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**COMPANY INFORMATION**

<b>BOARD OF DIRECTORS</b>	Anwar Saifullah Khan Osman Saifullah Khan Jehangir Saifullah Khan Hoor Yousafzai Assad Saifullah Khan Asif Saifullah Khan Muhammad Ayub	- <b>Chairman</b> - <b>Chief Executive</b>      - <b>NIT Nominee</b>
<b>AUDIT COMMITTEE</b>	Hoor Yousafzai Jehangir Saifullah Khan Muhammad Ayub	- <b>Chairperson</b> - <b>Member</b> - <b>Member</b>
<b>CHIEF FINANCIAL OFFICER</b>	Zaheen-ud-Din Qureshi	
<b>COMPANY SECRETARY</b>	Mumtaz H. Chaudhry	
<b>LEGAL ADVISORS</b>	Dr. Pervez Hassan Hassan & Hassan, Advocates Salahuddin Saif & Aslam (Attorney's at Law)	
<b>AUDITORS</b>	Hameed Chaudhri & Co., Chartered Accountants HM House, 7-Bank Square, Lahore	
<b>BANKERS</b>	Albaraka Islamic Bank B.S.C (E.C) Allied Bank Limited Dubai Islamic Bank Pakistan Limited Faysal Bank Limited Habib Bank Limited Meezan Bank Limited National Bank of Pakistan The Bank of Punjab HSBC Bank Middle East Limited United Bank Limited	
<b>HEAD OFFICE</b>	Kulsum Plaza, 4th Floor, 2020 – Blue Area, Islamabad-44000 Phone : +92-51-2823924, 2829415 Fax : +92-51-2277843, 2822564 Email : stm@saifgroup.com	
<b>REGISTERED OFFICE</b>	APTMA House, Tehkal Payan, Jamrud Road, Peshawar Phone : +92-91-5843870, 5702941 Fax : +92-91-5840273 Email : peshawar@saifgroup.com	
<b>SHARES REGISTRAR</b>	M/s. Hameed Majeed Associates (Pvt.) Ltd., HM House, 7-Bank Square, Lahore. Phone : +92-42-37235081-37235082 Fax : +92-42-37358817 Email : info@hmaconsultants.com	
<b>MILLS</b>	Industrial Estate, Gadoon Amazai, District Swabi Phone : +92-938-270313, 270429 Fax : +92-938-270514 Email : stmgn@saifgroup.com	
<b>WEB SITE</b>	<a href="http://www.saiftextile.com">www.saiftextile.com</a>	

## VISION AND MISSION STATEMENT

### VISION

- ❖ To attain market leadership through unmatched quality, a diverse and unique product mix, empowered employees, world class systems, and the highest ethical and professional standards.

### MISSION

- ❖ Give our shareholders a competitive return on their investment through market leadership, sustainable business growth and sound financial management.
- ❖ Earn and sustain the trust of our stakeholders through efficient resource management.
- ❖ Provide the highest quality products and services consistent with customer needs and continue to earn the respect, confidence and goodwill of our customers and suppliers.
- ❖ Foster a culture of trust and openness in order to make professional life at the **Saif Textile Mills Limited** a stimulating and challenging experience for all our people.
- ❖ Strive for the continuous development of Pakistan while adding value to the textile sector.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that 21st Annual General Meeting of the members of M/s **Saif Textile Mills Limited** will Insha Allah be held at registered office of the Company, **APTMA House, Jamrud Road, Peshawar** on **Friday, the October 29, 2010** at **11:00 A.M.** to transact the following business:

- 1) To confirm the minutes of the 20th Annual General Meeting held on October 31, 2009.
- 2) To receive, consider and adopt Annual Audited Financial Statements for the year ended June 30, 2010 together with the Directors' and Auditors' Reports thereon.
- 3) To appoint Auditors for the year 2010-2011 and fix their remuneration. The retiring auditors M/s. Hameed Chaudhri & Co., Chartered Accountants, being eligible offered themselves for re-appointment.
- 4) To transact any other business with the permission of the Chair.

**By order of the Board**

Islamabad: **October 08, 2010**

**(Mumtaz H. Chaudhry)**  
**Company Secretary**

### NOTES:

- i. Share Transfer Books of the Company will remain closed from 23.10.2010 to 29.10.2010 (Both Days Inclusive)
- ii. A member entitled to attend and vote at the meeting may appoint another member as his / her proxy to attend and vote on his / her behalf. The instrument appointing the proxy, duly completed, must be received at the Company's Registered Office not later than 48 hours before the time of holding of the meeting.
- iii. CDC individual Account holders or Sub-account holders are required to bring with them their original Computerized National Identity Card (CNIC) / original passport along with participant's ID number and their account number in order to facilitate identification.
- iv. In case of Corporate entity, resolution of the Board of Directors / Power of attorney with specimen signatures of nominees shall be produced (unless provided earlier) at the time of meeting.
- v. Members are requested to promptly notify any change in their address.

## DIRECTORS' REPORT TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of Board of Directors, it gives me pleasure to present the 21st Annual Audited financial statements for the year ended June 30, 2010.

### GENERAL MARKET CONDITIONS

During the year the economic growth in the textile sector was encouraging but the overall economic condition of Pakistan has not improved as much as it was suppose to be in response to the improvement in the global economy, especially in the Asian region. The reason being that Pakistan has been exposed to many fronts, including economic and non economic fronts, these have worsening effect on the overall business environment of the country, further to this the issues like energy crises, recent flood hitting the cultivating areas of country, current political scenario, decreasing interest of foreign stakeholders due to threat of terrorism and the war on terror, has led to the shrinkage of economic activity in the country.

The consequences of all of the above factors have negative monetary effect on the economy which has ultimate effect on the industry due to which the life, property and businesses are affected, and this also deteriorates the country's image.

### OPERATING RESULTS

The major highlights of your company as compared to the preceding year are as follows:

#### TURNOVER

Your company has managed to increase its overall sales by 24.54% as compared to last year; it would be far better if the Government does not impose restrictions on export through quota and regulatory duty @ 15% on export of yarn for almost half of the current financial year, due to which the company has to move into the local market thus increasing the local sales by 16.68 %.

#### PROFITABILITY

The management of the company is pleased to inform you that it has earned a net Profit of Rs.77.48 million as against net loss of Rs.560.23 million of the corresponding year, which is an encouraging indication that despite of ongoing economic slowdown and distressed economic situation the Textile sector is performing well. Also, your company has managed to increase its gross profit margins to 15.3% from 3% of the corresponding year despite of the non supportive business operating costs.

Your company's profitability would have been significantly better than it achieved, if certain factors like restrictions of yarn exports, deteriorating law and order situation, rising inflation and continuous electric/gas shutdown with extraordinary increase in its costs etc would not have been there.

Although, your company being in the mostly affected region by the war on terror, has been benefited with the Honorable Prime Minister's package for fiscal relief to rehabilitate the economic life in Khyber Pakthunkhwa, FATA and PATA for subsidy in mark up rates which amounts to Rs.82.47 million but still

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the change in Rupee Dollar parity has a negative impact on the results of your company and company has to suffer with huge exchange losses of Rs.124 million.

## **FUTURE OUTLOOK**

The demand for textile products has raised significantly both locally and internationally during last 6-9 months, and it is highly expected that in foreseeable future, it will further improve. The textile sector, being one of the major contributors in the overall exports of the country, is fully geared up to benefit from the opportunities available worldwide. It has also been witnessed that the world's largest textile producer, Peoples Republic of China is increasingly becoming uncompetitive due to increasing labor and energy costs. If the Government of Pakistan is able to negotiate better terms of trade with EU, US and China, we expect a strong growth in textile business activity here in Pakistan.

We can further guarantee the improvement, if following factors are addressed and resolved to a greater extent by the Government of Pakistan;

- Power shortages and endless tariff hike
- An improvement in Political stability, public safety and security environment of the country and especially in the region of Khyber Pakthunkhwa
- Stability of Pak Rupee parity with the USD.

The devastating impact of the floods in Pakistan has destroyed the livelihoods and communities throughout the country. The severity of this crisis demands an immediate and substantial response from the world and our economy needs more measures and incentives like recent measure taken by European Union (EU) by eliminating duties on our exports to the EU Countries.

## **CONTRIBUTION TO THE NATIONAL EXCHEQUER**

The company contributed Rs.132 million (2009: Rs.99 million) to the National exchequer during the period under review in the form of sales tax, import duties, surcharges and various other levies.

## **QUALIFICATION IN AUDITORS REPORT**

The auditor's have qualified the report on the basis that company has booked the amount of relief ("subsidy") receivable for the period January to June 2010 under the Honorable Prime Minister's announcement of Fiscal Relief Package to rehabilitate the economic life in Khyber Pakhtunkhwa, FATA and PATA for next two years.

The management understands that according to the definition of the Government Grant, as defined in IAS 20, the markup rate subsidy announced does not come under the ambit of IAS 20 because there is no such past or future conditions for the entity to comply with, therefore the qualification remains unjustified. Secondly, as per the matching concept of generally accepted accounting principles together with para 19 of IAS 18, it is allowed to book the income in the period in which related costs are booked.

The other qualification in the auditor's report is on the basis that company has recognized the deferred tax asset of Rs.188 million despite of the availability of unused tax losses. The management is of the view that in the current year company has recovered from huge losses and has projected reasonable

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profits in the coming quarters of current financial year. Moreover, your company is also well equipped to meet the customer's quality requirements and is in a position to earn more profits in the future; therefore, recognition of deferred tax asset is justified.

### **PROFIT APPROPRIATION**

The Board in its meeting held on October 08, 2010 decided not to recommend dividend (2009: Nil).

### **PATTERN OF SHAREHOLDING**

The pattern of shareholding under section 236(2) (d) of the Companies Ordinance, 1984 and additional information as required by the code of corporate governance is enclosed.

### **EARNINGS PER SHARE**

Earnings per share during the period under report worked out to Rs.2.93 (2009: Rs.21.21 loss per share)

### **EXTERNAL AUDITORS**

The present auditors, M/s Hameed Chaudhri & Co. Chartered Accountants, retire and being eligible to offer themselves for re-appointment. As suggested by the Audit Committee, the Board recommends their appointment as auditors of the Company to hold office from the conclusion of this Annual General Meeting to be held on October 29, 2010 until conclusion of next Annual General Meeting.

### **CORPORATE GOVERNANCE**

We are pleased to report that your company has taken necessary steps to comply with the provisions of the Code of Corporate Governance, as incorporated in the listing rules of the Stock Exchanges.

The statement on Corporate Governance and Financial Reporting Frame Work is given below:

- The financial statements prepared by the management of the company present fairly its true state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of accounts have been maintained by the company.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- The system of internal controls is sound in design and has been effectively implemented and monitored.
- There are no doubts upon the company's ability to continue as a going concern.
- There has been no trading of shares by CEO, Directors, CFO, company Secretary, their spouses and minor children, during the year other than that disclosed in pattern of share holding.
- There has been no material departure from the best practices of code of corporate governance, as detailed in the listing regulations.

- The key operating and financial data of the company for last six years is given below :-

Particulars	2010	2009	2008	2007	2006	2005
	(Rupees in thousand)					
Property, Plant and Equipment	2,145,989	2,225,806	2,194,375	2,303,353	2,047,793	1,748,693
Net worth	406,028	317,213	870,628	903,043	747,197	686,367
Turnover	4,642,452	3,727,820	4,489,205	3,813,037	3,473,267	1,995,676
Gross profit	710,696	111,282	440,437	389,441	360,958	189,854
Gross profit margin (% age)	15.31	2.98	9.81	10.21	10.39	9.51
Net Profit - after taxation	77,489	(560,226)	(39,724)	12,188	78,360	29,179
Net profit margin (% age)	1.67	(15.03)	(0.88)	0.32	2.26	1.46

- The board of Directors has adopted a Mission Statement and a Statement of Overall Corporate Strategy.
- Regarding outstanding taxes and levies, please refer note 18 to the annexed audited statements.
- During the year under report four meetings of the Board of Directors were held. The attendance by each Director was as follows:

Name of Director	Meetings Attended
Anwar Saifullah Khan	4
Osman Saifullah Khan	1
Jehangir Saifullah Khan	4
Hoor Yousafzai	3
Assad Saifullah Khan	3
Asif Saifullah Khan	4
Muhammad Ayub (NIT Nominee)	4

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

#### ACKNOWLEDGEMENT

The Board places on record its appreciation of the support of our bankers and our valued customers. I would like to highlight the hard work put in by the members of our corporate family.

We are confident they will continue to show the same dedication in the days ahead.

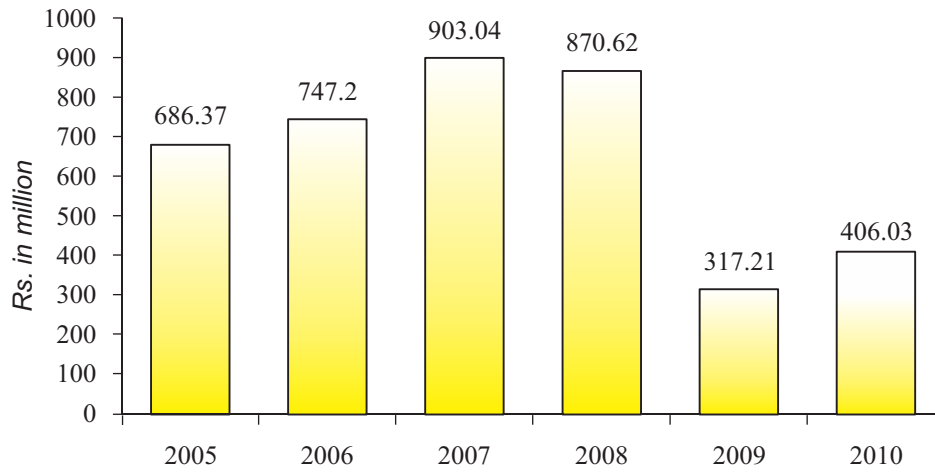
**On behalf of the board of Directors**

Place: Islamabad

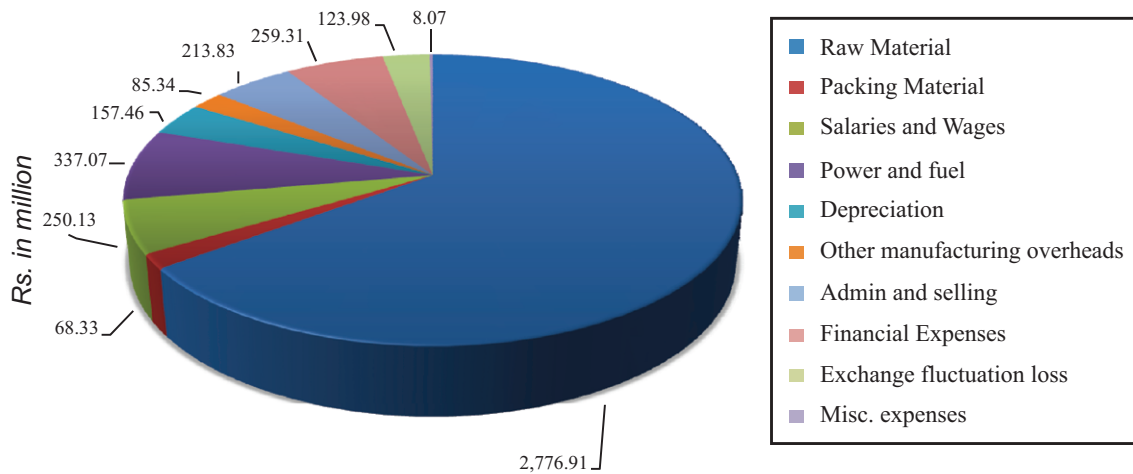
Dated : October 08, 2010

**HOOR YOUSAFZAI  
DIRECTOR**

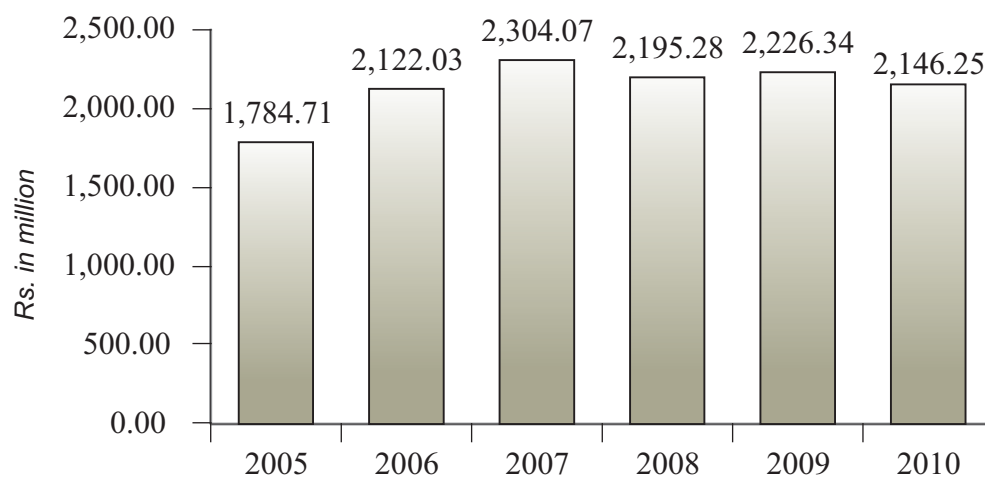
## EQUITY



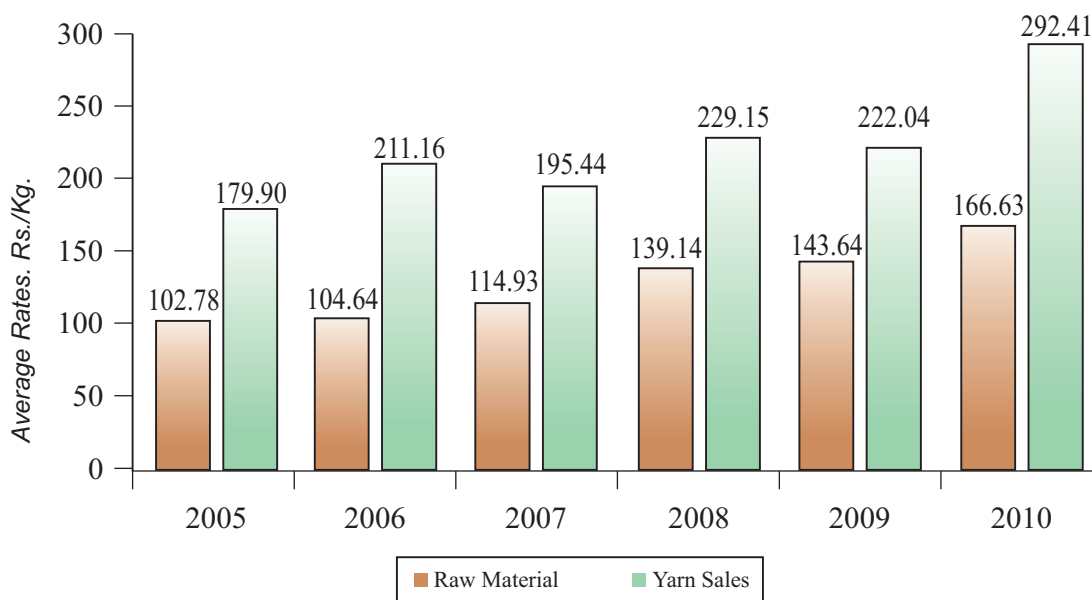
## REVENUE DISTRIBUTION



## FIXED CAPITAL EXPENDITURE GROWTH



## RAW MATERIAL CONSUMPTION AND YARN SALES RATES



**PATTERN OF SHAREHOLDING  
AS AT 30TH JUNE, 2010**

No. of Shareholders	Shareholding		Total Shares Held	Percentage of Total Capital
	From	To		
355	1 -	100	17,335	0.07
470	101 -	500	120,544	0.46
164	501 -	1000	129,997	0.49
297	1001 -	5000	626,132	2.37
40	5001 -	10000	295,413	1.12
13	10001 -	15000	165,471	0.63
16	15001 -	20000	275,966	1.04
7	20001 -	25000	160,550	0.61
4	25001 -	30000	112,005	0.42
3	30001 -	35000	93,813	0.36
1	35001 -	40000	35,509	0.13
2	40001 -	45000	82,000	0.31
1	45001 -	50000	50,000	0.19
4	50001 -	55000	209,398	0.79
1	90001 -	95000	93,500	0.35
1	95001 -	100000	95,737	0.36
1	105001 -	110000	107,129	0.41
1	110001 -	115000	113,436	0.43
1	125001 -	130000	127,450	0.48
1	180001 -	185000	181,500	0.69
1	270001 -	275000	272,536	1.03
1	290001 -	295000	294,936	1.12
1	295001 -	300000	299,215	1.13
1	325001 -	330000	327,276	1.24
1	345001 -	350000	347,500	1.32
1	390001 -	395000	395,000	1.50
1	415001 -	420000	417,647	1.58
1	600001 -	605000	602,632	2.28
1	685001 -	690000	689,700	2.61
1	715001 -	720000	717,000	2.71
1	795001 -	800000	798,600	3.02
1	800001 -	805000	800,087	3.03
1	1030001 -	1035000	1,031,848	3.91
1	1215001 -	1220000	1,216,903	4.61
1	2010001 -	2015000	2,012,115	7.62
1	13095001 -	13100000	13,097,000	49.59
<b>1,399</b>			<b>26,412,880</b>	<b>100.00</b>

**CATEGORIES OF SHARE HOLDERS**

Sr. #	Categories	No. of Shareholders	Shares Held	% age of Capital
1	Directors, Chief Executive Officer, and their spouse and minor children	6	6,000	0.0227
2	Associated Companies, Undertakings and Related Parties	7	13,123,000	49.6841
3	NIT and ICP	4	2,192,609	8.3013
4	Banks, Development Financial Institutions, Non Banking Financial Institutions	8	1,989,484	7.5322
5	Insurance Companies	3	1,040,183	3.9382
6	Modarbas and Mutual Funds	7	37,790	0.1431
7	General Public (Local)	1,340	7,986,088	30.2356
8	Others	24	37,726	0.1428
	<b>TOTAL:</b>	<b>1,399</b>	<b>26,412,880</b>	<b>100.0000</b>

**DETAIL OF CATEGORY OF SHAREHOLDERS  
AS AT 30 JUNE, 2010**

Name of Shareholders	Shares Held	Percentage
<b>Directors, Chief Executive Officer, and their spouse and minor children</b>		
Jehangir Saifullah Khan	1,000	0.0038
Anwar Saifullah Khan	2,000	0.0076
Hoor Yousufzai	500	0.0019
Assad Saifullah Khan	500	0.0019
Asif Saifullah Khan	500	0.0019
Osman Saifullah Khan (05039)	1,500	0.0057
Muhammad Ayub (NIT Nominee)	-	
<b>Associated Companies, Undertakings and Related Parties</b>		
Saif Holdings Limited	13,097,000	49.5857
Humayun Saifullah Khan	2,000	0.0076
Omer Saifullah Khan	1,000	0.0038
Javed Saifullah Khan	11,000	0.0416
Iqbal Saifullah Khan	3,500	0.0133
Zeb Saifullah Khan	4,500	0.0170
Shireen Iqbal Saifullah	4,000	0.0151
<b>NIT and ICP</b>		
National Investment Trust Limited	51,816	0.1962
National Bank of Pakistan	127,450	0.4825
Investment Corp. of Pakistan	1,228	0.0046
NBP-Trustee Department NI(U)T (LOC) Fund	2,012,115	7.6179
<b>Banks, Development Financial Institutions, Non Banking Financial Institutions</b>		
Eastman Consulting (Pvt) Ltd.	50	0.0002
Faysal Bank Limited	327,276	1.2391
Morgan Stanley Trust Co.	100	0.0004
Atlas Bot Investment Bank Ltd.	55	0.0002
The Northern Trust Company	100	0.0004
The Bank of Punjab	395,000	1.4955
National Bank of Pakistan	1,216,903	4.6072
National Bank of Pakistan	50,000	0.1893
<b>Insurance Companies</b>		
Century Insurance Company Ltd.	335	0.0013
Habib Insurance Co.Limited	8,000	0.0303
State Life Insurance Corp. of Pakistan	1,031,848	3.9066

Name of Shareholders	Shares Held	Percentage
<b>Modarbas and Mutual Funds</b>		
First UDL Modaraba	31,567	0.1195
First UDL Modaraba	4,669	0.0177
Financial Link Modaraba	154	0.0006
First I.B.L. Modaraba	977	0.0037
First Fidelity Leasing Modaraba	143	0.0005
Golden Arrow Selected Stock Fund Limited	215	0.0008
First Inter Fund Modaraba	65	0.0002
<b>General Public (Local)</b>		
<b>Others</b>		
International Brands (Pvt) Ltd.	1,338	0.0051
Prudential Securities Limited	26	0.0001
Stock Master Securities (Pvt) Limited	1,000	0.0038
Fairway Securities (Pvt) Ltd	85	0.0003
Seven Star Securities (Pvt.) Ltd.	594	0.0022
Y.S. Securities & Services (Pvt) Ltd.	6,083	0.0230
A.H.K.D. Securites (Pvt) Ltd.	5,001	0.0189
Durvesh Securities (Pvt) Ltd	7,008	0.0265
General Invest. & Securities (Pvt) Ltd.	630	0.0024
Javed Omer Vohra & Co. Ltd.	8,758	0.0332
Muhammad Ahmed Nadeem Securities (SMC-Pvt) Ltd.	105	0.0004
Dr. Arslan Razaque Securities (SMC-Pvt) Ltd.	210	0.0008
International Securities Ltd.	118	0.0004
Taurus Securities Limited	100	0.0004
Fortune Securities Limited	200	0.0008
Darson Securities (Pvt) Limited	304	0.0012
Khadim Ali Shah Bukhari & Co. Limited	80	0.0003
BMA Capital Management Ltd.	344	0.0013
NH Securities (Pvt) Limited.	495	0.0019
H M Investments (Pvt) Limited	118	0.0004
S.H. Bukhari Securities (Pvt) Limited	500	0.0019
Sarfraz Mahmood (Pvt) Limited	129	0.0005
ACE Securities (Pvt.) Limited	500	0.0019
KAI Securities (Pvt) Limited	4,000	0.0151
<b>Grand Total:</b>	<b>26,412,880</b>	<b>100.0000</b>

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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

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

1. The Company encourages representation of non-executive directors and at present, all the members of the Board are non-executive directors except for Chief Executive Officer.
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. 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 the meetings were appropriately recorded and circulated.
9. The Board arranged in-house orientation courses for its directors during the year to apprise them of their duties and responsibilities.
10. The Board has approved appointment of Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and 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 Board has formed an audit committee, which comprises of three members. All members, including the chairman of the committee, are non-executive directors.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board has set-up an effective internal audit function and the personnel involved are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

**On behalf of the Board of Directors**

**ANWAR SAIFULLAH KHAN  
CHAIRMAN/DIRECTOR**

Dated : October 08, 2010

## **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 SAIF TEXTILE MILLS LIMITED (the Company) to comply with the Listing Regulation No. 35, 35 and 36 of the Karachi, Lahore and Islamabad Stock Exchanges, respectively, 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 the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub - Regulation (xiii-a) of Listing Regulations 35 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January, 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried-out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of 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 year ended 30 June, 2010.

LAHORE;  
Dated: October 8, 2010

**HAMEED CHAUDHRI & CO.,**  
CHARTERED ACCOUNTANTS  
Engagement Partner: Abdul Hameed Chaudhri

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of SAIF TEXTILE MILLS LIMITED (the Company) as at 30 June, 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 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 described in note 5.1 to the financial statements 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, 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, except for the fact that deferred tax asset has been recognised despite the availability of unused tax losses and mark-up subsidy on business loans received subsequent to the balance sheet date has been recognised in these financial statements as detailed in notes 22.1 and 28.3 respectively and the extent to which these may affect the annexed financial statements, respectively give a true and fair view of the state of the Company's affairs as at 30 June, 2010 and of the profit, 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).

LAHORE;  
Dated: October 8, 2010

**HAMEED CHAUDHRI & CO.,**  
CHARTERED ACCOUNTANTS  
Engagement Partner: Abdul Majeed Chaudhri

**BALANCE SHEET**

	Note	2010 (Rupees in thousand)	2009
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital 30,000,000 ordinary shares of Rs. 10 each		<u>300,000</u>	<u>300,000</u>
Issued, subscribed and paid-up capital	7	264,129	264,129
Reserves	8	265,981	265,981
Accumulated loss		<u>(124,082)</u>	<u>(212,897)</u>
		<b>406,028</b>	<b>317,213</b>
<b>SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>			
	9	171,153	182,479
<b>NON-CURRENT LIABILITIES</b>			
Sub-ordinated loan	10	427,100	405,600
Long term financing	11	802,598	1,167,938
Liabilities against assets subject to finance lease	12	2,424	2,631
Long term deposits	13	606	532
Deferred liability - staff retirement benefits	14	44,780	34,827
		<u>1,277,508</u>	<u>1,611,528</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	220,095	257,802
Accrued mark-up and financial charges	16	166,370	115,064
Short term borrowings	17	1,978,064	1,348,778
Current portion of:			
- long term financing	11	501,841	166,780
- liabilities against assets subject to finance lease	12	1,089	656
		<u>2,867,459</u>	<u>1,889,080</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	18		
		<u>4,722,148</u>	<u>4,000,300</u>

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

The Chief Executive is out of Pakistan and in his absence these financial statement have been signed by two Directors as required under section 241(2) of the companies ordinance, 1984.

**JEHANGIR SAIFULLAH KHAN**  
DIRECTOR

**AS AT 30 JUNE, 2010**

	Note	2010 (Rupees in thousand)	2009
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	19	2,145,989	2,225,806
Intangible assets	20	258	535
Long term loans	21	2,291	2,483
Long term deposits		6,871	7,128
Deferred taxation	22	188,013	192,994
		<u>2,343,422</u>	<u>2,428,946</u>
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools	23	56,647	51,005
Stock-in-trade	24	1,368,010	685,765
Trade debts	25	775,350	740,173
Loans and advances	26	19,282	36,831
Trade deposits and short term prepayments	27	5,264	5,557
Other receivables	28	90,089	774
Investments	29	12,466	10,019
Deposit for shares	30	0	0
Taxation	31	22,053	16,168
Taxes refundable	32	22,461	21,856
Bank balances	33	7,104	3,206
		<u>2,378,726</u>	<u>1,571,354</u>
		<u><u>4,722,148</u></u>	<u><u>4,000,300</u></u>

**HOOR YOUSAFZAI**  
DIRECTOR

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

	Note	2010 (Rupees in thousand)	2009
<b>SALES</b>	34	4,642,452	3,727,820
<b>COST OF SALES</b>	35	3,931,756	3,616,538
<b>GROSS PROFIT</b>		<u>710,696</u>	<u>111,282</u>
<b>DISTRIBUTION COST</b>	36	117,790	124,178
<b>ADMINISTRATIVE EXPENSES</b>	37	102,679	97,812
<b>OTHER OPERATING EXPENSES</b>	38	8,067	7,219
<b>OTHER OPERATING INCOME</b>	39	(4,232)	(1,604)
		<u>224,304</u>	<u>227,605</u>
<b>OPERATING PROFIT/ (LOSS)</b>		486,392	(116,323)
<b>FINANCE COST</b>	40	259,307	346,441
		<u>227,085</u>	<u>(462,764)</u>
<b>EXCHANGE FLUCTUATION LOSS</b>	41	123,984	228,765
<b>PROFIT / (LOSS) BEFORE TAXATION</b>		<u>103,101</u>	<u>(691,529)</u>
<b>TAXATION</b>			
Current	31	21,923	8,059
Prior years	31	(1,292)	4,284
Deferred	22	4,981	(143,646)
		<u>25,612</u>	<u>(131,303)</u>
<b>PROFIT / (LOSS) AFTER TAXATION</b>		<u>77,489</u>	<u>(560,226)</u>
<b>OTHER COMPREHENSIVE INCOME</b>		0	0
<b>TOTAL COMPREHENSIVE INCOME / (LOSS)</b>		<u><u>77,489</u></u>	<u><u>(560,226)</u></u>
		<b>(R u p e e s)</b>	
<b>EARNINGS / (LOSS) PER SHARE</b>	42	<u><u>2.93</u></u>	<u><u>(21.21)</u></u>

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

The Chief Executive is out of Pakistan and in his absence these financial statement have been signed by two Directors as required under section 241(2) of the companies ordinance, 1984.

**JEHANGIR SAIFULLAH KHAN**  
DIRECTOR

**HOOR YOUSAFZAI**  
DIRECTOR

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE, 2010**

	Note	2010	2009
		(Rupees in thousand)	
<b>NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES</b>	43	(220,498)	363,328
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		(78,738)	(62,456)
Sale proceeds of operating fixed assets / insurance claim received		1,672	9,460
Investments purchased		0	(2,511)
Sale proceeds of investments		0	2,940
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		(77,066)	(52,567)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Long term financing - net		(52,981)	80,556
Liabilities against assets subject to finance lease - net		226	(479)
Short term borrowings - net		634,213	(134,902)
Finance cost paid		(279,996)	(257,622)
<b>NET CASH INFLOW / (OUTFLOW) FROM FINANCING ACTIVITIES</b>		301,462	(312,447)
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		3,898	(1,686)
<b>CASH AND CASH EQUIVALENTS - At beginning of the year</b>		3,206	4,892
<b>CASH AND CASH EQUIVALENTS - At end of the year</b>		7,104	3,206

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

The Chief Executive is out of Pakistan and in his absence these financial statement have been signed by two Directors as required under section 241(2) of the companies ordinance, 1984.

**JEHANGIR SAIFULLAH KHAN**  
DIRECTOR

**HOOR YOUSAFZAI**  
DIRECTOR

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE, 2010**

	RESERVES			Unappropriated profit / (accumulated loss)	Total Equity	
	Share Capital	Capital	Revenue			Sub Total
(Rupees in thousand)						
Balance as at 30 June, 2008	264,129	115,981	150,000	265,981	340,518	870,628
Loss after taxation for the year ended 30 June, 2009	0	0	0	0	(560,226)	(560,226)
Transfer from surplus on revaluation of property, plant & equipment on account of incremental depreciation for the year - net of deferred taxation	0	0	0	0	6,811	6,811
Balance as at 30 June, 2009	264,129	115,981	150,000	265,981	(212,897)	317,213
Profit after taxation for the year ended 30 June, 2010	0	0	0	0	77,489	77,489
Transfer from surplus on revaluation of property, plant & equipment on account of incremental depreciation for the year - net of deferred taxation	0	0	0	0	11,326	11,326
<b>Balance as at 30 June, 2010</b>	<b>264,129</b>	<b>115,981</b>	<b>150,000</b>	<b>265,981</b>	<b>(124,082)</b>	<b>406,028</b>

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

The Chief Executive is out of Pakistan and in his absence these financial statement have been signed by two Directors as required under section 241(2) of the companies ordinance, 1984.

**JEHANGIR SAIFULLAH KHAN**  
DIRECTOR

**HOOR YOUSAFZAI**  
DIRECTOR

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2010**

### **1. CORPORATE INFORMATION**

Saif Textile Mills Limited (the Company) is a Public Limited Company incorporated in Pakistan on 24 December, 1989 under the Companies Ordinance, 1984 and its shares are quoted on all the Stock Exchanges of Pakistan. The Company is principally engaged in manufacture and sale of yarn. The Company's Mills are located in Industrial Estate, Gadoon Amazai, District Sawabi and the registered office of the Company is located at APTMA House, Tehkal Payan, Jamrud Road, Peshawar.

### **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. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

### **3. BASIS OF MEASUREMENT**

#### **3.1 Accounting convention**

These financial statements have been prepared under the historical cost convention, except for the following:

- modification of foreign currency translation adjustments;
- recognition of employee retirement benefits at present value; and
- measurement of certain operating fixed assets at revalued amounts.

#### **3.2 Functional and presentation currency**

These financial statements are presented in Pakistan Rupees, which is also the Company's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest thousand.

### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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 judgment in the process of applying the Company's accounting policies. The estimates / judgments and associated assumptions used in the preparation of financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates / judgments and associated assumptions are reviewed on an ongoing basis. Revision to the accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The estimates, judgments and assumptions that have significant effect on the financial statements are as follows:

- a) staff retirement benefits;
- b) recognition and measurement of deferred tax assets and liabilities;
- c) useful life of property, plant and equipment; and
- d) taxation.

## 5. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

### 5.1 Accounting standards, amendments and interpretations, which have been effective and adopted by the Company

- (a) IAS 1 (revised) - 'Presentation of Financial Statements', requires presentation of transactions with owners in Statement of Changes in Equity and with non-owners in the Statement of Comprehensive Income. The revised standard requires an entity to opt for presenting such transactions either in a single statement of comprehensive income or in an income statement and a separate statement of comprehensive income. The Company has applied IAS 1 (revised) from 01 July, 2009 and has elected to present one performance statement (i.e. profit and loss account). However, since there are no non-owner changes in equity, there is no impact of such revised standard on these financial statements.
- (b) Revised IAS 23 'Borrowing Costs' (amendment) removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Company's current accounting policy is in compliance with this amendment and, therefore, there is no effect of this change on the Company's financial statements.
- (c) IFRS 7 (Amendment) 'Financial Instruments: Disclosures'; the amendment requires enhanced disclosures regarding fair value measurement and liquidity risk. As the change only results in additional disclosures, there is no impact on earnings / (loss) per share.
- (d) IFRS 8 'Operating Segments' introduces the 'management approach' to segment reporting. IFRS 8 requires a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Company's decision makers in order to assess each segment's performance and to allocate resources to them. This IFRS has no impact on the financial statements of the Company.

- 5.2** Standards, amendments to published standards and interpretations that are effective for the annual periods beginning on or after 01 July, 2009 but not relevant to the Company's financial statements

Other new standards, interpretations and amendments to existing standards, which are mandatory for accounting periods beginning on or after 01 July, 2009 are considered not to be relevant nor have any significant effect on the Company's operations; therefore are not detailed in these financial statements.

- 5.3** Standards, interpretations and amendments to published approved accounting standards and interpretations not yet effective and have not been early adopted by the Company

The following standards, amendments and interpretations of International Financial Reporting Standards will be effective for accounting periods beginning on or after the dates specified below:

- IAS 1 (Amendments) 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January, 2010).
- IAS 7 (Amendments) 'Statement of Cash Flows' (effective for annual periods beginning on or after 01 January, 2010).
- IAS 17 (Amendments) 'Leases' (effective for annual periods beginning on or after 01 January, 2010).
- IAS 24 (Revised) 'Related Party Disclosures' (effective for annual periods beginning on or after 01 February, 2010).
- IAS 32 (Amendments) 'Financial Instruments: Presentation – Classification of Rights Issues' (effective for annual periods beginning on or after 01 January, 2010).
- IAS 36 (Amendments) 'Impairment of Assets' (effective for annual periods beginning on or after 01 January, 2010).
- IFRS 2 (Amendment) 'Share-based Payments - Group Cash-settled Share-based Payment Transactions' (effective for annual periods beginning on or after 01 January, 2010).
- IFRS 5 (Amendments) 'Non-current Assets Held for Sale and Discontinued Operations' (effective for annual periods beginning on or after 01 January, 2010).
- IFRS 8 (Amendments) 'Operating Segments' (effective for annual periods beginning on or after 01 January, 2010).
- IFRIC 14 (Amendments) - 'The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction' (effective for annual periods beginning on or after 01 January, 2011).

- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective for annual periods beginning on or after 01 July, 2010).

The International Accounting Standards Board made certain amendments to the existing standards as part of its second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Company's 2011 financial statements.

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

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

### **6.1 Borrowings and borrowing costs**

All borrowings are recorded at the proceeds received. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are charged to income in the period in which these are incurred.

### **6.2 Interest rate and cross currency swaps**

In certain cases, the Company uses interest rate and cross currency swaps to hedge its risk associated primarily with mark-up payments and foreign currency fluctuations. The calculation involves use of estimates with regard to mark-up and foreign currency rates, which fluctuate with the market forces.

### **6.3 Staff retirement benefits (defined benefit plan)**

The Company operates an un-funded retirement gratuity scheme for its eligible employees. Provision for gratuity is made annually to cover obligation under the scheme in accordance with the actuarial recommendations. Latest actuarial valuation was conducted on 30 June, 2010 on the basis of the projected unit credit method by an independent Actuary.

### **6.4 Trade and other payables**

Creditors relating to trade and other payables are carried at cost which is the fair value of consideration to be paid in the future for goods and services received, whether or not billed to the Company.

## 6.5 Taxation

### (a) Current

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

### (b) Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes.

Deferred tax asset is recognised for all the deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which the asset may be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax liabilities are recognised for all the taxable temporary differences.

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

Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

## 6.6 Dividend

Dividend to shareholders is recognised as liability in the financial statements in the year in which the dividend is approved.

## 6.7 Property, plant and equipment

Leasehold land, buildings on leasehold land, plant & machinery, generators, electric installations and air-conditioning equipment are shown at fair value, based on valuations carried-out with sufficient regularity by external independent Valuers, less subsequent amortisation / depreciation. Any accumulated amortisation / depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. The remaining property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of items. Capital work-in-progress is stated at cost.

Subsequent costs are included in the asset's carrying amount or recognised 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 repairs and maintenance are charged to income during the financial year in which they are incurred.

Depreciation on operating fixed assets, except leasehold land, is charged to income applying reducing balance method so as to write-off the depreciable amount of an asset over its remaining useful life at the rates stated in note 19.1. Leasehold land is amortised over the lease term using the straight-line method. The assets' residual values and useful lives are reviewed at each financial year-end and adjusted if impact on depreciation is significant.

Depreciation on additions to operating assets is charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which the asset is disposed-off.

Gains / losses on disposal of property, plant and equipment are taken to profit and loss account.

#### **6.8 Assets subject to finance lease**

These are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of assets. The related obligation of leases is accounted for as liability. Finance cost is allocated to accounting periods in a manner so as to provide a constant periodic rate of finance cost on the remaining balance of principal liability for each period.

Depreciation is charged to income at the rate stated in note 19.1 applying reducing balance method to write-off the cost of the asset over its estimated remaining useful life in view of certainty of ownership of assets at the end of lease period.

Finance cost and depreciation on leased assets are charged to income currently.

#### **6.9 Intangible assets**

These are stated at cost less accumulated amortisation except assets-in-progress, which are stated at cost. Amortisation is charged to income applying straight-line method to amortise the cost of intangible assets over their estimated useful life. Rate of amortisation is stated in note 20.1.

Gain / loss on retirement / disposal of intangible assets is taken to profit and loss account.

#### **6.10 Impairment**

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication

exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss, if any. Impairment losses are recognised as expense in the profit and loss account.

### 6.11 Stores, spare parts and loose tools

Stores, spare parts and loose tools are stated at the lower of cost and net realisable value. The cost of inventory is based on moving average cost. Items in transit are stated at cost accumulated to the balance sheet date.

### 6.12 Stock-in-trade

Basis of valuation are as follows:

<u>Particulars</u>	<u>Mode of valuation</u>
Raw materials:	
At mills	- At lower of moving average cost and market value.
In transit	- At cost accumulated to the balance sheet date.
Work-in-process	- At manufacturing cost.
Finished goods	- At lower of cost and net realisable value.
Waste	- At net realisable value.

- Cost in relation to work-in-process and finished goods consists of prime cost and appropriate production overheads. Prime cost is allocated on the basis of moving average cost.
- Net realisable value signifies the selling price in the ordinary course of business less cost of completion and cost necessary to be incurred to effect such sale.

### 6.13 Trade debts

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

### 6.14 Investments at fair value through profit or loss

Investments at fair value through profit or loss are those which are acquired for generating a profit from short-term fluctuation in prices. All investments are initially recognised at cost, being fair value of the consideration given. Subsequent to initial recognition, these investments are re-measured at fair value (quoted market price). Any gain or loss from a change in the fair value is recognised in income.

### 6.15 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise of balances at banks and include short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents are carried in the balance sheet at cost except for foreign currency deposits, which are carried at fair value.

**6.16 Revenue recognition**

- Local sales through agents are recorded on intimation from agents whereas direct sales are recorded when goods are dispatched to customers.
- Export sales are booked on shipment of goods.
- Rebate on export sales is recorded on 'accrual basis'.
- Return on bank deposits is accounted for on 'accrual basis'.
- Dividend income is accounted for when the right of receipt is established.

**6.17 Provisions**

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

**6.18 Foreign currency translations**

Transactions in foreign currencies are accounted for in Pak Rupees at the exchange rates prevailing on the date of transactions. Assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing on the balance sheet date except where forward exchange rates are booked, which are translated at the contracted rates. Exchange differences, if any, are taken to profit and loss account.

**6.19 Financial assets and liabilities**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and derecognised when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities are included in the profit and loss for the year. All financial assets and financial 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 at fair value, amortised cost or cost, as the case may be.

**6.20 Off setting of financial instruments**

Financial assets and liabilities are off-set and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**7. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL**

2010 (No. of shares)	2009	Note	2010 (Rupees in thousand)	2009
17,312,468	17,312,468	ordinary shares of Rs.10 each issued for cash	173,125	173,125
9,100,412	9,100,412	ordinary shares of Rs.10 each issued as fully paid bonus shares	91,004	91,004
<b>26,412,880</b>	<b>26,412,880</b>		<b>264,129</b>	<b>264,129</b>

7.1 Saif Holdings Limited holds 13,097,000 shares of the Company as at 30 June, 2010 and 2009.

**8. RESERVES**

Capital - share premium account	8.1	115,981	115,981
Revenue - general reserve		150,000	150,000
		<b>265,981</b>	<b>265,981</b>

**8.1 Share premium account**

Premium received on:

3,820,780 shares @ Rs.7 per share issued during the year 1992	26,745	26,745
2,303,569 shares @ Rs.5 per share issued during the year 1996	11,518	11,518
562,019 shares @ Rs.5 per share allotted during the year 1997	2,810	2,810
7,500,000 shares @ Rs.10 per share allotted during the year 2007	75,000	75,000
	<b>116,073</b>	<b>116,073</b>

Less: preliminary expenses written-off during the year 1992

92	92
<b>115,981</b>	<b>115,981</b>

**9. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - Net**

9.1 The Company had revalued its leasehold land, buildings on leasehold land, plant & machinery, generators, electric installations and air-conditioning equipment on 15 January, 2006. The revaluation exercise was carried-out by Hamid Mukhtar & Co. (Pvt.) Ltd. (Consulting Engineers, Surveyors & Loss Adjusters, Valuation Consultants, Lahore) to replace the carrying amounts of these assets with their depreciated market values. The aggregated net appraisal surplus arisen on the revaluation amounting Rs.192.518 million was credited to this account.

**9.2** The Company has again revalued its leasehold land, buildings on leasehold land, plant & machinery, generators, electric installations and air-conditioning equipment on 30 June, 2009. The revaluation exercise has been carried-out by K. S. Ahmad & Co. (Pvt.) Ltd. (independent Surveyors & Evaluators - Rawalpindi) to replace the carrying amounts of these assets with their depreciated market values. The aggregated net appraisal surplus arisen on latest revaluation amounting Rs.136.059 million has been credited to this account to comply with the requirements of section 235 of the Companies Ordinance, 1984. The year-end balance has been arrived at as follows:

	<b>2010</b>	2009
	<b>(Rupees in thousand)</b>	
Balance at beginning of the year	<b>182,479</b>	<b>103,754</b>
Add: surplus arisen on revaluation carried-out during the preceding year	<b>0</b>	136,059
Less: related deferred taxation	<b>0</b>	50,523
	<b>0</b>	85,536
Less: transferred to accumulated loss on account of incremental depreciation for the year - net of deferred taxation	<b>11,326</b>	6,811
Balance at end of the year	<b>171,153</b>	182,479

#### **10. SUB-ORDINATED LOAN - Unsecured**

The Company, Aqua Nominees Ltd. - London (ANL) and Habib Bank Ltd., United Bank Ltd., Faysal Bank Ltd., The Bank of Punjab, HSBC Bank Middle East Ltd., Allied Bank Ltd., National Bank of Pakistan, Al-Baraka Islamic Bank and Meezan Bank Ltd. (the Banks) had entered into a sub-ordination agreement on 26 June, 2009 whereby ANL, in consideration of the Banks providing finance facilities to the Company, had offered and undertaken to treat 50% of the loan amount of U.S.\$ 10 million extended by it to the Company as sub-ordinated loan. Accordingly, an amount of U.S.\$ 5 million, extended by ANL to the Company, shall remain sub-ordinate to the finance facilities extended by the Banks to the Company; neither the Company shall make any payments pertaining to the sub-ordinated loan to ANL nor shall ANL make a demand for payments of any amount whatsoever with respect to the sub-ordinated loan unless and until:

- the entire amount of finance facilities extended by the Banks to the Company have been paid in full by the Company and the Banks have notified to ANL of such payments; or
- the Banks otherwise give permission in writing to the Company to make full or part of the payments due under the sub-ordinated loan.

This loan, during the year, has carried mark-up at the rates ranging from 2.027% to 3.065% (2009: at the rate of 3.065%) per annum.

	Note	2010 (Rupees in thousand)	2009
<b>11. LONG TERM FINANCING - Secured</b>			
<b>Loans from banking companies</b>			
<b>Faysal Bank Limited:</b>			
- term loan - I	11.1	<b>122,000</b>	122,000
- term loan - II	11.2	<b>164,000</b>	164,000
<b>United Bank Limited:</b>			
- demand finance - I	11.3	<b>12,500</b>	37,500
- demand finance - II	11.4	<b>32,339</b>	43,118
- demand finance - III	11.5	<b>160,000</b>	160,000
<b>The Bank of Punjab:</b>			
- demand finances	11.6	<b>24,000</b>	40,000
<b>Habib Bank Limited:</b>			
- demand finance - I	11.7	<b>162,500</b>	162,500
- demand finance - II	11.8	<b>200,000</b>	200,000
<b>Others</b>			
Aqua Nominees Limited - London			
- demand finance	11.9	<b>427,100</b>	405,600
		<b>1,304,439</b>	1,334,718
Less: current portion grouped under current liabilities		<b>501,841</b>	166,780
		<b>802,598</b>	1,167,938

**11.1** These finances have been obtained against a term finance facility of Rs.122 million and during the year carried mark-up at the rates ranging from 14.23% to 15.69% (2009: at the rate of 15.69%) per annum. The principal balance of these finances is repayable in lump sum on 04 September, 2010. This finance facility is secured against first pari passu registered hypothecation mortgage charge for Rs.163 million on all present and future fixed assets of the Company.

**11.2** These finances have been obtained against a term finance facility of Rs.164 million and during the year carried mark-up at the rates ranging from 14.34% to 15.35% (2009: at the rate of 15.35%) per annum. The principal balance of this finance facility is repayable in 6 equal half-yearly instalments commencing October, 2010. This finance facility is secured against first pari passu registered hypothecation mortgage charge for Rs.271 million on all present and future fixed assets of the Company.

**11.3** The balance as at 30 June, 2010 represents final instalment of these finances, which is repayable during September, 2010. These finances, during the year, carried mark-up at the rates ranging from 13.42% to 14.01% (2009: 11.26% to 14.80%) per annum and are secured

against first pari passu registered hypothecation charge on all present and future fixed assets of the Company for Rs.250 million.

**11.4** These finances were obtained during the financial year ended 30 June, 2006 against a demand finance facility of Rs.250 million to finance the BMR / expansion in the existing production capacity of the Company. UBL, during the financial year-ended 30 June, 2007, had restructured this finance facility in the following manner:

- created long term finance amounting Rs.163.763 million, which was repayable in 8 equal half-yearly instalments of Rs.20.470 million commenced from March, 2007. The Company had repaid the whole outstanding balance of this finance facility amounting Rs.143.293 million during the financial year ended 30 June, 2008; and
- transferred the remaining portion amounting Rs.86.237 million under the State Bank of Pakistan's Scheme for Long Term Financing for Export Oriented Projects (LTF - EOP). This finance facility, during the year, carried mark-up at the rate of 7% (2009: 7%) per annum. Originally, these finances were repayable in 8 equal half-yearly instalments of Rs.10.780 million commenced from March, 2007; however, United Bank Ltd. (UBL) vide its letter Ref.No.UBL/CBG-IBD/2009/STML dated 30 March, 2009 had intimated the Company that repayment of LTF-EOP facility being availed by the Company had been deferred for one year in conformity with the SBP's Circular # 1 dated 22 January, 2009. Accordingly, the outstanding balance of these finances as at 30 June, 2009 is repayable in 4 equal half-yearly instalments commenced from March, 2010.

These finance facilities are secured against registered hypothecation pari passu charge on all present and future fixed assets of the Company for Rs.313 million.

**11.5** These finances have been obtained against a demand finance facility of Rs.160 million and during the year carried mark-up at the rates ranging from 14.79% to 15.25% (2009: at the rate of 15.27%) per annum. The principal balance of this finance facility is repayable in 6 equal half-yearly instalments commencing December, 2010. The finance facility is secured against first pari passu hypothecation charge over current assets of the Company and first pari passu charge on present and future fixed assets of the Company already held by UBL as security of demand finance-I and demand finance-II.

**11.6** These finances have been obtained against a demand finance facility of Rs.80 million and are repayable in 10 equal half-yearly instalments of Rs.8 million commenced from March, 2007. These finances, during the year, carried mark-up at the rates ranging from 13.37% to 13.65% (2009:13.76% to 16.70% ) per annum and are secured against first registered pari passu charge on fixed assets of the Company for Rs.107 million.

**11.7** These finances have been obtained against a demand finance facility of Rs.325 million to finance the BMR / expansion plan. This finance facility, during the year, carried mark-up at the rates ranging from 14.93% to 15.26% (2009:14.35% to 17.20%) per annum and is secured against first pari passu charge on all present and future fixed assets of the Company

for Rs.434 million. Originally, the principal balance of this finance facility was repayable in 10 equal half-yearly instalments of Rs.32.500 million commenced from Mach, 2007; however, Habib Bank Ltd. (HBL), vide its letter Ref. No. ZA/ST2009/OL/0002 dated 16 July, 2009, has rescheduled repayment of these demand finances; accordingly, the year-end principal balance of demand finance-I amounting Rs.162.500 million will be repaid in 5 equal half-yearly instalments commencing September, 2010.

**11.8** These finances have been obtained against a demand finance facility of Rs.250 million to finance the BMR / expansion plan. This finance facility, during the year, carried mark-up at the rates ranging from 14.93% to 15.26% (2009:14.75% to 17.68%) per annum and is secured against first pari passu charge on all present and future fixed assets of the Company for Rs.334 million. Originally, the principal balance of this finance facility was repayable in 10 equal half-yearly instalments of Rs.25 million commenced from September, 2008; however, HBL, vide its letter Ref. No. ZA/ST2009/OL/0002 dated 16 July, 2009, had also rescheduled repayment of these demand finances; accordingly, the year-end principal balance of demand finance-II amounting Rs.200 million will be repaid in 8 equal half-yearly instalments commencing September, 2010.

**11.9 (a)** These finances have been obtained during the financial year ended 30 June, 2008 against a finance facility of U.S.\$ 10 million. This finance facility, during the year, carried mark-up at the rates ranging from 2.027% to 3.065% (2009:3.065% to 4.621%) per annum. Originally, the principal balance of this finance facility was repayable in 8 equal half-yearly instalments of U.S.\$ 1.250 million with effect from October, 2009; however, the repayment terms have been rescheduled as detailed in note (c) below. These finances are secured by way of second charge over all present and future assets of the Company.

(b) Out of the total payable balance of U.S.\$ 10 million, an amount of U.S.\$ 5 million was transferred to sub-ordinated loan during the preceding year as fully detailed in note 10.

(c) As per the addendum to security agreement dated 27 June, 2008, the year-end loan balance of U.S. \$ 5 million is repayable in 8 consecutive equal half-yearly instalments of U.S. \$ 625,000 commencing October, 2010.

**11.10** The Company, during the financial year ended 30 June, 2008, had entered into an interest rate swap agreement with United Bank Limited for a notional amount of Rs.900 million to hedge its risk associated primarily with mark-up payments and foreign currency fluctuations. As per the swap agreement, the Company will receive 6-months KIBOR + exchange difference and pay 6-months LIBOR + 1.10% + exchange difference arising on the settlement date. This agreement will mature on 31 March, 2013.

**12. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured**

Particulars	2010			2009		
	Upto one year	From one to five years	Total	Upto one year	From one to five years	Total
	(Rupees in thousand)					
Minimum lease payments	1,537	3,587	5,124	1,114	3,973	5,087
Less: finance cost allocated to future periods	448	359	807	458	653	1,111
	<b>1,089</b>	<b>3,228</b>	<b>4,317</b>	656	3,320	3,976
Less: security deposits adjustable on expiry of lease terms	0	804	804	0	689	689
Present value of minimum lease payments	<b>1,089</b>	<b>2,424</b>	<b>3,513</b>	656	2,631	3,287

**12.1** The Company has entered into lease agreements with Al-Baraka Islamic Bank and Habib Bank Limited (2009: Al-Baraka Islamic Bank) to acquire vehicles. The lease agreements will mature on various dates by June, 2013. These liabilities, during the year, were subject to finance cost at the rates ranging from 14.19% to 15.60% (2009: 12.50% to 15.44%) per annum. The Company intends to exercise its option to purchase the leased vehicles upon completion of the lease term. The lease finance facilities are secured against title of the leased vehicles in the name of lessors.

**13. LONG TERM DEPOSITS**

These deposits have been received in accordance with the Company's Car Incentive Scheme and against these deposits vehicles will be provided to the employees. These are adjustable after specified periods by transfer of title of vehicles to the respective employees.

	2010	2009
	(Rupees in thousand)	
<b>14. DEFERRED LIABILITY - STAFF RETIREMENT</b>		
<b>BENEFITS (Gratuity)</b>		
The amount recognised in the balance sheet is as follows:		
Present value of defined benefit obligation	54,944	41,878
Unrecognised actuarial loss	<u>(10,164)</u>	<u>(7,051)</u>
Net liability at end of the year	<u><u>44,780</u></u>	<u><u>34,827</u></u>
Net liability at beginning of the year	34,827	31,947
Charge to profit and loss account	19,520	16,916
Payments made during the year	<u>(9,567)</u>	<u>(14,036)</u>
Balance at end of the year	<u><u>44,780</u></u>	<u><u>34,827</u></u>
<b>The movement in the present value of defined benefit obligation is as follows:</b>		
Opening balance	41,878	39,766
Current service cost	13,922	11,376
Interest cost	5,025	4,772
Benefits paid	<u>(9,567)</u>	<u>(14,036)</u>
Actuarial loss	<u>3,686</u>	<u>0</u>
Closing balance	<u><u>54,944</u></u>	<u><u>41,878</u></u>
<b>Expense recognised in profit and loss</b>		
Current service cost	13,922	11,376
Interest cost	5,025	4,772
Actuarial loss recognised	<u>573</u>	<u>768</u>
Charge for the year	<u><u>19,520</u></u>	<u><u>16,916</u></u>

Comparison of present value of defined benefit obligation and experience adjustment on obligation for five years is as follows:

	2010	2009	2008	2007	2006
	(Rupees in thousand)				
Present value of defined benefit obligation	<u><u>54,944</u></u>	<u><u>41,878</u></u>	<u><u>39,766</u></u>	<u><u>34,413</u></u>	<u><u>29,054</u></u>
Experience adjustment on obligation	<u><u>3,686</u></u>	<u><u>0</u></u>	<u><u>1,009</u></u>	<u><u>0</u></u>	<u><u>7,156</u></u>

The future contribution rates of this scheme include allowance for deficit and surplus. Projected unit credit method, based on the following significant assumptions, is used for valuation:

	2010	2009
- discount rate	12%	12%
- expected rate of growth per annum in future salaries	11%	11%
- average expected remaining working life time of employees	05 years	05 years

The Company's policy with regard to actuarial gains / losses is to follow the minimum recommended approach under IAS 19 (Employee Benefits).

	Note	2010 (Rupees in thousand)	2009
<b>15. TRADE AND OTHER PAYABLES</b>			
Creditors		<b>64,569</b>	64,541
Due to an Associated Company (Saif Holdings Ltd.)		<b>11,911</b>	6,645
Accrued expenses		<b>37,192</b>	38,983
Advances from customers		<b>202</b>	1,215
Workers' (profit) participation fund - allocation for the year		<b>5,537</b>	0
Workers' welfare fund		<b>2,104</b>	0
Unclaimed dividends		<b>4,284</b>	4,284
Bills payable	15.1	<b>94,246</b>	133,615
Tax deducted at source		<b>50</b>	831
Others		<b>0</b>	7,688
		<b>220,095</b>	257,802

**15.1** These are secured against import documents.

#### **16. ACCRUED MARK-UP AND FINANCIAL CHARGES**

Mark-up accrued on:			
- sub-ordinated loan		<b>10,386</b>	136
- long term financing		<b>66,777</b>	44,099
- short term borrowings		<b>55,086</b>	48,497
Lease finance charges		<b>28</b>	36
Accrued mark-up and exchange fluctuation difference on interest rate swap agreement		<b>34,093</b>	22,296
		<b>166,370</b>	115,064

#### **17. SHORT TERM BORROWINGS - Secured**

Short term finance facilities available from various commercial / investment banks under mark-up arrangements aggregate Rs.2.092 billion (2009: Rs.2.070 billion) and are secured against pledge of stock-in-trade, charge on fixed and current assets of the Company and lien on export bills. These finance facilities, during the year, carried mark-up at the rates ranging from 3.39% to 17% (2009:3.96% to 18.52%) per annum and are expiring on various dates by April, 2011.

Facilities available for opening letters of credit and guarantee from various commercial banks aggregate Rs.907.290 million (2009: Rs.1,277 million) of which the amount remained unutilised at the year-end was Rs.626.789 million (2009: Rs.1,046 million). These facilities are secured against lien on import documents and charge on fixed assets of the Company and are expiring on various dates by February, 2011.

**18. CONTINGENCIES AND COMMITMENTS**

**18.1** The Company had imported textile plant & machinery availing exemption from customs duty and sales tax on importation thereof under SROs 554(1)/98 and 987(1)/99. In case conditions of the aforementioned SROs are violated, the amounts of customs duty and sales tax exempted aggregating Rs.151.014 million shall be recoverable by the Customs Authorities along with penalties under section 202 of the Customs Act, 1969.

**18.2** Faysal Bank Limited, on behalf of the Company, has issued inland bank guarantees of Rs.28.987 million (2009: Rs.28.987 million) in favour of Sui Northern Gas Pipelines Ltd. These guarantees are secured against ranking charge for Rs.40 million on all present and future fixed assets of the Company.

	Note	2010 (Rupees in thousand)	2009
<b>18.3 Commitments outstanding at the year-end were as follows:</b>			
- against capital expenditure		0	1,223
- against letters of credit		<u>157,268</u>	<u>68,874</u>
		<u><u>157,268</u></u>	<u><u>70,097</u></u>

**19. PROPERTY, PLANT AND EQUIPMENT**

Operating fixed assets	19.1	2,110,011	2,200,264
Capital work-in-progress	19.5	24,084	13,070
Store held for capital expenditure (2009: balance included in-transit inventory valuing Rs.8.568 million)		<u>11,894</u>	<u>12,472</u>
		<u><u>2,145,989</u></u>	<u><u>2,225,806</u></u>

## 19.1 Operating fixed assets - tangible

	Owned											Leased vehicles	Total		
	Buildings on leasehold land	Plant & machinery	Generators	Electric installations	Airconditioning equipment	Furniture and fixtures	Office equipment	Telephone installations	Weighing scales	Fire extinguishing equipment	Gas fittings			Vehicles	
(Rupees in thousand)															
As at 30 June, 2008															
Cost / revaluation	48,355	2,229,187	185,984	102,941	68,002	17,346	21,075	2,540	711	815	701	40,317	2,941	3,156,565	
Accumulated depreciation	2,645	108,674	30,984	44,937	12,020	5,236	8,144	784	445	350	273	20,998	282	969,278	
Book value	45,710	1,495,681	155,000	58,004	55,982	12,110	12,931	1,756	266	465	428	19,319	2,659	2,187,287	
Year ended 30 June, 2009:															
Additions	0	32,392	1,787	0	231	496	637	120	17	0	0	4,327	3,745	44,002	
Revaluation adjustments:															
cost	(8,291)	0	(10,124)	(14,420)	0	0	0	0	0	0	0	0	0	(32,835)	
accumulated depreciation	0	123,259	38,624	0	7,011	0	0	0	0	0	0	0	0	168,894	
Transfers:															
cost	0	0	0	0	0	0	0	0	0	0	0	1,424	(1,424)	0	
depreciation	0	0	0	0	0	0	0	0	0	0	0	(187)	187	0	
Disposals:															
cost	0	0	0	(81)	(24)	(3,756)	(2,212)	(24)	0	0	0	(11,989)	0	(18,086)	
depreciation	0	0	0	24	5	1,242	757	3	0	0	0	6,867	0	8,898	
Depreciation charge	499	16,354	113,409	4,346	4,206	1,002	1,238	184	27	46	43	4,062	817	157,896	
Book value as at 30 June, 2009	36,920	1,453,288	135,000	39,181	58,999	9,090	10,875	1,671	256	419	385	15,699	4,350	2,200,264	
Year ended 30 June, 2010:															
Additions	888	1,073	45,450	11,520	1,849	676	573	201	45	762	0	4,526	739	68,302	
Disposals:															
cost	0	0	0	0	0	0	(114)	(92)	0	0	0	(3,178)	0	(3,384)	
depreciation	0	0	0	0	0	0	52	18	0	0	0	1,939	0	2,009	
Depreciation charge	422	21,733	110,499	10,628	4,488	936	1,103	175	27	86	39	3,125	981	157,180	
Book value as at 30 June, 2010	37,386	1,388,239	135,892	36,243	56,360	8,830	10,283	1,623	274	1,095	346	15,861	4,108	2,110,011	
As at 30 June, 2009															
Cost / revaluation	40,064	2,261,579	177,647	88,440	68,209	14,086	19,500	2,636	728	815	701	34,079	5,262	3,149,646	
Accumulated depreciation	3,144	1,769	808,291	42,647	9,210	4,996	8,625	965	472	396	316	18,380	912	949,382	
Book value	36,920	434,131	1,453,288	135,000	39,181	58,999	10,875	1,671	256	419	385	15,699	4,350	2,200,264	
As at 30 June, 2010															
Cost / revaluation	40,952	436,973	2,307,029	189,167	88,440	14,762	19,959	2,745	773	1,577	701	35,427	6,001	3,214,564	
Accumulated depreciation	3,566	23,502	918,790	53,275	13,698	5,932	9,676	1,122	499	482	355	19,566	1,893	1,104,553	
Book value	37,386	413,471	1,388,239	135,892	36,243	8,830	10,283	1,623	274	1,095	346	15,861	4,108	2,110,011	
Depreciation rate (%)	-	5	7.5	7.5	7.5	10	10	10	10	10	10	10	20	20	20

**19.2** Had the operating fixed assets been recognised under the cost model, the carrying amounts of each revalued class of operating fixed assets would have been as follows:

	2010	2009
	(Rupees in thousand)	
- leasehold land	45,523	45,142
- buildings on leasehold land	242,747	254,422
- plant & machinery	1,288,943	1,345,942
- generators	136,784	135,965
- electric installations	50,883	55,009
- air-conditioning equipment	34,969	35,873
	<u>1,799,849</u>	<u>1,872,353</u>

### 19.3 Disposal of operating fixed assets

Particulars	Cost	Accumulated depreciation	Book value	Sale proceeds/ insurance claim	Gain / (loss)	Sold through negotiations to / insurance claim received from / Company policy:
(Rupees in thousand)						
<b>Office equipment</b>						
Dell laptop	114	52	62	73	11	The Universal Insurance Co. Ltd.
Telephone installations	92	18	74	60	(14)	Various parties.
<b>Vehicles</b>						
Suzuki Mehran	462	224	238	325	87	Malik Latif- ex employee.
Suzuki Mehran	480	258	222	340	118	EFU Insurance Company Ltd.
Hyundai Santro	720	361	359	359	0	Saif Holdings Ltd. (an Associated Company).
Suzuki Cultus	597	466	131	200	69	Mr. Rifat Ullah Khan - ex employee.
Honda City	864	604	260	286	26	Mr. Shahab-ud-din - employee.
Honda CD-70	55	26	29	29	0	Mr. Mohran Wali - ex employee.
	<u>3,178</u>	<u>1,939</u>	<u>1,239</u>	<u>1,539</u>	<u>300</u>	
	<u>3,384</u>	<u>2,009</u>	<u>1,375</u>	<u>1,672</u>	<u>297</u>	

2010                      2009  
(Rupees in thousand)

**19.4** Depreciation for the year has been apportioned as under:

Cost of sales	150,823	150,551
Administrative expenses	6,357	7,345
	<u>157,180</u>	<u>157,896</u>

### 19.5 Capital work-in-progress

Buildings on leasehold land	0	54
Plant and machinery	6,371	0
Generators	13,959	95
Air-conditioning equipment	0	416
Advance payments		
- leasehold land	0	845
- buildings on leasehold land	0	400
- plant & machinery	0	260
- generators	0	11,000
- vehicles	3,754	0
	<u>24,084</u>	<u>13,070</u>

	Note	2010 (Rupees in thousand)	2009
<b>20. INTANGIBLE ASSETS - Computer software</b>			
Cost at beginning and end of the year		5,299	5,299
Less: amortisation:			
Less: - at beginning of the year		4,764	4,389
Less: - charge for the year	20.1	277	375
Less: - at end of the year		5,041	4,764
Book value as at 30 June,		258	535

**20.1** Amortisation is charged to income applying the straight-line method at the rate of 20% per annum.

**21. LONG TERM LOANS - Considered good**

Interest free loans to:

- executives	21.1	2,250	2,592
- employees	21.2	735	423
		2,985	3,015
Less: current portion grouped under current assets		694	532
		2,291	2,483

<b>21.1 (a)</b> Balance at beginning of the year		2,592	2,439
Add: disbursements made during the year		0	1,142
		2,592	3,581
Less: recoveries / adjustments made during the year		342	989
Balance at end of the year		2,250	2,592

**(b)** These loans have been advanced for construction of house, employees' children educational expenses and for other purposes. These are recoverable in monthly instalments and are adjustable against the gratuity balances of the employees at the end of respective employment terms.

**(c)** Maximum aggregate amount due from the executives at any month-end during the year was Rs.2.552 million (2009: Rs.2.592 million).

**21.2** These loans are recoverable in monthly instalments and are adjustable against the gratuity balances of the respective employees at the end of employment terms.

**21.3** The fair value adjustments as required by IAS 39 (Financial Instruments: Recognition and Measurement) arising in respect of staff loans are not considered material and hence not recognised.

22. DEFERRED TAXATION - Net	Note	2010	2009
		(Rupees in thousand)	
This is composed of the following:			
Deductible temporary differences arising in respect of:			
- unused tax losses	22.1	463,538	507,434
- provision for doubtful deposit for shares		2,684	2,839
- staff retirement benefits - gratuity		12,020	9,889
- minimum tax recoverable against normal tax charge in future years		<u>86,624</u>	<u>77,406</u>
		<u>564,866</u>	<u>597,568</u>
Taxable temporary differences arising in respect of:			
- accelerated tax depreciation allowances		<u>302,644</u>	<u>320,964</u>
- surplus on revaluation of property, plant and equipment		<u>74,050</u>	<u>83,309</u>
- lease finances		<u>159</u>	<u>301</u>
		<u>376,853</u>	<u>404,574</u>
		<u>188,013</u>	<u>192,994</u>
<b>22.1</b> Deferred tax asset has been recognised based on the projections prepared by the management indicating reasonable probability that taxable profits will be available in the foreseeable future against which the unused tax losses will be utilised.			
<b>23. STORES, SPARE PARTS AND LOOSE TOOLS</b>			
Stores including in transit inventory valuing Rs. 0.850 million (2009: Rs.Nil)			
		34,060	26,514
Spare parts including in transit inventory valuing Rs.3.859 million (2009: Rs.4.704 million)			
		18,133	20,551
Loose tools			
		4,454	3,940
		<u>56,647</u>	<u>51,005</u>
<b>24. STOCK-IN-TRADE</b>			
Raw materials:			
- at mills		897,957	273,847
- in transit		262,461	122,065
		<u>1,160,418</u>	<u>395,912</u>
Work-in-process			
		63,662	71,120
Finished goods			
		143,930	218,733
		<u>1,368,010</u>	<u>685,765</u>
<b>24.1</b> Stock-in-trade inventory valuing Rs. 946.309 million (2009: Rs.478.228 million) is pledged with commercial banks as security for short term borrowings (note 17).			
<b>25. TRADE DEBTS</b>			
Unsecured - considered good			
- export		43,843	130,748
- local		458,571	420,497
		<u>502,414</u>	<u>551,245</u>
Secured			
- export	25.1	<u>192,378</u>	<u>182,423</u>
- local		<u>80,558</u>	<u>6,505</u>
		<u>272,936</u>	<u>188,928</u>
		<u>775,350</u>	<u>740,173</u>

**25.1** These include due from Mediterranean Textile Company (S.A.E.), Egypt amounting Rs.16.733 million (2009: Rs. 20.149 million) - an Associated Company. The balance has arisen in the normal course of business and is interest free.

		2010	2009
	Note	(Rupees in thousand)	
<b>26. LOANS AND ADVANCES - Considered good</b>			
Current portion of long term loans	21	694	532
Advances to:			
- executives		711	190
- employees		752	1,049
- suppliers		15,334	34,119
Advance against acquisition of land rights	26.1	1,791	941
		<u>19,282</u>	<u>36,831</u>

**26.1** The Company is in the process of obtaining leasehold rights of the land.

## 27. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS

Containers' security deposits		4,510	3,160
Short term prepayments		754	2,397
		<u>5,264</u>	<u>5,557</u>

## 28. OTHER RECEIVABLES

Claims receivable		2,267	373
Due from Associated Companies	28.1	404	162
Receivable from SNGPL	28.2	3,379	0
Mark-up subsidy receivable	28.3	82,476	0
Others		1,563	239
		<u>90,089</u>	<u>774</u>

**28.1** These balances, arisen in the normal course of business are interest free, are due from the following Associated Companies:

- Saif Energy Ltd.		177	130
- Saif Power Ltd.		54	32
- Green Fuels (Pvt.) Ltd.		40	0
- Saif Healthcare Ltd.		133	0
		<u>404</u>	<u>162</u>

**28.2** This represents excessive gas billing for the month of January, 2010 paid under protest against which the Company has filed a complaint with the Oil & Gas Regulatory Authority, Islamabad. Presently, the Company's case is pending with the Regional Detection & Evaluation Committee of Sui Northern Gas Pipelines Ltd. (SNGPL) for final decision.

**28.3 (a)** The Federal Government, subsequent to the balance sheet date, has included the entire Textile Sector of Khyber Pakhtunkhwa in the Prime Minister's Fiscal Relief Package to rehabilitate the economic life in FATA / PATA / Khyber Pakhtunkhwa. The Company, in terms of SMEFD Circular No.11 dated 01 July, 2010 read with SMEFD Circular Letter No.13 of 2010 dated 31 August, 2010, is eligible to avail mark-up

rate differential on business loans comprising of long term financing and short term borrowings outstanding as at 31 December, 2009. The Company's claims aggregating Rs.82.476 million have been processed by the banks and credits there against given to the Company during the months of September and October, 2010, which have been recognised during the current financial year by adjusting the relevant expenses (note 40).

- (b) In the opinion of external Auditors, to comply with the requirements of IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), the aforementioned mark-up subsidy should have been recognised in the profit and loss account for the year ending 30 June, 2011 instead of the profit and loss account for the current year ended 30 June, 2010.

	Note	2010 (Rupees in thousand)	2009
<b>29. INVESTMENTS - Quoted</b> (at fair value through profit or loss)			
Lucky Cement Limited			
500 (2009: 500) ordinary shares of Rs. 10 each		29	49
Oil & Gas Development Company Limited			
26,700 (2009: 26,700) ordinary shares of Rs. 10 each		2,100	3,321
National Bank of Pakistan			
76,500 (2009: 61,200) ordinary shares of Rs. 10 each		4,102	7,626
The Royal Bank of Scotland (Pakistan) Limited			
25,500 (2009:25,500) ordinary shares of Rs. 10 each		432	536
Fauji Cement Company Limited			
10,000 (2009: 10,000) ordinary shares of Rs. 10 each		66	101
Arif Habib Bank Limited			
555 (2009: 555) ordinary shares of Rs. 10 each		4	10
Attock Refinery Limited			
9,000 (2009: 9,000) ordinary shares of Rs. 10 each		1,123	1,874
Bank Islami (Pakistan) Limited			
10,000 (2009:10,000) ordinary shares of Rs. 10 each		64	148
Callmate Telips Telecom Limited			
Nil shares (2009: 500 ordinary shares of Rs. 10 each)		0	2
Fauji Fertilizer Bin Qasim Limited			
30,000 (2009: 30,000) ordinary shares of Rs. 10 each		531	1,069
Pakistan Petroleum Limited			
9,900 (2009: 8,250) ordinary shares of Rs. 10 each		1,564	1,845
Janana De Malucho Textile Mills Limited			
500 (2009: 500) ordinary shares of Rs. 10 each		3	12
		<b>10,018</b>	16,593
Adjustment on remeasurement to fair value - net		<b>2,448</b>	(6,574)
		<b>12,466</b>	10,019

	Note	2010 (Rupees in thousand)	2009
<b>30. DEPOSIT FOR SHARES</b>			
Security Electric Power Company Ltd. - SEPCL (an Ex - Associated Company)	30.1	<b>10,000</b>	10,000
Less: provision for doubtful deposit for shares	30.2	<b>10,000</b>	10,000
		<b>0</b>	0

**30.1** The Company had deposited Rs.5 million during the year ended 30 September, 1994 and Rs.5 million during the financial year ended 30 September, 1998 with SEPCL for purchase of shares. Shares against these deposits, however, have not been issued so far.

**30.2** Full provision against this doubtful deposit was made as the management was of the opinion that SEPCL had abandoned the project due to IPP crisis and SEPCL utilised this amount in payment of penalty imposed by the Private Power Infrastructure Board (Ministry of Water and Power). The Company had filed a complaint before the Wafaqi Muhtasib for recovery of the said deposit along with penalty. As remote chances of recovery existed, full provision for doubtful deposit for shares was made in the books of account during the financial year ended 30 September, 2000.

### 31. TAXATION - Net

Balance of advance tax at beginning of the year		<b>16,168</b>	10,815
Add: tax paid during the year		<b>26,516</b>	17,696
		<b>42,684</b>	28,511
Less: provision made during the year:			
- current	31.2	<b>21,923</b>	8,059
- prior years'		<b>(1,292)</b>	4,284
		<b>20,631</b>	12,343
Balance of advance tax at end of the year		<b>22,053</b>	16,168

**31.1** Income tax assessments of the Company have been completed upto the Tax Year 2009; the return for the said year has not been taken up for audit till 30 June, 2010.

**31.2** Provision for the current year represents minimum tax payable under section 113 of the Income Tax Ordinance, 2001 (the Ordinance) and tax deducted under section 154 of the Ordinance. Due to location in the moderately affected area, the Company's income is exempt from tax for a period of three years under clause 126F of the second schedule to the Ordinance starting from the tax year 2010.

**31.3** No numeric tax rate reconciliation is presented in these financial statements as the Company is only liable to pay tax due under section 113 and 154 of the Ordinance.

**31.4** Tax losses available for carry forward as at 30 June, 2010 aggregated Rs.1.324 billion (2009: Rs.1.450 billion).

		2010	2009
	Note	(Rupees in thousand)	
<b>32. TAXES REFUNDABLE</b>			
Sales tax refundable		17,427	16,822
Minimum tax paid under protest	32.1	5,034	5,034
		<u>22,461</u>	<u>21,856</u>
<b>32.1</b> The Company had made payments aggregating Rs.12.736 million till 30 September, 2003 under protest; however, Rs.3.000 million were adjusted against the completed assessment during the financial year ended 30 September, 2004. The Company, during the financial year ended 30 June, 2008, has received refund of Rs.4.702 million.			
<b>33. BANK BALANCES</b>			
Cash at banks on:			
- current accounts	33.1	6,936	2,982
- saving accounts		168	224
		<u>7,104</u>	<u>3,206</u>
<b>33.1</b> These include foreign currency balances of U.S.\$ 34,639 (2009: U.S.\$ 6,232).			
<b>34. SALES</b>			
Own manufactured goods:			
Local			
- yarn		3,364,368	2,619,158
- waste		36,241	13,120
		<u>3,400,609</u>	<u>2,632,278</u>
Export			
- yarn		941,261	550,868
- waste		84,907	59,107
		<u>1,026,168</u>	<u>609,975</u>
		4,426,777	3,242,253
<b>Trading activities:</b>			
Local			
- yarn		139,402	257,974
- fabric		703	18,795
- raw materials		19,322	142,068
		<u>159,427</u>	<u>418,837</u>
Export			
- yarn		56,248	66,730
		<u>4,642,452</u>	<u>3,727,820</u>
<b>35. COST OF SALES</b>			
Raw materials consumed	35.1	2,776,911	2,549,764
Packing materials consumed		68,828	66,333
Salaries, wages and benefits	35.2	250,131	224,352
Power and fuel		337,067	329,006
Repair and maintenance		64,362	57,595
Depreciation		150,823	150,551
Insurance		6,655	7,415
Textile cess		88	89
Doubling charges		14,229	23,324
Dyeing charges		12	626
		<u>3,669,106</u>	<u>3,409,055</u>

	Note	2010 (Rupees in thousand)	2009
Adjustment of work-in-process			
Opening		71,120	41,851
Closing		(63,662)	(71,120)
		7,458	(29,269)
Cost of goods manufactured		3,676,564	3,379,786
Adjustment of finished goods			
Opening stock		218,733	145,624
Purchases		180,389	309,861
Closing stock		(143,930)	(218,733)
		255,192	236,752
		3,931,756	3,616,538
<b>35.1 Raw materials consumed</b>			
Opening stock		395,912	724,041
Purchases (for manufacturing)		3,520,791	2,080,178
Cost of raw materials sold		20,301	141,072
		3,541,092	2,221,250
		3,937,004	2,945,291
Less: closing stock		1,160,418	395,912
		2,776,586	2,549,379
Add: cotton cess		325	385
		2,776,911	2,549,764

**35.2** These include Rs.12,115 thousand (2009: Rs.11,083 thousand) in respect of staff retirement benefits - gratuity.

### 36. DISTRIBUTION COST

Staff salaries	36.1	11,069	10,129
Travelling		2,704	2,034
Communication		2,359	3,170
Loading and unloading		6,682	4,158
Freight on local yarn sales		7,632	5,734
Freight on export yarn sales		30,817	47,943
Export expenses		6,324	5,312
Insurance		511	223
Sizing charges		17	3
Commission on sales		37,130	30,226
Quality claims on sale supplies		12,545	15,246
		117,790	124,178

**36.1** These include Rs.2,671 thousand (2009: Rs.2,454 thousand) in respect of staff retirement benefits - gratuity.

<b>37. ADMINISTRATIVE EXPENSES</b>	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>(Rupees in thousand)</b>	
Directors' meeting fee		210	125
Salaries and benefits	37.2	48,259	43,164
Travelling and conveyance:			
- directors		776	168
- others		2,656	2,761
Rent, rates and taxes		11,097	13,534
Entertainment		1,887	1,443
Communication		4,868	5,665
Printing and stationery		2,163	2,580
Electricity, gas and water		3,587	3,050
Insurance		1,445	1,422
Repair and maintenance		2,582	2,248
Vehicles' running and maintenance		13,654	11,008
Advertisement		80	485
Fees and subscription		706	869
Newspapers and periodicals		65	79
Depreciation		6,357	7,345
Amortisation		277	375
Auditors' remuneration:			
- statutory audit		500	200
- short provision for the preceding year		210	0
- half yearly review		100	100
- consultancy and certification charges		145	145
		955	445
Legal and professional (other than Auditors')		830	877
Others		225	169
		102,679	97,812

**37.1** The Company, during the year, has shared administrative expenses aggregating Rs.3,379 thousand (2009: Rs.1,762 thousand) with an Associated Company on account of proportionate expenses of the combined offices at Karachi and Lahore. These expenses have been booked in the respective heads of account.

**37.2** These include Rs.4,734 thousand (2009: Rs.3,379 thousand) in respect of staff retirement benefits - gratuity.

### **38. OTHER OPERATING EXPENSES**

Workers' (profit) participation fund		5,537	0
Workers' welfare fund		2,104	0
Adjustment on remeasurement of			
investments to fair value	29	0	6,574
Investments written-off upon liquidation of			
Callmate Telips Telecom Ltd.		2	0
Realised loss on sale of investments		0	100
Donations	38.1	424	545
		8,067	7,219

**38.1** These include an amount of Rs.420 thousand (2009: Rs.420 thousand), which represents amount donated to Saifullah Foundation for Sustainable Development (a Social Welfare Society) administered by the following directors of the Company:

- Mr. Osman Saifullah Khan                      - Mr. Jehangir Saifullah Khan

	Note	2010 (Rupees in thousand)	2009
<b>39. OTHER OPERATING INCOME</b>			
Sale of scrap - net of sales tax of Rs.89 thousand (2009: Rs.90 thousand)		559	565
Unclaimed payable balances written-back		106	267
Gain on disposal of operating fixed assets - net	19.3	297	272
Dividends		822	500
Adjustment on remeasurement of investments to fair value	29	2,448	0
		<u>4,232</u>	<u>1,604</u>
<b>40. FINANCE COST - Net</b>			
Mark-up on subordinated loan		10,243	136
Mark-up on long term financing		139,505	147,322
Less:			
- mark-up subsidy		(39,921)	(19,602)
- gain on interest rate swap agreement		(38,839)	(41,753)
		60,745	85,967
Mark-up on short term borrowings		232,612	251,822
Less: mark-up subsidy		(55,308)	0
		177,304	251,822
Lease finance charges		534	487
Bank and other charges		10,481	8,029
		<u>259,307</u>	<u>346,441</u>
<b>41. EXCHANGE FLUCTUATION LOSS - Net</b>			
Exchange fluctuation loss / (gain) on:			
- foreign currency financing		44,202	129,200
- interest rate swap agreement		84,709	94,497
- others - net		(4,927)	5,068
		<u>123,984</u>	<u>228,765</u>
<b>42. EARNINGS / (LOSS) PER SHARE</b>			
Profit / (loss) after taxation attributable to ordinary shareholders		77,489	(560,226)
		2010	2009
		(No. of shares)	
Weighted average number of shares outstanding during the year		26,412,880	26,412,880
		2010	2009
		(Rupees)	
Earnings / (loss) per share		2.93	(21.21)

**42.1** A diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue as at 30 June, 2010 and 30 June, 2009, which would have any effect on the earnings / (loss) per share if the option to convert is exercised.

	Note	2010 (Rupees in thousand)	2009
<b>43. CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit / (loss) for the year - before taxation		103,101	(691,529)
Adjustments for non-cash charges and other items:			
Depreciation and amortisation		157,457	158,271
Staff retirement benefits - gratuity (net)		9,953	2,880
Unclaimed payable balances written-back		(106)	(267)
Gain on disposal of operating fixed assets - net		(297)	(272)
Finance cost (excluding bank charges and mark-up subsidy receivable)		331,302	338,412
Mark-up subsidy receivable		(82,476)	0
Exchange fluctuation loss on long term financing		44,202	129,200
Exchange fluctuation (gain) / loss - net (others)		(4,927)	5,068
Adjustment on remeasurement of investments to fair value - net		(2,448)	6,574
Realised loss on sale of investments		0	100
Investments written-off		2	0
<b>CASH INFLOW / (OUTFLOW) FROM OPERATING</b>			
ACTIVITIES - Before working capital changes		555,763	(51,563)
(Increase) / decrease in current assets:			
Stores, spare parts and loose tools		(5,642)	258
Stock-in-trade		(682,245)	225,751
Trade debts		(35,177)	151,910
Loans and advances		17,711	(10,452)
Trade deposits and short term prepayments		293	(1,573)
Other receivables		(6,839)	40,181
Taxes refundable		(605)	7,638
(Decrease) / increase in trade and other payables		(37,602)	19,899
		(750,106)	433,612
<b>CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES</b>			
- Before taxation		(194,343)	382,049
Income tax paid		(26,516)	(17,696)
<b>CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES</b>			
- After taxation		(220,859)	364,353
Long term loans		30	(209)
Long term deposits		257	348
Long term deposits from employees		74	(1,164)
<b>NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES</b>		<b>(220,498)</b>	<b>363,328</b>

**44. FINANCIAL INSTRUMENTS**

The Company has exposures to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

**44.1 Credit risk**

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted and primarily arises from trade debts. Out of the total financial assets of Rs.897,539 thousand (2009: Rs.767,074 thousand), the financial assets which are subject to credit risk aggregated to Rs.895,986 thousand (2009: Rs.764,059 thousand).

To manage exposure to credit risk in respect of trade debts, management performs credit reviews taking into account the customer's financial position, past experience and other relevant factors. Where considered necessary, advance payments are obtained from certain parties. The management has set a maximum credit period of 60 days for local debtors and 100 days for export debtors to reduce the credit risk.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

The maximum exposure to credit risk as at 30 June, 2010 along with comparative is tabulated below:

	<b>2010</b>	2009
	<b>(Rupees in thousand)</b>	
Long term deposits	<b>6,871</b>	7,128
Trade debts	<b>775,350</b>	740,173
Trade deposits	<b>4,510</b>	3,160
Other receivables	<b>89,685</b>	373
Investments	<b>12,466</b>	10,019
Bank balances	<b>7,104</b>	3,206
	<b>895,986</b>	764,059
Trade debts exposure by geographic region is as follows:		
Domestic	<b>539,129</b>	427,002
Export	<b>236,221</b>	313,171
	<b>775,350</b>	740,173

The majority of export debts of the Company are situated in Europe and Asia.

The ageing of trade debts at the balance sheet date is as follows:

	2010	2009
	(Rupees in thousand)	
Not past due	654,099	647,137
Past due 1-30 days	11,529	9,337
Past due more than 30 days	109,722	83,699
	775,350	740,173

Based on past experience, the Company's management believes that no impairment loss allowance is necessary in respect of trade debts as debts aggregating Rs. 485,811 thousand have been realised subsequent to the year-end and for other debts there are reasonable grounds to believe that the amounts will be realised in short course of time. Further, major export debts are secured through letters of credit.

Investments comprise of share-holdings in listed securities. The management assess the credit quality ratings of its holdings and diversifies its portfolio accordingly.

#### 44.2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Company's treasury department maintains flexibility in funding by maintaining availability under committed credit lines.

Financial liabilities in accordance with their contractual maturities are presented below:

	2010				
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 to 5 years	5 years and above
	(Rupees in thousand)				
Sub-ordinated loan	427,100	496,985	8,658	157,811	330,516
Long term financing	1,304,439	1,431,411	560,079	871,332	0
Liabilities against assets					
subject to finance lease	3,513	4,320	1,537	2,783	0
Trade and other payables	212,202	212,202	212,202	0	0
Accrued mark-up and financial charges	166,370	166,370	166,370	0	0
Short term borrowings	1,978,064	2,028,458	2,028,457	0	0
	4,091,688	4,339,746	2,977,303	1,031,926	330,516
	2009				
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 to 5 years	5 years and above
	(Rupees in thousand)				
Sub-ordinated loan	405,600	505,910	12,432	49,727	443,751
Long term financing	1,334,718	1,583,670	196,196	1,387,474	0
Liabilities against assets					
subject to finance lease	3,287	4,398	1,114	3,284	0
Trade and other payables	255,756	255,756	255,756	0	0
Accrued mark-up and financial charges	115,064	115,064	115,064	0	0
Short term borrowings	1,348,778	1,457,788	1,457,788	0	0
	3,463,203	3,922,586	2,038,350	1,440,485	443,751

The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up / interest rates effective at the respective year-ends. The rates of mark-up / interest have been disclosed in the respective notes to these financial statements.

#### 44.3 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will effect the Company's income or the value of its holdings of financial instruments.

##### (a) Currency risk

The Company is exposed to currency risk on sub-ordinated loan, long term financing, short term borrowings, trade debts, bank balances and import of raw materials and stores & spares denominated in US Dollar, Euro, Japanese Yen and Swiss Frank. The Company's exposures to foreign currency risk is as follows:

	2010				
	Rupees	US\$	Euros	Yens	CHF
	(in thousand)				
Sub-ordinated loan	427,100	5,000	0	0	0
Long term financing	427,100	5,000	0	0	0
Short term borrowings	51,315	601	0	0	0
Bills payable	94,246	1,107	0	0	0
Accrued mark-up	44,760	524	0	0	0
	<b>1,044,521</b>	<b>12,232</b>	<b>0</b>	<b>0</b>	<b>0</b>
Trade debts	236,221	2,474	239	0	0
Bank balances	2,956	35	0	0	0
<b>Gross balance sheet exposure</b>	<b>805,344</b>	<b>9,723</b>	<b>(239)</b>	<b>0</b>	<b>0</b>
Outstanding letters of credit	157,268	1,817	19	0	0
<b>Net exposure</b>	<b>962,612</b>	<b>11,540</b>	<b>(220)</b>	<b>0</b>	<b>0</b>
	2009				
	Rupees	US\$	Euros	Yens	CHF
	(in thousand)				
Sub-ordinated loan	405,600	5,000	0	0	0
Long term financing	405,600	5,000	0	0	0
Short term borrowings	52,956	652	0	0	0
Bills payable	133,615	1,627	0	0	13
Accrued mark-up	23,695	293	0	0	0
	<b>1,021,466</b>	<b>12,572</b>	<b>0</b>	<b>0</b>	<b>13</b>
Trade debts	313,171	3,829	23	0	0
Bank balances	507	6	0	0	0
<b>Gross balance sheet exposure</b>	<b>707,788</b>	<b>8,737</b>	<b>(23)</b>	<b>0</b>	<b>13</b>
Outstanding letters of credit	68,874	817	13	876	0
<b>Net exposure</b>	<b>776,662</b>	<b>9,554</b>	<b>(10)</b>	<b>876</b>	<b>13</b>

The following significant exchange rates have been applied:

	<u>Average rate</u>		<u>Reporting date rate</u>	
	2010	2009	2010	2009
US \$ to Rupee	<b>84.83</b>	77.56	<b>85.40/85.42</b>	81.10 / 81.12
EURO to Rupee	<b>118.69</b>	111.25	<b>104.33</b>	114.54
CHF to Rupee	<b>81.77</b>	70.25	-	75.08
Yen to Rupee	<b>0.95</b>	0.73	-	0.85

#### Sensitivity analysis

At the reporting date, if Rupee had strengthened by 10% against US Dollar, Euro and Swiss Frank, with all other variables held constant, profit after taxation for the year would have been higher (2009: loss after taxation would have been lower) by the amount shown below mainly as a result of net foreign exchange gain on translation of foreign currency financial assets and liabilities.

	2010	2009
	<b>(Rupees in thousand)</b>	
<b>Effect on profit (2009: loss) for the year</b>		
US \$ to Rupee	<b>83,054</b>	70,875
EURO to Rupee	<b>(2,493)</b>	(263)
CHF to Rupee	<b>0</b>	98

The weakening of Rupee against US Dollar, Euro and Swiss Frank would have had an equal but opposite impact on the profit (2009: loss) after taxation.

The sensitivity analysis prepared is not necessarily indicative of the effects on profit (2009: loss) for the year and assets / liabilities of the Company.

#### (b) Interest rate risk

At the reporting date, the mark-up and interest rate profile of the Company's significant financial assets and liabilities is as follows:

	2010	2009	2010	2009
	<b>Effective rate</b>		<b>Carrying amount</b>	
<b>Financial liabilities</b>	%	%	<b>(Rupees in thousand)</b>	
<b>Fixed rate instruments</b>				
Long term financing (export finances)	<b>7</b>	7	<b>32,339</b>	43,118
<b>Variable rate instruments</b>				
Sub-ordinated loan	<b>2.027 to 3.065</b>	3.065	<b>427,100</b>	405,600
Long term financing	<b>2.027 to 15.69</b>	3.065 to 17.68	<b>1,272,100</b>	1,291,600
Liabilities against assets subject to finance lease	<b>14.19 to 15.60</b>	12.50 to 15.44	<b>3,513</b>	3,287
Short term borrowings	<b>3.39 to 17.00</b>	3.96 to 18.52	<b>1,978,064</b>	1,348,778

**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 mark-up / interest rates at the reporting date would not affect profit and loss account.

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

A change of 100 basis points (bp) in mark-up / interest rates at the balance sheet date would have (decreased) / increased profit for the year by the amounts shown below. The analysis is performed on the same basis for the year 2009.

<b>As at 30 June, 2010</b>	<b>Decrease</b>	<b>Increase</b>
<b>Cash flow sensitivity - variable rate financial liabilities</b>	<b>(Rupees in thousand)</b>	
	<u>(101)</u>	<u>101</u>
As at 30 June, 2009		
Cash flow sensitivity - Variable rate financial liabilities	<u>84</u>	<u>(84)</u>

The sensitivity analysis prepared is not necessarily indicative of the effects on profit (2009: loss) for the year and liabilities of the Company.

**(c) Other price risk**

Other price risk is 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). Other price risk arises from the Company's investments in ordinary shares of listed companies. To manage its price risk arising from aforesaid investments, the management diversifies the investments portfolio and continuously monitors developments in equity market. In addition, the Company's management actively monitors the key factors that affect stock price movement.

A 10% increase / decrease in share prices at the balance sheet date would have increased / decreased the Company's profit / (2009: loss) and increased / decreased investments as follows:

	<b>2010</b>	<b>2009</b>
	<b>(Rupees in thousand)</b>	
Effect on profit / loss	<u>1,247</u>	<u>1,002</u>
Effect on investment	<u>1,247</u>	<u>1,002</u>

The sensitivity analysis prepared is not necessarily indicative of the effects on profit (2009: loss) and investments of the Company.

**44.4 Fair value of financial instruments**

Carrying values of the financial assets and financial liabilities approximate their fair values. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

**45. CAPITAL RISK MANAGEMENT**

The Company's prime objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders, benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its business.

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders and / or issue new shares.

There was no change to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements except for the maintenance of debt to equity ratio under the financing agreements.

**46. TRANSACTIONS WITH RELATED PARTIES**

**46.1** Maximum aggregate balance due from Associated Companies, on account of normal trading transactions, at any month-end during the year was Rs.74.269 million (2009: Rs.141.090 million).

**46.2** The Company has related party relationship with its Associated Companies, employee benefits plan, its directors and key management personnel. Transactions with related parties are carried-out on arm's length basis. There were no transactions with key management personnel other than under the terms of employment. Amounts due from and to related parties are shown under receivables and payables and remuneration of key management personnel is disclosed in note 47. Other significant transactions with Associated Companies during the year were as follows:

	2010	2009
	(Rupees in thousand)	
- purchase of fixed assets	7,347	1,141
- sale of fixed assets	559	1,349
- sale of goods and services	42,934	186,894
- purchase of goods and services	16,312	135,470
- rent accrued	6,508	5,423

**47. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

Particulars	Chief Executive		Working Director		Executives	
	2010	2009	2010	2009	2010	2009
	(Rupees in thousand)					
Meeting fees	20	0	45	30	0	0
Managerial remuneration	5,432	0	4,200	4,200	17,625	17,501
House rent and utilities	380	0	150	465	9,694	9,626
Retirement benefits	0	0	350	350	5,091	9,354
Medical expenses reimbursed	0	0	0	35	648	497
	<b>5,832</b>	<b>0</b>	<b>4,745</b>	<b>5,080</b>	<b>33,058</b>	<b>36,978</b>
Number of persons	1	1	1	1	13	13

**47.1** Meeting fees of Rs.145 thousand (2009: Rs.95 thousand) were also paid to five (2009: five) non-working directors during the year.

**47.2** Chief executive and some of the executives have also been provided with the Company maintained cars and residential telephones.

#### **48. CAPACITY AND PRODUCTION**

		<b>2010</b>	2009
No. of spindles installed		<b>88,476</b>	88,476
Average of spindles shifts installed	Figure in '000	<b>96,881</b>	96,881
Average of spindles shifts worked	Figure in '000	<b>92,331</b>	91,194
No. of days worked		<b>365</b>	365
No. of shifts worked		<b>1,095</b>	1,095
Average count		<b>35.75</b>	35.86
Actual production	Kgs Figure in '000	<b>14,475</b>	14,380

It is difficult to describe precisely the production capacity in textile spinning industry since it fluctuates widely depending on various factors, such as count of yarn spun, spindles speed, twist per inch and raw materials used, etc. It also varies according to the pattern of production adopted in a particular year.

#### **49. OPERATING SEGMENT**

These financial statements have been prepared on the basis of single reportable segment.

**49.1** Yarn sales represent 97% (2009: 94%) of the total sales of the Company.

**49.2** 77% (2009: 82%) of the Company's sales relate to customers in Pakistan.

**49.3** All non-current assets of the Company as at 30 June, 2010 are located in Pakistan.

**49.4** The Company does not have any customer having sales of ten percent or more during the year ended 30 June, 2010 (2009: Nil).

#### **50. DATE OF AUTHORISATION OF FINANCIAL STATEMENTS**

These financial statements were authorised for issue on October 08, 2010 by the board of directors of the Company.

#### **51. FIGURES**

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison; however, no material re-arrangements have been made in these financial statements.

The Chief Executive is out of Pakistan and in his absence these financial statement have been signed by two Directors as required under section 241(2) of the companies ordinance, 1984.

**JEHANGIR SAIFULLAH KHAN**  
DIRECTOR

**HOOR YOUSAFZAI**  
DIRECTOR

**FORM OF PROXY**

**TWENTY FIRST ANNUAL GENERAL MEETING**

I / We \_\_\_\_\_  
of \_\_\_\_\_ being a member of **Saif Textile Mills Limited** and holder of  
ordinary Shares as per Share Register Folio No. \_\_\_\_\_

<b>For beneficial owners as per CDC List</b>	
CDC Participant I.D. No. _____	Sub-Account No. _____
CNIC No. _____ or Passport No. _____	

hereby appoint \_\_\_\_\_ of \_\_\_\_\_  
who is also a member of the Company, Folio No. / CDC Account No. \_\_\_\_\_ or failing him /  
her \_\_\_\_\_ of \_\_\_\_\_ who is also a member of the  
Company, Folio No. / CDC Account No \_\_\_\_\_ as my / our proxy to vote and  
act for me / our behalf at the 21st Annual General Meeting of the Company to be held on October 29,  
2010 or at any adjournment thereof.

Please affix rupees five revenue stamp
--

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

Signature of Shareholder \_\_\_\_\_

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2010 Signature of Proxy \_\_\_\_\_

**For beneficial owners as per CDC list**

<b>1. WITNESS</b> _____	<b>2. WITNESS</b> _____
Signature _____	Signature _____
Name: _____	Name: _____
Address: _____	Address: _____
_____	_____
_____	_____
CNIC No. _____	CNIC No. _____

**Note:**

- Proxies, in order to be effective, must be received at the Registered Office of the Company at APTMA House, Jamrud Road, Peshawar not less than 48 hours before the meeting.
- CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their Computerized National Identity Card or Passport with the proxy form before submission to the Company (Original CNIC / Passport is required to be produced at the time of the meeting).
- In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form to the Company.