
| Current | 29 | **42,140** | 29,324 |
| Prior ( Provision reversed back ) | | **(9,532)** | 16 |
| Deferred ( Note 18 ) | | **18,601** | (6,414) |
| | | **51,209** | 22,926 |
| Profit after taxation | | **624,583** | 25,292 |
| **Earning per share-basic and diluted (Rupees)** | 30 | **100.94** | 4.09 |

The annexed notes from 1 to 40 forms an integral part of these financial statements

Karachi : September 24, 2010

**M. Yunus A. Aziz**
Chairman

**Sohail M. Yunus**
Chief Executive

# CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

| | Note | June 2010 | June 2009 |
|---|---|---|---|
| | | Rupees "000" | |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operation | 31 | **558,725** | 1,570,434 |
| Gratuity paid | | **(8,882)** | (7,355) |
| Finance Cost paid | | **(41,705)** | (127,321) |
| Taxes paid | | **(39,347)** | (29,671) |
| Net cash In/(Outflow) from operating activities | | **468,791** | 1,406,087 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Fixed capital expenditure | | **(14,268)** | (30,198) |
| Capital Work in progress | | **(359,963)** | (411,048) |
| Sale proceeds from fixed assets | | **2,190** | 997 |
| Net cash In/(Outflow) from investing activities | | **(372,041)** | (440,249) |
| **CASH FLOW FROM FINANCIAL ACTIVITIES** | | | |
| Payment of dividend | | **(9,236)** | (9,310) |
| Net cash In/(Outflow) from financial activities | | **(9,236)** | (9,310) |
| Net increase(decrease) in cash and cash equivalents | | **87,514** | 956,528 |
| Cash and cash equivalents at the beginning of the year | | **(353,143)** | (1,309,671) |
| Cash and cash equivalents at the end of the year | 32 | **(265,629)** | (353,143) |

The annexed notes from 1 to 40 forms an integral part of these financial statements

Karachi : September 24, 2010

**M. Yunus A. Aziz**
Chairman

**Sohail M. Yunus**
Chief Executive

# STATEMENT OF CHANGES IN EQUITY

for the year ended June 30, 2010

**Rupees in thousand**

| Description | Paidup Capital | Capital Reserve | Revenue Reserves | Uappropriated Profit | Total |
|---|---|---|---|---|---|
| Balance as on July 01, 2008 | 61,875 | 34,416 | 610,584 | 13,073 | 719,948 |
| Final Dividend for the year ended June 30, 2008 | - | - | - | (9,281) | (9,281) |
| Transfer to/(from) profit and loss account | - | - | - | - | - |
| Profit after tax for the year ended June 30, 2009 | - | - | - | 25,293 | 25,293 |
| Balance as on June 30, 2009 | 61,875 | 34,416 | 610,584 | 29,085 | 735,960 |
| Final Dividend for the year ended June 30, 2009 | - | - | - | (9,281) | (9,281) |
| Transfer to/(from) profit and loss account | - | - | 15,000 | (15,000) | - |
| Profit after tax for the year ended June 30, 2010 | - | - | - | 624,583 | 624,583 |
| Balance as on June 30, 2010 | 61,875 | 34,416 | 625,584 | 629,387 | 1,351,262 |

The annexed notes from 1 to 40 forms an integral part of these financial statements

Karachi : September 24, 2010

**M. Yunus A. Aziz**
Chairman

**Sohail M. Yunus**
Chief Executive

# Notes to the financial statements
for the year ended June 30, 2010.

## 1. LEGAL STATUS AND OPERATION:

The Company was incorporated on July 6, 1963 as a Private Limited Company under the Companies Act, 1913 (Companies Ordinance, 1984) and was converted into a Public Limited Company on May 04, 1966. The Company is quoted on stock exchanges in Pakistan since 1971. The Company is engaged in manufacturing, selling, buying and dealing in all types of yarn and knitted fabrics. The address of its registered office is LA-2/B, Block 21, Rashid Minhas Road, federal "B" Area, Karachi, Pakistan

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The financial statements have been prepared on historical cost convention except for the recognition of certain staff retirement benefits at present value.

### 2.2 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. Wherever, the requirements of the Ordinance or directives issued by the Securities and Exchange Commission of Pakistan with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

### 2.3 Standards and interpretations to published approved accounting standards that are not yet effective

The following standards and interpretations of approved accounting standards, effective for accounting periods beginning on or after January 01, 2009 are either not relevant to Company's operation or are not expected to have significant impact on the Company's financial statements other than increased disclosure in certain cases:-

(i) IAS 1 (Revised), 'Presentation of Financial Statements' (effective January 1, 2009) IAS 1 (Revised) prohibits the presentation of items of income and expenses (i.e., 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a statement of other comprehensive income, but entities can choose whether to present one statement of comprehensive income or two statements (the statement of comprehensive income and statement of other comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning of the earliest comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period. The company has applied IAS 1 (Revised) from July 1, 2009.

(ii) IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009).

· The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. Adoption of the amendment is not expected to have any effect on the company's financial statements. 19

· The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. Adoption of the amendment is not expected to have any effect on the company's financial statements.

· The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. The adoption of this amendment will only impact the presentation of the financial statements.

· IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed and not recognized. IAS 19 has been amended to be consistent with IAS 37.

(iii) IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). In accordance with the new requirements, disclosures equivalent to those for value-in-use calculation should be made where fair value less costs to sell is calculated on the basis of discounted cash flows. Adoption of the amendment is not expected to have any effect on the company's financial statements.

(iv) IAS 23 (Amendment) 'Borrowing costs' (effective from January 1, 2009). This amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use or sale) as part of the cost of that asset. On adoption of the above amendment, the option of immediately expensing those borrowing costs will be withdrawn. This amendment is not expected to have a significant effect on the company's financial statements.

(v) IAS 38 (Amendment) 'Intangible assets' (effective from January 1, 2009). This amendment states that a prepayment may only be recognized in the event that prepayment has been made in advance of obtaining right of access to goods or receipt of services. This amendment is not expected to have any effect on the company's financial statements.

(vi) IFRS 7 'Financial instruments - Disclosures' (amendment) (effective from 1 January 2009). The 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, the amendment is not expected to have a significant effect on the company's financial statements.

(vii) IFRS 8, 'Operating segments'. This standard replaces IAS 14, 'Segment reporting' and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The management has determined the operating segments based on the reports reviewed by the Chief Operating Decision Maker (i.e. Chief Executive) of the company. The company considers the business from a product wise perspective. However, these operating segments meet the aggregation criteria set forth in IFRS 8, therefore, the company is not required to make segment wise disclosures.

Standards, amendments to published approved accounting standards and interpretations becoming effective in the year ended June 30, 2010 but not relevant:

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the year and are mandatory for accounting periods beginning on or after July 1, 2009 but are considered not to be relevant or have any significant effect on the company's operations and are, therefore, not disclosed in these financial statements. Standards, amendments to published approved accounting standards and interpretations as adopted in Pakistan, that are not yet effective:

The following standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after January 1, 2010 or later periods:

(i)IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. This amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. This amendment is not considered to have any impact on entity's financial statements being irrelevant.

(ii) IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. This amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. This amendment is not considered to have any impact on the company's financial statements being irrelevant to company's operations.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or do not have any significant effect on company's operations and are therefore not mentioned in these financial statements.

**2.4 Significant accounting judgments and estimates**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Estimate and judgements are continually evaluated and are based on
historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the company's accounting policies, management has made following estimates and judgments which are significant to the financial statements.

a) Income Taxes

The company takes into account relevant provision of current income tax laws while providing for current and deferred taxes as explained in note 2.6 of these financial statements.

b) Defined Benefit Plan

Certain actuarial assumptions have been adopted as disclosed in note 2.5 and 17 of these financial statements for valuation of present value of defined benefit obligation and fair value of plan assets. Any change in these assumptions in future years might affect actuarial gain/losses recognized in those years.

**2.5 Staff retirement benefits**

The Company operates unfunded gratuity scheme covering all employees eligible to the benefit. The present value of the defined benefit obligation has been determined on the basis of actuarial valuation carried out on the Balance Sheet date. In accordance with the requirements of IAS 19, Employees Benefits actuarial valuation has been carried out using Projected Unit Credit Actuarial Cost Method. Main valuation assumption used for actuarial valuation were as under :

| | |
|---|---|
| Discount Rate | 13.00% per annum. |
| Expected rate on increase in salaries | 11.00% per annum |

**2.6 Taxation**
**Current**

Provision for current taxation is based on taxable income at current rates of taxation after taking in to account tax credits available rebate and exemption if any, subject to treatment in respect of tax deducted at source on export as final discharge of tax liabilities.

**Deferred**

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax assets and liabilities and their carrying values for financial reporting purposes and amount used for taxation purpose.

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

**2.7 Foreign currency translation**

Assets and liabilities in foreign currencies are translated into rupee at the rates of exchange ruling on the balance sheet date except for liabilities covered under forward exchange contracts which are translated at the contract rates. The gain or loss due to the rate fluctuation is adjusted against the plant and machinery acquired under the loan.

**2.8 Property, Plant & Equipment**

These are stated at cost less accumulated depreciation except leasehold land and capital work-in-progress, which are stated at cost.

Depreciation is charged at normal tax rates on diminishing balance method. In respect of addition/deletion during the year, depreciation is charged from the month of acquisition and upto the month preceding the disposal respectively.

Maintenance and normal repairs are charged to income as and when incurred. Gain or loss on disposal of assets is included in income currently.

**2.9 Capital Work-in-progress**

All cost/expenditure connected with the assets, incurred during the implementation period are carried under this head. These are transferred to specific assets as and when assets are available for use.

**2.10 Stores, spares, loose tools and packing materials**

These are valued at cost. Cost is determined on first in first out (FIFO) basis.

**2.11 Stocks**

These are valued as follows:

| | | |
|---|---|---|
| **Raw materials** | - | At lower of cost or market value on FIFO basis. |
| **Finished goods** | - | At lower of average cost and net realizable value including portion of related factory overheads. |
| **Work-in-process** | - | At average cost of raw material and proportionate manufacturing overheads. |
| **Waste** | - | At net realizable value. |

**2.12 Trade debts and other receivables**

Trade debts and other receivables are recognized and carried at original invoice amount less any estimated allowance made for doubtful receivables based on review of outstanding amount at the year end. Balances considered bad and irrecoverable are written off when identified.

**2.13 Cash and Cash equivalent**

Cash and cash equivalent are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short term highly liquid investments and bank overdraft in the balance sheet, bank overdrafts are included in borrowing in current liabilities.

**2.14 Revenue Recognition**

Sales are recorded on dispatch of goods to customers, Rental Income is recognized as and when earned on annual basis and Income of deposits is recognized on receipt basis.

**2.15 Financial instruments**

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured as fair value or cost, as the case may be.

**2.16 Employees Leave Entitlement**

Employees entitlement to annual leaves are recognized when they accrue to employee. A provision is made for the estimated liability as a result of services rendered by employees up to the balance sheet date.

**2.17 Borrowing Cost**

Interest, Markup and other charges long term/short term liabilities are Capitalized upto the date of Commissioning of respective fixed assets acquired out of the proceeds of such long term/short term liabilities, all other interest, markup and other charges cost are charged to profit and loss account.

**2.18 Provisions**

Provisions are recognized when the company has a present legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

**2.19 Impairment of Assets**

The carrying amount of assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such indication exist, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts and impairment losses are taken to profit and loss account.

**2.20 Dividend**

Dividend distribution to the company shareholder's is recognized as a liability in the company's financial statements in the period in which the dividends are approved.

**2.21 Related Party Transaction**

Transactions and Contracts with related party are carried out at arms length prices determined in accordance with comparable uncontrolled price method.

**2.22 Offsetting**

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

**2.23 Functional and Presentation Currency**

These financial statements are presented in Pakistani Rupee which is the Company's Functional Currency.

## 3 OPERATING FIXED ASSETS - TANGIBLE

(Rs in 000)

| Particulars | Cost as on 01-07-2009 | Additions (Deletions) | Cost as on 30-06-2010 | Accumulated depreciation 30-06-2010 | Written down book value 30-06-2010 | Depreciation for the period | Rate % |
|---|---|---|---|---|---|---|---|
| Land (lease hold) | 6,591 | - | 6,591 | - | 6,591 | - | - |
| Main factory building (on lease hold land) | 31,250 | - | 31,250 | 27,434 | 3,816 | 424 | 10 |
| Other factory buidling (on lease hold land) | 171,389 | - | 171,389 | 71,086 | 100,303 | 5,279 | 5 |
| Plant & machinery | 1,368,270 | 8,453<br>- | 1,376,723 | 874,057 | 502,666 | 55,521 | 10 |
| Testing equipment, scales and weighments | 7,488 | - | 7,488 | 6,415 | 1,073 | 119 | 10 |
| Office equipments | 5,008 | 164 | 5,172 | 3,464 | 1,708 | 176 | 10 |
| Furniture & fixtures | 2,158 | - | 2,158 | 1,880 | 278 | 31 | 10 |
| Vehicles | 25,407 | 5,176<br>(2,997) | 27,586 | 15,476 | 12,110 | 2,022 | 20 |
| Computer equipments | 7,943 | 475 | 8,418 | 7,379 | 1,039 | 375 | 33 |
| **Total June 2010** | **1,625,504** | **14,268<br>(2,997)** | **1,636,775** | **1,007,191** | **629,584** | **63,947** | |
| **Total June 2009** | **1,597,122** | **30,198<br>(1,816)** | **1,625,504** | **945,662** | **679,842** | **68,976** | |

## 3. A. Depreciation charge for the year has been allocated as follows :

| | June 2010 | June 2009 |
|---|---|---|
| | Rs "000" | |
| Cost of sales | **61,343** | 66,079 |
| Administrative, selling and general expenses | **2,604** | 2,897 |
| | **63,947** | 68,976 |

## 3-B Disposal of operating fixed assets.

(Rs in 000)

| Particulars | Sold to | Cost | Accumulated depreciation | Book value | Sale proceeds | Mode of disposal |
|---|---|---|---|---|---|---|
| Motor Vehicle | Arif Mannan<br>Karachi | 848 | 810 | 38 | 405 | Negotiation |
| Motor Vehicle | Tariq Gagai<br>Karachi | 245 | 241 | 4 | 255 | Negotiation |
| Motor Vehicle | Mohammad Muneeb<br>Karachi | 839 | 766 | 73 | 530 | Negotiation |
| Motor Vehicle | New Jubilee Insurance Co.<br>Karachi | 1,065 | 602 | 463 | 1,000 | Negotiation |
| **Total June 2010** | | **2,997** | **2,419** | **578** | **2,190** | |
| Total June 2009 | | 1,816 | 1,321 | 495 | 997 | |

| | | June 2010 | June 2009 |
|---|---|---|---|
| | | Rs in "000" | |
| **4 CAPITAL WORK IN PROGRESS** | | | |
| KARACHI PROJECT | 4.1 | 843,662 | 633,472 |
| NOORIABAD PROJECT | 4.2 | 842,131 | 692,358 |
| TOTAL C.W.I.P | | 1,685,793 | 1,325,830 |

## 4.1 KARACHI PROJECT

| | June 2010 | June 2009 |
|---|---|---|
| Opeining Balance | 633,472 | 483,219 |
| Expenses For The Year | 146,409 | 52,461 |
| Borrowing Cost Capitalized | 63,781 | 97,792 |
| Closing Balance | 843,662 | 633,472 |

This represents commercialization, development and other charges of land situated at the existing premises for the purpose of construction of shopping mall/residentail towers.

4.2 **NOORAIBAD PROJECT**

| | OPENING | ADDITIONS | CLOSING |
|---|---|---|---|
| **2010** | | | |
| Plant & Machinery | 107,676 | 10,908 | 118,584 |
| Building | 489,738 | 42,248 | 531,986 |
| Advance to Contractors | - | 32,851 | 32,851 |
| Other Accumulated expenses | 94,929 | 63,781 | 158,710 |
| Total | 692,343 | 149,788 | 842,131 |
| **2009** | | | |
| Plant & Machinery | 15,090 | 92,586 | 101,616 |
| Building | 366,425 | 123,313 | 495,813 |
| Other Accumulated expenses | 50,048 | 44,881 | 94,929 |
| Total | 431,563 | 260,780 | 692,358 |

Other accumulated expenses are to be capitalized proportionately between plant & machinery and building at the end of project.

| | | June 2010 | June 2009 |
|---|---|---|---|
| | | Rs in "000" | |
| **5 LONG TERM LOAN & ADVANCE (Unsecured - Considred Good)** | | | |
| Loan to Executives (5-A) | 5.1 | **5,787** | 6,204 |
| Loan to Employees (5-A) | | **9,775** | 5,018 |
| | | **15,562** | 11,222 |
| Less: Current maturity of Long Term Loan and Advances | | **6,106** | 2,009 |
| | | **9,456** | 9,213 |
| **5.1 Loan to executives** | | | |
| Opeining Balance | | **6,204** | 9,350 |
| ADD : Additional during the year | | **3,100** | - |
| | | **9,304** | 9,350 |
| Less :Recovery during the year | | **3,517** | 3,146 |
| Closing Balance | | **5,787** | 6,204 |

**5-A** These interest free loan represents for house assistance, medical expenses and support for children marriage and are repayble within 3 years

The maximum amount due from Executive at the end of any month during the year was Rs 6.305 million (2009 : Rs 9.350 million)

| | June 2010 | June 2009 |
|---|---|---|
| | **Rupees in "000"** | |

## 6 STORES, SPARES AND LOOSE TOOLS

| | | |
|---|---|---|
| Stores | **10,500** | 8,599 |
| Spares | **35,836** | 29,662 |
| Loose tools | **241** | 121 |
| Packing material | **6,077** | 4,696 |
| | **52,654** | 43,078 |
| Less : Provision for obsolete & slow moving items | **1,977** | - |
| | **50,677** | 43,078 |

## 7 STOCK IN TRADE

| | | |
|---|---|---|
| Raw material | **220,462** | 362,207 |
| Work in process | **10,090** | 5,354 |
| Finished goods | **177,606** | 133,519 |
| | **408,158** | 501,080 |

## 8 TRADE DEBTS

| | | |
|---|---|---|
| **Considered good** | | |
| Export - secured against L/C | **407,760** | 132,720 |
| Local - unsecured | **50,878** | 71,281 |
| | **458,638** | 204,001 |
| **Considered doubtful** | | |
| Against Local sales - unsecured | **4,248** | - |
| | **462,886** | 204,001 |
| Less : Provision for impairment of trade debts | **4,248** | - |
| | **458,638** | 204,001 |

| | | |
|---|---|---|
| Trade Debts include ; | | |
| Amount due from related parties | **4,021** | 2,462 |
| Amount due from others parties | **454,617** | 201,539 |
| | **458,638** | 204,001 |

The maximum amount due to associated undertaking at the end of any month during the year was Rs. 243.783 million ( 2009 : Rs. 117.343 million ) .

| | | June 2010 | June 2009 |
|---|---|---|---|
| **9** | **LOANS AND ADVANCES** | **Rupees in "000"** | |
| | **Considered good** | | |
| | Current maturity of Long Term Loan | **6,106** | 2,009 |
| | Advances to employees | **-** | 4,276 |
| | Advances to suppliers | **96,005** | 100,124 |
| | | **102,111** | 106,409 |
| **10** | **DEPOSIT, PREPAYMENTS AND OTHER RECEIVABLES** | | |
| | Security deposits | **12,937** | 3,433 |
| | Sales tax refundable | **14,582** | 4,612 |
| | Other receivables | **592** | 5 |
| | | **28,111** | 8,050 |
| **11** | **TAXATION - Net** | | |
| | Income tax refundable at beginning | **824** | 493 |
| | Add : Paid / Deducted in advacne | **39,347** | 29,671 |
| | Less : Provision for the year - Note 29 | **42,140** | 29,340 |
| | Provision for prior years reversed back | **(9,532)** | - |
| | | **(32,608)** | (29,340) |
| | | **7,563** | 824 |

The income tax assessment of the company has been finalized upto and including Tax Year 2008 corresponding to income year June 2008.

| | | | |
|---|---|---|---|
| **12** | **CASH AND BANK BALANCES** | | |
| | Cash in hand | **881** | 1,330 |
| | Balance with bank in : | | |
| | Current Account | **298,248** | 2,274 |
| | Deposits Account | **6** | 6 |
| | | **298,254** | 2,280 |
| | | **299,135** | 3,610 |
| **13** | **AUTHORIZED CAPITAL** | | |
| | 15,000,000 Ordinary shares of Rs 10/- each | **150,000** | 150,000 |
| **14** | **ISSUED, SUBSCRIBED AND PAID-UP CAPITAL** | | |
| | 4,579,094 Ordinary shares of Rs 10/- each fully paid issued for cash. | **45,791** | 45,791 |
| | 1,608,409 Ordinary shares of Rs 10/- each issued as fully paid bonus shares | **16,084** | 16,084 |
| | | **61,875** | 61,875 |

Out of the total share capital of the Compnay, associated undertaking held 1,093,529 (2009 : 1,093,529) ordinary shares of Rs 10.00 each as at June 30, 2010.

| | June 2010 | June 2009 |
|---|---|---|
| | **Rupees in "000"** | |

**15 RESERVES**

| | | |
|---|---|---|
| Capital Reserve | | |
| Share premium | **34,416** | 34,416 |
| Revenue Reserve | | |
| General Reserve | | |
| Opening balance | **610,584** | 610,584 |
| Transfer from profit & loss account | **15,000** | - |
| | **625,584** | 610,584 |
| Unappropriated profit | **629,387** | 29,085 |
| | **1,289,387** | 674,085 |

| | | |
|---|---|---|
| **16 LONG TERM FINANCE** | **-** | 1,000,000 |

This represents term finance facility availed from National Bank of Pakistan to finance the BMR of the company It is secured by way of First parri passu hypothecation charge over its plant & machinery located at its present premises, in transit and installed/to be installed on the new premises of the company. Equiatable mortgage over land & building situated at Karachi and building situated at Super Highway, Nooriabad. It carries markup charges at Base Rate plus 0.25%. Base Rate represents Ask Rate of one month KIBOR on last on day of each month. This loan is repayable in four equal quaterly installments of Rs 250 miilion each beginning from July 2010.

**17 STAFF RETIREMENT GRATUITY**

As mentioned in Note 2.5 the company operates an unfunded gratuity scheme for all its permenent employees. Acturial valuation of scheme is carried out and the latest actuarial valuation was carried out as at June 30, 2009.

The fair value of scheme's assets and the present value of obligation under the scheme at balance sheet date were as follows:

| | June 2010 | June 2009 |
|---|---|---|
| | Rupees in "000" | |
| **Reconciliation of Payable to / (Receivable from) Defined Benefit Plan** | | |
| Present Value of Defined Benefit Obligation | **40,802** | 38,864 |
| Net Actuarial Gains/(Losses) not recognized | **(68)** | (68) |
| Net Liability For Gratuity | **40,734** | 38,796 |
| **Movement in Net Liability** | | |
| Opening Net Liability | **38,796** | 29,032 |
| Expenses/(Income) for the year | **10,888** | 17,119 |
| Benefit paid | **(8,882)** | (7,355) |
| Closing Net Liability | **40,802** | 38,796 |
| **Charge for / (Income from) the Defined Benefit Plan** | | |
| Current service cost | **8,928** | 14,091 |
| Interest cost | **1,960** | 3,028 |
| | **10,888** | 17,119 |
| **Actuarial Assumptions:** | | |
| Valuation Discount Rate | **13.00%** | 13.00% |
| Salary Increase Rate | **11.00%** | 11.00% |

Since the gratuity is unfunded therefore no plan assets are recognised and no contributions as a consequence are made. The unrecognised actuarial gains and losses are recognised in accordance with the directions of IAS 19 that is when they exceed the coosridor and ceiling limit

## 18 DEFERRED TAXATION

| | June 2010 | June 2009 |
|---|---|---|
| Opening Balance | **44,032** | 50,446 |
| Expense / ( Income ) for the year | **18,601** | (6,414) |
| Closing Balance | **62,633** | 44,032 |

## 19 TRADE AND OTHER PAYABLES

| | June 2010 | June 2009 |
|---|---|---|
| Trade creditors | **49,896** | 76,934 |
| Accrued expenses | **363,745** | 200,858 |
| Advance from customers Note 19-A | **170,710** | 380,893 |
| Unclaimed dividend | **1,823** | 1,778 |
| Workers profit participation fund Note 19-B | **33,598** | 2,538 |
| Workers Welfare Fund | **558** | 558 |
| Advances from employees under vehicle scheme 19-C | **1,852** | 935 |
| | **622,182** | 664,494 |

| | June 2010 | June 2009 |
|---|---|---|
| | **Rs in "000"** | |

**19-A** Includes amount due to associated undertaking Rs 170.710 million (2009 : Rs 379.458 million)

**19-B** Workers Profit Participation Fund

| | | |
|---|---|---|
| Opening balance | **2,538** | 1,470 |
| Contribution for the year | **33,598** | 2,538 |
| Add : Markup provided during the year | **116** | 70 |
| | **33,714** | 2,608 |
| | **36,252** | 4,078 |
| Less : Paid during the year | **2,654** | 1,540 |
| | **33,598** | 2,538 |

**19-C** This amount represents the accumulation of monthly installments adjustable after a specified period against vehicles to be disposed under vehicle scheme.

## 20 SHORT TERM FINANCES

| | | |
|---|---|---|
| **(Secured Note 20-A)** | | |
| Running finances | **43,827** | 40,242 |
| Export Finance & Import bills | **520,937** | 316,511 |
| | **564,764** | 356,753 |

**20-A** The markup on bank finances is payable on quaterly basis at rates ranging from 7.50% to14.00%. (2009 : 7.50% to 14.00%)

The above finances are secured by first parri passu hypothecation charge over stock and book debts of the company. Lien on Export documents and import documents/ duly accepted bill of discount.

The overall limit of Rs 3.105 billion ( 2009 : 2.468 billion ) applies on running, export pre/post shipment finances.

The carrying amount of inventories and book debts hypothecated as security for the bank borrowings is Rs 0.908 billion ( 2009 : 0.748 billion)

## 21 CONTINGENCIES AND COMMITMENTS

| | | | |
|---|---|---|---|
| **21-A** | Guarantees and counter guarantees | **49,446** | 44,946 |
| **21-B** | Letter of credits | **1,098,027** | 54,750 |
| | | **1,147,473** | 99,696 |

**21-C** The Company has made a reference in the Honourable High Court of Sindh at Karachi u/s 133(i) of the Income Tax Ordinance, 2001 against rejection of loss of Rs 1,461,000 by the Appellate Tribunal vide M.A (Rect) No 402/KB/2005 dated January 25, 2006 for the assessment year 2002-03. The case is pending before Court for adjudication.

| | June 2010 | June 2009 |
|---|---|---|
| | Rs in "000" | |

## 22 SALES - Net

| | | |
|---|---|---|
| Export | **2,890,868** | 1,815,119 |
| Local | **1,381,290** | 1,130,386 |
| Export rebate | **1,318** | 923 |
| Research & Development Support | **5,132** | 1,104 |
| Gross sales | **4,278,608** | 2,947,532 |
| Less : Export freight | **113,367** | 67,667 |
| Sales tax | **-** | - |
| Export duty and surcharge | **5,680** | 5,477 |
| Commission | **83,783** | 55,369 |
| | **202,830** | 128,513 |
| | **4,075,778** | 2,819,019 |

## 23 COST OF SALES

**Raw material consumed**

| | | |
|---|---|---|
| Opening inventory | **362,207** | 499,835 |
| Purchases | **2,241,225** | 1,715,415 |
| Available for consumption | **2,603,432** | 2,215,250 |
| Closing inventory | **(220,462)** | (362,207) |
| Raw material consumed | **2,382,970** | 1,853,043 |

**Manufacturing expenses**

| | | |
|---|---|---|
| Stores, spares and packing | **154,309** | 114,306 |
| Salaries,wages & other benefits Note 23-A | **216,102** | 203,689 |
| Power and elecrticity | **324,485** | 303,410 |
| Knitting, dyeing and printing expenses | **123,345** | 79,602 |
| Insurance | **2,914** | 2,624 |
| Repair and maintenance | **13,259** | 9,719 |
| Labour welfare | **3,935** | 2,875 |
| Depreciation | **61,344** | 66,079 |
| Other manufacturing expenses | **2,826** | 845 |
| | **902,519** | 783,149 |
| | **3,285,489** | 2,636,192 |
| Work in process - opening inventory | **5,354** | 8,087 |
| Work in process - closing inventory | **(10,090)** | (5,354) |
| | **(4,736)** | 2,733 |
| Cost of goods sold | **3,280,753** | 2,638,925 |
| Finished goods - opening inventory | **133,519** | 93,262 |
| Available for sales | **3,414,272** | 2,732,187 |
| Finished goods - closing inventory | **(177,605)** | (133,519) |
| | **3,236,667** | 2,598,668 |

23-A This includes Rs 10.886 million in respect of staff retirement benefits (2009 : 15.946 million)

| | | June 2010 | June 2009 |
|---|---|---|---|
| | | Rs in "000" | |
| **24** | **SELLING & DISTRIBUTION EXPENSES** | | |
| | Forwarding and other selling expenses | **48,251** | 17,353 |
| | | **48,251** | 17,353 |
| **25** | **GENERAL & ADMINISTRATIVE EXPENSES** | | |
| | Salaries, wages & other benefits Note 25-A | **16,462** | 13,634 |
| | Postages, telegram and telephone | **3,130** | 2,866 |
| | Printing and stationery | **5,354** | 2,479 |
| | Fees and subscriptions | **705** | 635 |
| | Travelling and conveyance | **8,703** | 6,572 |
| | Entertainment | **1,851** | 959 |
| | Rent, rates and taxes | **726** | 726 |
| | Motor car expenses | **2,850** | 2,397 |
| | Insurance | **752** | 788 |
| | Legal and professional charges | **1,725** | 641 |
| | Audit fee - Note 25-B | **415** | 140 |
| | Advertisements | **85** | 249 |
| | Donations - Note 25-C | **752** | 296 |
| | Depreciation | **2,604** | 2,897 |
| | Other expenses | **4,950** | 335 |
| | | **51,064** | 35,614 |

**25-A** This includes Rs 1.577 million in respect of staff retirement benefits ( 2009 : Rs 1.173 million)

**25-B** Auditors remuneration

| | | |
|---|---|---|
| Audit fee | **300** | 100 |
| Half Yearly Review fee | **60** | 40 |
| Other certification | **55** | - |
| | **415** | 140 |

**25-C** Donation

None of the directors and their spouses had any interest in the donees fund.

| | | | |
|---|---|---|---|
| **26** | **OTHER OPERATING EXPENSES** | | |
| | Workers profit participation fund | **33,598** | 2,538 |
| | | **33,598** | 2,538 |
| **27** | **OTHER OPERATING INCOME** | | |
| | Gain on sale of fixed assets | **1,611** | 502 |
| | Misc income | **781** | 781 |
| | Doubling charges | **4,587** | 2,908 |
| | | **6,979** | 4,191 |

| | | June 2010 | June 2009 |
|---|---|---|---|
| | | Rs in "000" | |
| **28** | **FINANCIAL COST** | | |
| | Markup on short term finances | **27,550** | 109,749 |
| | Markup on workers profit participation fund | **116** | 70 |
| | Bank charges and commission | **9,719** | 11,000 |
| | | **37,385** | 120,819 |
| **29** | **TAXATION** | | |
| **29.1** | Current Tax | **42,140** | 29,324 |
| | The charge for the year/period is as under. | | |
| | Tax charge on direct exports | **26,158** | 24,334 |
| | Tax charge on indirect exports | **7,577** | - |
| | Tax charge on local turnover treated as exports | **6,236** | 4,990 |
| | Tax charge on Other income not falling under P.T.R | **2,169** | - |
| | | **42,140** | 29,324 |

**29.2** The Company has filed writ petitions in High Courts challenging the levy of tax U/S 80(d) and 80(cc) of the Income Tax Ordinance 1979.

## 30 EARNING PER SHARE

There is no dilutive effect on the basic earnings per shares of the Company which is based on :-

| | June 2010 | June 2009 |
|---|---|---|
| Profit after taxation (Rs in "000") | **624,583** | 25,294 |
| Weighted average number of ordinary shares | **6,187,503** | 6,187,503 |
| Earning per share (Rs) | **100.94** | 4.09 |

## 31 CASH GENERATED FROM OPERATION

| | June 2010 | June 2009 |
|---|---|---|
| Profit before taxation | **675,792** | 48,219 |
| Adjustment for non cash charges : | | |
| Depreciation | **63,947** | 68,976 |
| Provision for obsolete and slow moving items | **1,977** | - |
| Provision for doubtful debts | **4,248** | - |
| (Profit)/loss on sale of fixed assets | **(1,611)** | (502) |
| Provision for gratuity | **10,888** | 17,119 |
| | **79,449** | 85,593 |
| Finance cost | **37,385** | 120,819 |
| Long term loan & advances | **(243)** | 4,716 |
| Changes in working capital - Note 31-A | **(233,658)** | 1,311,087 |
| | **558,725** | 1,570,434 |

| | June 2010 | June 2009 |
|---|---|---|
| | Rs in "000" | |

## 31-A Changes in working capital

**(Increase)/Decrease in current assets**

| | | |
|---|---|---|
| Stores, spares and loose tools | **(9,576)** | (5,198) |
| Stock in trade | **92,922** | 100,204 |
| Trade debts | **(258,885)** | 637,739 |
| Loans & advances considered good | **4,298** | 59,901 |
| Trade deposits & short term prepayments | **(20,061)** | 7,851 |
| | **(191,302)** | 800,497 |

**Increase/(Decrease) in current liabilities**

| | | |
|---|---|---|
| Trade and other payables | **(42,356)** | 510,590 |
| **Net Increase/(decrease) in working capital** | **(233,658)** | 1,311,087 |

## 32 CASH AND CASH EQUIVALENTS

Cash & cash equivalent comprise the following items as included in the balance sheet

| | | |
|---|---|---|
| Cash and bank balances | **299,135** | 3,610 |
| Short term borrowing | **(564,764)** | (356,753) |
| | **(265,629)** | (353,143) |

## 33 TRANSACTION WITH ASSOCIATED UNDERTAKINGS

| Nature of TransactioN | Relationship with the Company | 2010 | 2009 |
|---|---|---|---|
| **Sale of Goods and Providing of services** | | | |
| L ucky Knits (Pvt) Ltd. | Associate | 223,046 | 193,619 |
| Lucky Textile Mills | Associate | 105,479 | 52,511 |
| Gadoon Textile Mills Ltd. | Associate | 576 | 122 |
| Younus Textile Mills Ltd. | Associate | 236,815 | 93,733 |
| | | 565,916 | 339,985 |
| **Purchase of Goods and Receipt of Services** | | | |
| Lucky Cement Ltd. | Associate | 4,768 | 12,243 |
| Lucky Textile Mills | Associate | 85 | 2,351 |
| Gadoon Textile Mills Ltd. | Associate | 339,854 | 134,703 |
| Lucky Knits (Pvt) Ltd. | Associate | 33,711 | 19,476 |
| Lucky Energy ( pvt) Ltd. | Associate | 320,702 | 298,733 |
| | | 699,120 | 467,506 |
| **Rent, Allied and Other Charges Received** | | | |
| Lucky Energy ( pvt) Ltd. | Associate | 781 | 781 |
| **Employee Benefits** | | | |
| Staff Retirement Gratuity ( Unfunded) | Employee Benefit | 10,888 | 17,119 |
| **Donations** | | | |
| workers support | Workers | 303 | 0 |

| | | June 2010 | June 2009 |
|---|---|---|---|
| | | Rs in "000" | |
| **Benefits to key management personnel** | | | |
| Long Term Loans to Executives | Key management personnel | 3,100 | 0 |
| Bonus & Earned leaves | | 1,404 | 1261 |
| **Dividends Paid** | | | |
| Lucky Energy ( pvt) Ltd. | Associate | 1,667 | 1,667 |

All material transactions with associated undertaking are at arm's length.

The maximum amount due to associated undertaking at the end of any month during the year was Rs 243.783 million (2009 : Rs 117.343 million)

## 34 CAPACITY AND ACTUAL PRODUCTION

### SPINNING

| | June 2010 | June 2009 |
|---|---|---|
| Total numbers of spindles at the end of the year | **59,160** | 59,160 |
| Average number of spindles worked | **59,150** | 59,150 |
| Capacity after conversion into 20's (lbs) | **48,990,026** | 48,990,026 |
| Production after conversion into 20's (lbs) | **48,858,410** | 48,739,567 |

### KNITTING

| | June 2010 | June 2009 |
|---|---|---|
| Total number of knitting machines installed | **12** | 12 |
| Average number of days worked | **202** | 154 |
| Installed capacity (kgs) | **1,485,000** | 1,485,000 |
| Actual production (kgs) | **916,961** | 740,923 |

The under utilization of capacity is due to normal maintenance and shut down. It is difficult to describe precisely the production capacity in textile spinning industry, since it fluctuates widely depending on various factors such as count spun, spindles speed, twist and type of raw material.

## 35 REMUNERATION TO CHIEF EXECUTIVE, DIRECTORS & EXECUTIVES

| | **June 2010** | | June 2009 | |
|---|---|---|---|---|
| | **CHIEF EXECUTIVE** | **EXECUTIVES** | CHIEF EXECUTIVE | EXECUTIVES |
| | Rs in "000" | | | |
| Remuneration | 1,000 | **4,935** | 1,000 | 3,557 |
| House rent | 400 | **1,974** | 400 | 1,423 |
| Bonus/leaves encashment | - | **1,404** | - | 1,261 |
| Utilities | 100 | **493** | 100 | 355 |
| | **1,500** | **8,806** | 1,500 | 6,596 |
| Number of persons | **1** | **10** | **1** | **9** |

Chief Executive and other executives are provided company maintained car and security guards.

No meeting fee and remuneration is paid to any director.

## 36 FINANCIAL INSTRUMENTS BY CATEGORY

FINANCIAL RISK MANAGEMENT OBJECTIVES

The Company finance its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimise risk.

Taken as a whole, risk arising from the Company's financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments.

| | **June 2010** | June 2009 |
|---|---|---|
| | **Rs in "000"** | |
| **FINANCIAL ASSETS** | | |
| Long TermLoans and Advances | 9,456 | 9,213 |
| Long Term Deposits | 532 | 532 |
| Trade Debts | 458,638 | 204,001 |
| Loans and Advances | 102,111 | 106,409 |
| Trade Deposits and Preopayments | 28,111 | 8,050 |
| Cash and Bank Balances | 299,135 | 3,610 |
| | 897,983 | 331,815 |
| **FINANCIAL LIABILITIES** | | |
| Long Term Loan | - | 1,000,000 |
| Current \|Maturity of Long Term Loan | 1,000,000 | - |
| Trade and Other Payables | 622,182 | 664,494 |
| Accrued Mark-up | 38,114 | 42,434 |
| Short Term Finance | 564,764 | 356,753 |
| | 2,225,060 | 2,063,681 |

## 37 FINANCIAL INSTRUMENT AND RELATED DISCLOSURE

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

Risk management is carried out by the Treasury Sub Committee (the Committee) of the Executive Committee (EXCO) of the Board of Directors (the Board) under policies approved by the board. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity. All treasury related transactions are carried out within the parameters of these policies.

### 37.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Company manages credit risk interalia by limiting significant exposure to any customers and by obtaining advance against sales and also obtains collaterals, where considered necessary. Also the company does not have significant exposure in relation to individual customer. Consequently, the Company believes that it is not exposed to any major concentration of credit risk.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to customers, including trade receivables and commited transactions. Out of the total financial assets of Rs. 900,447 thousand ( 2009 : Rs.331,815 thousand ) the financial assts that are subject to credit risk amounted to Rs. 899,566 thousand ( 2009 : Rs. 330,485 thousand). These figures have been counted by subtracting the Cash In hand figure from total financial assets figure stated above.

Due to strong business relationship with these counterparties since long whereas giving due consideration to their financial soundness the management does not expect non-performance by these counter parties on their obligations to the company.

### 37.2 Liquidity risk

Liquidty 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. The management forecasts liquidity risks on the basis of expected cashflow considering the level of liquid assets necessary to meet such risk.This involves monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Financial liabilities in accordance with thei contractual maturities are presented below.

**Rs in "000"**

| Financial liabilities | Interest / Mark-up bearing | | | Non-Interest / Mark-up bearing | | | Total June 2010 | Total June 2009 |
|---|---|---|---|---|---|---|---|---|
| | Maturity upto one year | Maturity after one year | Sub-total | Maturity upto one year | Maturity after one year | Sub-total | | |
| Current Maturity of Long Term Loan | 1,000,000 | - | 1,000,000 | - | - | - | 1,000,000 | - |
| Trade and other payable | - | - | - | 622,182 | - | 622,182 | **622,182** | 1,664,494 |
| Accrued markup | - | - | - | 38,114 | 38,114 | 38,114 | **42,434** | |
| Short term borrowings ** | 564,764 | - | 564,764 | - | - | - | **564,764** | 356,753 |
| | 1,564,764 | - | 1,564,764 | 660,296 | - | 660,296 | **2,225,060** | 2,063,681 |

| Off Balance Sheet Item | Interest / Mark-up bearing | | | Non-Interest / Mark-up bearing | | | Total June 2010 | Total June 2009 |
|---|---|---|---|---|---|---|---|---|
| | Maturity upto one year | Maturity after one year | Sub-total | Maturity upto one year | Maturity after one year | Sub-total | | |
| Guarantees and counter guarantees *** | - | 44,946 | 44,946 | - | - | - | **44,946** | 44,946 |
| Letter of Credits *** | 1,098,027 | - | 1,098,027 | - | - | 1,098,027 | **105,450** | |
| | 1,098,027 | 44,946 | 1,142,973 | - | - | - | **1,142,973** | 150,396 |

The effective interest/markup rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

**37.3** Market Risk

37.3.1 Foreign exchange risk management

Foreign exchange risk is the risk that the fair value of future cash flows of a financial statements will fluctuate because of changes in foreign exchange rates. Foreign exchange arises mainly from future economical transactions or receivables and payables that exist due to transactions in foreign currencies. The Company is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the United States Dollar (USD) and Euro. Currently, the Company's foreign exchange risk exposure is restricted to bank balances, the amounts receivale / payable from / to the foreign entities and outstanding letters of credit. Most of the Company's foreign exchange risk arises out of import letters of credit, FE-25 loans & BILLS PAYABLE.

37.3.2 Price risk

Price risk represents the risk that the fair value of 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. The Company is not exposed to equity price risk since there are no investment in equity securities. The Company is also not exposed to commodity price risk since it has a diverse portfolio of commodity supplier.

37.3.3 Interest / Markup rate risk management

Interest / Markup rate risk arises from the possibility of changes in Interest / Markup rates which may effect the value of financial instruments. As at June 30, 2010 the company's financial instruments mainly affected due to changes in the interest rates are short term borrowings the most of which are associated with kibor rates the fluctuations in which are not considered as material by management, therefore no any special efforts are made by m,anagement in this area.

**37.4** Fair value of Financial Assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair value except Long term Investment which are carried at cost.

**37.5** CAPITAL RISK MANAGEMENT

The Company's objective when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefit for other shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to m aintain or adjust capital structure, the company may adjust the amount of dividend paid to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debt. Consistent with others in industry , the company manages its capital risk by monitoring its debt levels and liquid assts and keping in view future investment requirements and expectations of shareholders.

During 2010 the Company's strategy was to maintain leveraged gearing. The gearing ratio as at June 30, 2008 and 2007 were as follows:

| | June 2010 | June 2009 |
|---|---|---|
| | Rs in "000" | |
| Total borrowings | 1,564,764 | 1,356,753 |
| Cash and bank | (299,135) | (3,610) |
| Net debt / (cash) | 1,265,629 | 1,353,143 |
| Total equity | 1,334,972 | 735,931 |
| Total capital | 2,600,601 | 2,089,074 |
| Gearing ratio | 49% | 65% |

**38 PROPOSED DIVIDEND AND APPROPRIATION OF PROFIT**

The Board of Directors at their meeting held on September 24, 2010 have proposed a cash dividend of Rs 10 per share |( 2009 : Rs 1.50 per share ) for the year ended June 30, 2010, amounting to Rs. 61.875 million ( 2009 : Rs.9.281 million ), and transfer to general reserve of Rs 560 million (2009 : Rs 15 million) subject to the approval of members at the annual general meeting to be held on October 26, 2010.

**39 DATE OF AUTHORIZATION FOR ISSUE**

The financial statement were authorized for issue by the Board of Directors on 24 September , 2010

**40 GENERAL**

Figures have been rounded off to the nearest thousand rupees.

Karachi : September 24, 2010

**M. Yunus A. Aziz**
Chairman

**Sohail M. Yunus**
Chief Executive

# FORM OF PROXY

The Company Secretary
**FAZAL TEXTILE MILLS LTD.**
LA-2/B Block # 21, Rashid Minhas Road,
Federal 'B' Area, Karachi - 75950.

I / We ____________________________________________
of ____________________________________________ (full address)

being a member of **FAZAL TEXTILE MILLS LTD.** hereby appoint ____________________
of ____________________________________________ (full address)
or failing him ____________________________________________
of ____________________________________________ (full address)

another member of the Company to attend and vote for me / us and on my / our behalf at the 48th Annual General Meeting of the Company to be held on October 26, 2010 at 11:00 Hrs and at any adjournment thereof.

As witness my / our hand this ____________ day of ________________ 2010.

**Witness No.1**

Name ____________________

Address ____________________
____________________
____________________

NIC No. ____________________

Rs.5/-
Revenue
Stamp

____________________
**Signature of Member(s)**

**Witness No. 2**

Name ____________________

Address ____________________
____________________
____________________

NIC No. ____________________

____________________
**(Name in Block letters)**

Folio No ____________________

Participant ID No ____________________

Account No. in CDS ____________________

**Important:**

1. A member entitled to attend a General Meeting is entitled to appoint a proxy to attend and vote instead of him / her. No person shall act as a Proxy (except for a corporation) unless he / she is entitled to be present and vote in his / her own right.
2. Members are requested:
   (a) to affix Revenue Stamp of Rs. 5/- at the place indicated above.
   (b) to sign across the Revenue Stamp in the same style of signature as is registered with the Company.
   (c) to write down their Folio Numbers/Participant ID Numbers/Account Numbers in CDS(as applicable) at the place indicated above.
3. The instrument appointing a proxy, together with the Board of Directors' resolution / Power of Attorney (if any) under which it is signed or a notarially certified copy thereof, should be deposited at the Registered Office not less than 48 hours before the time for holding the meeting.
4. CDC Account Holders are requested to strictly follow the guidelines mentioned in Circular No.1 dated January 26, 2000 of SECP.
5. CDC Account Holders or their proxies are each requested to attach an attested photocopy of their National Identity Card or Passport to this proxy form when submitting the same to the Company.

If undelivered please return to:


**FAZAL TEXTILE MILLS LIMITED**

LA-2/B Block-21, Rashid Minhas Road,
Fedral 'B' Area, Karachi, Pakistan.
Tel : (92-21) 36321311
Fax : (92-21) 36313372
Email : finance@fazaltextile.com
www.fazaltextile.com


CORPORATE