FEROZE1888 MILLS LIMITED

ANNUAL REPORT 2013

Weaving a Better World
A Better Pakistan

CONTENTS

COMPANY INFORMATION

Board Of Directors	:	Anas Rahman	-	Chief Executive
		Jawed Yunus Tabba		
		Jonathan R. Simon		
		Khaleequr Rahman	-	Chairman
		Pervez Saeed		
		Perwez Ahmed		
		Shabbir Ahmed		
		Sheikh Zafar Ahmed		
Audit Committee	:	Jawed Yunus Tabba	-	Member
		Pervez Saeed	-	Chairman
		Perwez Ahmed	-	Member
Human Resource & Remuneration Committee	:	Anas Rahman		
		Jawed Yunus Tabba		
		Khaleequr Rahman		
		Shabbir Ahmed		
Company Secretary	:	Abdul Aleem, FCA		
Bankers	:	Askari Bank Limited		
		Bank Al Habib Limited		
		Habib Bank Limited		
		Habib Metropolitan Bank Limited		
		Meezan Bank Limited		
		Standard Chartered Bank (Pakistan) Limited		
Auditors	:	Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants 180-A, S.M.C.H.S., Karachi		
Legal Advisor	:	M. Adam Patel & Co.		
Share Registrar	:	FAMCO Associates (Pvt.) Ltd 8-F, Next to Hotel Faran, Nursery, Block 6, PECHS, Shahra-e-Faisal Karachi.		
Registered Office	:	H-23/4-A, Scheme # 3, Landhi Industrial Area, Karachi		
Website	:	http://www.feroze1888.com		

MISSION STATEMENT

Our mission is to manage and operate the Company in a manner that allows continued growth and profitability without high risk for investors, customers and employees. We do this by offering quality products to our customers, by constantly striving to improve our products to meet or exceed our customers' needs, allowing us to prosper as a business, and to provide stable, secure income and employment for our employees and a reasonable return for our stakeholders, the owners of our business.

VISION STATEMENT

The future of our Industry will be characterized by tough competition. In future, we will be constrained of capacity utilization, tough and sluggish market and rising cost but we will strive hard to be able to make profit and thus create value for our stakeholders and to continue as a successful company.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 41st Annual General Meeting of the Members of the Company will be held at B-4/A, SITE, Karachi on Wednesday, October 30, 2013 at 9.00 a.m. to transact the following businesses:

1. To receive, consider and adopt the Annual Audited Accounts for the year ended June 30, 2013 together with the Directors' and Auditors' Reports thereon.

2. To consider and approve the final cash dividend of Rs. 1.5 per share (15%) to all shareholders except directors, their relatives and associates and Rs. 0.30 per share (3%) to directors, their relatives and associates as recommended by the Board of Directors. This is in addition to interim cash dividend of Rs. 1.5 per share (15%) to all shareholders except directors, their relatives and associates and Rs. 0.30 per share (3%) to directors, their relatives and associates already paid during the year making a total dividend of Rs. 3.0 per share (30%) to all shareholders except directors, their relatives and associates and Rs. 0.60 per share (6%) to directors, their relatives and associates as recommended by the Board of Directors.

3. To appoint auditors for the year ending June 30, 2014 and to fix their remuneration. The retiring auditors Messrs. Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants being eligible have offered themselves for re-appointment.

4. To transact any other business with the permission of the Chair.

By Order of the Board
(Abdul Aleem)
Company Secretary

Karachi: September 19, 2013

Notes:

1. The Share Transfer Books of the Company will remain closed from Thursday, October 24, 2013 to Wednesday, October 30, 2013 (both days inclusive). Transfers received at the office of Share Registrar at the close of business on Wednesday, October 23, 2013 will be considered in time to attend and vote at the meeting and for the purpose of above entitlement to the transferees.

2. A member of the Company entitled to attend and vote at this meeting may appoint a proxy to attend, speak and vote instead of him/her. A proxy must be a member of the Company. An instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, must, to be valid, be received at the Registered Office of the Company or at the Office of the Share Registrar not later than forty eight hours before the time appointed for the Meeting. A member shall not be entitled to appoint more than one proxy. If a Member appoints more than one proxy and more than one instrument of proxy are deposited by a member with the Company, all such instruments shall be rendered invalid. The proxy shall produce his/her original National Identity Card or Passport to prove his/her identity.

3. Members are requested to notify any change in their address immediately.

4. Members should quote their Folio Number in all correspondence and at the time of attending the Meeting.

5. Securities and Exchange Commission of Pakistan (SECP) vide notifications dated August 18, 2011 and July 05, 2012 made it mandatory that dividend warrants should bear CNIC number of the registered members, therefore, members who have not yet submitted photocopy of their valid Computerized National Identity Cards to the Company are requested to send the same at the earliest to enable the Company to comply with relevant laws. Failure to provide the same would constrain the Company to withhold dispatch of dividend warrants.

6. As directed by SECP vide Circular No. 18 of 2012 dated August 18, 2012, we already given opportunity to shareholders to authorize the Company to directly credit in his/their bank account with cash dividend, if any, declared by the Company in future. If you still wish that the cash dividend, if declared by the Company be directly credited into your bank account, instead of issuing a dividend warrant, please provide the relevant details.

7. **GUIDELINES FOR CDC ACCOUNT HOLDERS ISSUED BY SECURITIES & EXCHANGE COMMISSION OF PAKISTAN**

For personal attendance:

(i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his/her identity by showing his/her original National Identity Card at the time of attending the meeting.

(ii) In case of corporate entity, the Board of Directors’ resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

For appointing proxy

(i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.

(ii) The proxy must be witnessed by two persons whose names, addresses and Computerised National Identity Card (CNIC) numbers shall be mentioned on the form.

(iii) Attested copies of CNIC or the passport of the beneficial owners and of the proxy shall be furnished with the proxy form.

(iv) The proxy shall produce his/her original CNIC or original passport at the time of the meeting.

(v) 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) along with proxy form to the Company.

Registerd Office:
Feroze1888 Mills Limited
H-23/4-A, Scheme # 3
Landhi Industrial Area
Landhi
Karachi

Share Registrar:
FAMCO Associates (Pvt.) Ltd
8-F, Next to Hotel Faran,
Nursery, Block 6,
PECHS, Shahra-e-Faisal
Karachi

DIRECTORS' REPORT

Your directors are pleased to present the 41st Annual Report together with the audited financial statements for the year ended June 30, 2013.

OPERATING AND FINANCIAL PERFORMANCE

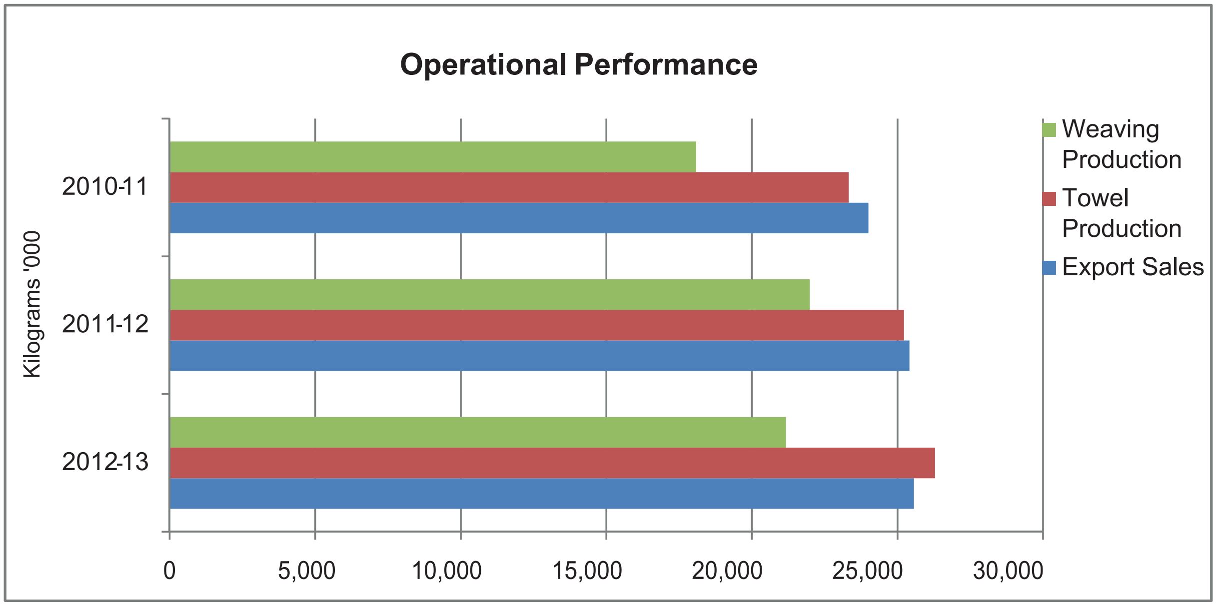
Alhamdulillah the year concluded with accomplishments of substantially all major operational and financial targets and goals as positives ruled over the issues and continued problems on overall basis. No volatility in raw material prices, stability in selling prices, no major rise in gas prices, reduction in markup rate by State Bank of Pakistan, devaluation of rupee etc. prevailed over energy crisis escalated by low gas pressures, economic instability coupled with high inflation, enhanced sales tax rates and structure, deteriorating law and order situation, volatile yarn export market etc. During the year under review the operational targets were mostly met and capacities efficiently utilized. However the management remained very cautious in carrying out the balancing and modernization plans and entering into long term sales contracts. The operational and financial performance would have been much better but for reasons mentioned herein before. The key operational and financial performance during the year was as under:

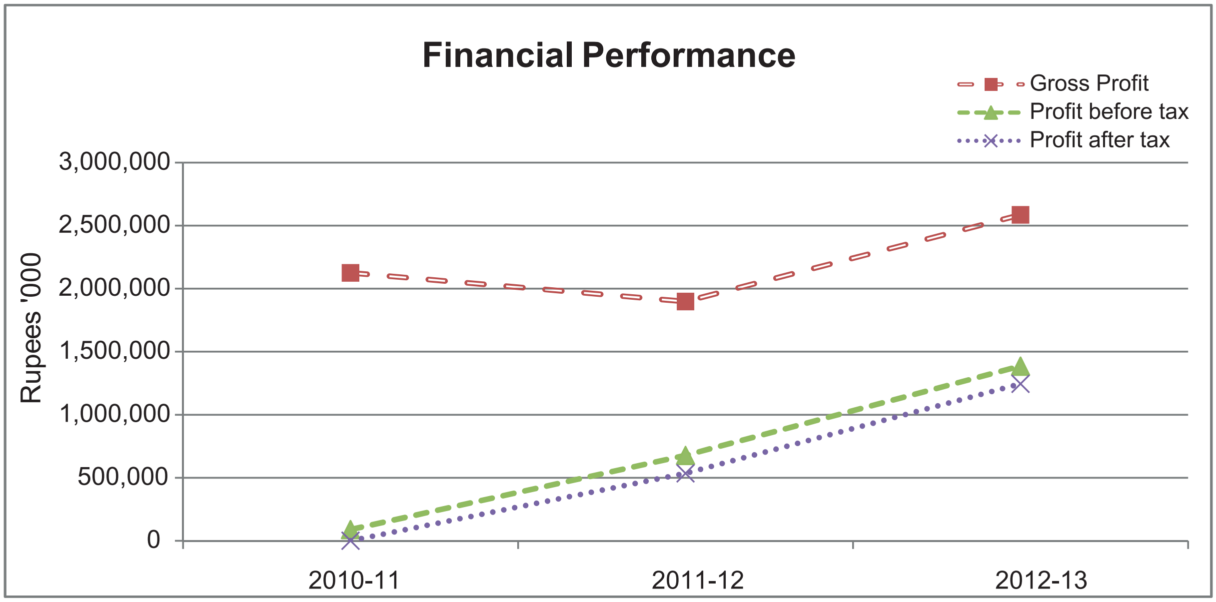
(Figures '000)

		2013	2012
Weaving Production	Kg	21,168	21,989
Towel Production	Kg	26,289	25,224
Export Sales	Kg	25,564	25,413
	US$	142,739	152,687
	Rupees	13,775,448	13,575,780
Gross Profit	Rupees	2,566,483	1,898,285
Gross Profit to Sales	Percentage	19.03	14.30
Profit before tax	Rupees	1,386,083	677,745
Profit before tax	Percentage	10.28	5.11
Profit after tax	Rupees	1,245,634	535,142
Profit after tax	Percentage	9.24	4.03

Though the operational performance and sales volume are substantially the same, the amount of profit earned is highest in the last three years. The improvement in gross profit is the combined result of efficient production management, reduction in cost caused by balancing of plant, better average selling prices in relation of cost of material and devaluation of Pak currency. It is pertinent to note that the improvement in gross profit very efficiently translated into net profit before tax and the same has only been affected to the extent of only currency devaluation and local inflation which demonstrates the success of management in reducing and controlling the administrative, distribution and financial costs.

A graphic view of the operational and financial performance of the company may be reviewed as depicted below:





FUTURE OUTLOOK

The State Bank of Pakistan in its Annual Review 2011-2012 released in January 2013 while commenting on “the state of Pakistan’s economy” has termed the fall in textile exports as the primary reason responsible for negative growth in exports receipts of the country. During last three years it has also been witnessed that the share of Pakistan in the regional valued added export in textile sector is showing declining trend meaning losing the opportunities for value added exports on permanent basis and thus not only compromising on the enhanced export earnings but also increasing unemployment in the country. The increase in the export of raw cotton and decrease in yarn and value added sector exports may not be considered as alarming while looking of balance of payment alone but certainly it’s alarming while we consider the economy as a whole. The sector having significant contribution in GDP, contributing more than 50% of total export and providing employment of 30% of country’s workforce has unfortunately been taken as granted by the Government. The sector which is already been haunted continuously for last few years due to power shortage have been further penalized by holding the sales tax and export rebate refunds other incenticves announced for the textile industry. Further the zero rating comfort enjoyed by the industry with respect to local sales has been withdrawn, increase in gas tariff for captive power already announced, increase in rate of concessional financing seems on card, the damage might have been caused to cotton crop by the recent rains is still to be known, the only sigh of relief, though temporary, is the devaluation of pak rupee. Nevertheless, as it was stated in last year report your management having absolute faith in Almighty Allah and looking at the seriousness and determination of the government to address the issues on long term basis, is hopeful of maintaining the performance both operationally and financially and also for betterment in the overall situation prevailing in the country.

CORPORATE SOCIAL RESPONSIBILITY

This being a continuous process, the conservation of natural resources, reduction in wastages, enhancement of recycling, improvement of energy efficiency and enhancement of environmental performance by reducing spills and releases were the top priorities while observing the “Corporate Social Responsibility”. Like prior years targets were set for reduction in the natural gas consumption and use of water based on the achievements made in prior years.

The waste water treatment plant has been completed with investment of Rs. 70.00 million. The project has enabled the company to treat the water rather than draining and thus ensuring compliance with the applicable environmental laws and reducing pollution. The ‘Waste Heat Recovery Plant’ like prior year has continued to enable the availability of 1,400 kg of steam per hour and 70 gallon of hot water per minute and thus reducing the usage of gas proportionately.

The Joint Venture project of management and staff the “Social Responsibility Squad” (SRS)” established in 2011 with primary focus and emphasis on areas like health, safety, environment, education and humanity had contributed significantly during the year. For creating awareness among employees and in an effort to make them more responsible the SRS besides providing consultations, medicines and financial aids also celebrated days being observed by the world organizations for health and environment. The achievement was attempted with the help of mail circulations, inviting staff to visit relevant websites, circulation of literatures and display of banners etc. Presentations were also organized and outside faculty was also invited for the purpose. Further “weaving a better world” (how to make the earth even a better place) day was also observed on almost all the locations of the company for the first time and a very warm and active participation was witnessed.

DIVIDEND & SUBSEQUENT APPROPRIATION

The Board has recommended a final cash dividend @ 15 % i.e., Rs. 1.50 per share (in addition to 15% interim cash dividend) for all shareholders of the Company except directors, their relatives and associates and @ 3% i.e., Rs. 0.30 per share (in addition to 3% interim cash dividend) for directors, their relatives and associates and accordingly the following appropriation has been made.

	(Rupees in '000)	
	2013	**2012**
Accumulated profit/(loss) brought forward	5,758	(340,590)
Profit after taxation for the year	1,245,635	535,142
Accumulated profit	1,251,393	194,552
Cash Dividend – Interim	(113,355)	-
Cash Dividend - Final	(113,355)	(188,794)
	(226,710)	(188,794)
Accumulated profit carried forward	1,024,683	5,758

CORPORATE GOVERNANCE

The directors have taken all necessary measures in order to comply with the Code of Corporate Governance in accordance with the listing rules of the stock exchange and state that:

1. The financial statements for the year ended June 30, 2013, prepared by the management of the Company, present fairly the Company's state of affairs, the results of its operations, cash flows and changes in equity.
2. Proper books of accounts have been maintained.
3. In preparation of the financial statements, appropriate accounting policies have been consistently applied and the accounting estimates are based on prudent judgment.
4. International Accounting Standards, as applicable to Pakistan, have been followed in preparation of the financial statements, and the non-applicability, if any, has been adequately disclosed.
5. The sound system of internal controls has been effectively implemented and is being continuously monitored. The process of review will continue and any weaknesses in controls will be removed.
6. There are no significant doubts about the Company's ability to continue as a going concern.
7. There is no material departure from the best practices of corporate governance as defined in the listing regulations of the stock exchange.
8. The value of Provident Fund Investments as per audited accounts of Provident Fund Trust for the year ended June 30, 2012 was Rs. 243.26 million.
9. There are no outstanding dues on account of taxes, levies and charges except of a normal and routine nature.
10. During the year none of the Directors, Chief Executive, and Chief Financial Officer, Company Secretary and their spouses and minor children has traded in the shares of the company expect sale of 2500 shares by Mrs. Saba Perwez.
11. Key operating and financial data for the last six years is annexed.
12. Six, four and one meetings of Board of Directors, Audit Committee and HR & Remuneration Committee were respectively held during the year. Attendance by the directors/members is given below:

Board of Directors:

Mr. Khaleequr Rahman	5
Mr. Shabbir Ahmed	5
Mr. Abdul Rahman Yaqub	3
Sheikh Zafar Ahmed	6
Mr. Perwez Ahmed	6
Mr. Jonathan R. Simon	5
Mr. Jawed Yunus Tabba	3
Mr. Pervez Saeed	1
Mr. Anas Rahman	6

Audit Committee:

Mr. Pervez Saeed	1
Mr. Perwez Ahmed	4
Mr. Jawed Yunus Tabba	3
Mr. Shabbir Ahmed	2

HR & Remuneration Committee:

Mr. Khaleequr Rahman	1
Mr. Shabbir Ahmed	1
Mr. Jawed Yunus Tabba	1
Mr. Anas Rahman	1

Directors/members who could not attend meeting due to illness or some other engagements were granted leave of absence.

13. During the year, the Company Secretary conducted orientation sessions for directors to acquaint them with the changes in Corporate Laws and Regulations.

The Statement of Compliance with the Best Practice of Code of Corporate Governance is annexed.

AUDITORS

The auditors M/s Rahman Sarfaraz Rahim Iqbal Raifq, Chartered Accountants, retires and being eligible, has offered themselves for re-appointment.

PATTERN OF SHAREHOLDING

Statements showing the pattern of shareholding as at June 30, 2013 required under the Companies Ordinance, 1984 and the Code of Corporate Governance.

ACKNOWLEDGMENTS

The Directors are pleased to place on record their appreciation for the contributions made by the employees of the Company. In addition, management also acknowledges the role of all the bank, customers, suppliers and other stakeholders for their continued support.

For and on behalf of the Board

Chairman
Khaleequr Rehman

Karachi: September 19, 2013

Pattern Of Holdings Of The Shares Held By The Shareholders As At June 30, 2013

No. of Shareholders		Shareholding				Total Shares held
298	From	1	To	100	Share	9,018
132	From	101	To	500	Share	28,566
34	From	501	To	1,000	Share	26,214
29	From	1,001	To	5,000	Share	59,476
3	From	5,001	To	10,000	Share	25,803
2	From	10,001	To	15,000	Share	23,631
1	From	90,001	To	95,000	Share	93,072
1	From	5,533,001	To	5,533,500	Share	5,533,235
4	From	7,165,001	To	7,165,500	Share	28,660,924
6	From	8,456,001	To	8,456,500	Share	50,738,472
1	From	8,723,001	To	8,723,500	Share	8,723,114
1	From	10,746,001	To	10,746,500	Share	10,743,832
1	From	12,708,001	To	12,708,500	Share	12,708,049
1	From	13,057,501	To	13,058,000	Share	13,057,542
1	From	15,237,001	To	15,237,500	Share	15,237,407
1	From	19,099,001	To	19,099,500	Share	19,099,015
1	From	19,897,501	To	19,898,000	Share	19,897,685
1	From	20,178,001	To	20,178,500	Share	20,178,352
1	From	21,242,001	To	21,242,500	Share	21,242,223
1	From	70,206,001	To	70,206,500	Share	70,206,088
1	From	80,509,001	To	80,509,500	Share	80,509,250
521						**376,800,968**

PATTERN OF SHAREHOLDING
AS AT JUNE 30, 2013

Categories of shareholders	Number of shareholders	Share held	Percentage
Directors, Chief Executive Officer, their spouse and minor Chilrden	11	176,313,187	46.79
NIT AND ICP	1	6	0.00
Banks, Development Finance Institutions, Non-Banking Finance Institutions and others	1	65	0.00
Shareholding 10% or more	1	70,206,088	18.63
General Public	507	130,281,622	34.58
	521	376,800,968	100.00

PATTERN OF SHAREHOLDING
ADDITIONAL INFORMATION (CODE OF CORPORATE GOVERNANCE)
AS AT JUNE 30, 2013

Shareholders' Category		Number of Shareholders	Number of Shares held
Associated Companies, undertaking and related parties		—	—
NIT and ICP			
M/s.Investment Corporation of Pakistan		1	6
Directors, CEO, their Spouses and minor Children (name wise details)			
Mr.Khaleequr Rahman	Director/Chairman	1	13,057,542
Mr.Anas Rahman	Chief Executive	1	7,165,231
Mr.Shabbir Ahmed	Director	1	80,509,250
Sheikh Zafar Ahmed	Director	1	19,897,685
Mr.Perwez Ahmed	Director	1	21,242,223
Mr.Jonathan R.Simon	Director	1	—
Mr.Pervez Saeed	Director	1	2,500
Mr.Jawed Yunus Tabba	Director	1	1,105
Mrs.Shahnaz Rahman	Spouse	1	8,456,412
Mrs.Humaira Zafar	Spouse	1	15,237,407
Mrs.Saba Perwez	Spouse	1	10,743,832
Executives			—
Public Sector Companies			—
Bank, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds		1	65
Shareholders holding 5% or more voting interest:			
Mr.Shabbir Ahmed		1	80,509,250
Sheikh Zafar Ahmed		1	19,897,685
Mr.Perwez Ahmed		1	21,242,223
Mr.Omair Rehman		1	19,099,015
M/s.1888 Mills LLC (Foreign Company)		1	20,178,352
M/s.Grangeford Ltd (Foreign Company)		1	70,206,088

KEY OPERATING AND FINANCIAL DATA

Year Ended June 30,	2013	2012	2011	2010	2009	2008
					(Rs. in millions)	
ASSETS EMPLOYED						
Property, plant and equipment	4,547.77	4,705.28	4,520.23	3,944.41	1,544.10	1,365.22
Intangible assets	15.43	20.69	22.21	16.44	-	-
Investments, Long term Advances and Deposits	5.31	5.27	4.51	4.51	3.03	3.03
Current Assets	6,904.32	5,459.26	6,376.56	3,742.76	843.31	725.53
Assets classified as held for sale	-	-	0.79	5.09	70.88	94.82
Total Assets Employed	**11,472.83**	**10,190.50**	**10,924.30**	**7,713.21**	**2,461.32**	**2,188.60**
FINANCED BY						
Shareholders' Equity	5,664.70	4,721.22	4,186.61	4,072.45	304.41	(100.27)
Right shares subscription account	-	-	-	-	423.50	341.87
Long Term Liabilities	606.25	795.83	964.89	568.05	486.01	790.76
Current Liabilities	4,121.21	3,592.79	5,204.74	2,504.64	641.12	683.51
Liabilities classified as held for sale	-	-	-	-	134.30	134.30
Total Funds Invested	**10,392.16**	**9,109.84**	**10,356.24**	**7,145.14**	**1,989.34**	**1,850.17**
REVENUE DISTRIBUTION SUMMARY						
Sales	13,484,144	13,284,356	11,728,178	1,772,402	1,749,298	1,277,009
Other Revenue	84,046	114,293	36,975	21,097	28,551	3,925
	13,568,190	13,398,649	11,765,153	1,793,499	1,777,849	1,280,934
Bought in materials and services	9,387,804	10,724,543	9,087,206	1,311,627	1,325,913	1,037,430
Distribution cost	383,153	357,354	350,338	84,548	112,719	94,092
Administrative, financial and other charges	986,519	689,129	665,267	68,847	109,005	100,836
Government	225,043	154,759	126,365	13,213	17,264	12,909
Employees	1,340,051	937,722	757,799	171,959	218,335	154,744
Retained in business	1,245,620	535,142	778,178	143,305	(5,387)	119,077)
Total Distribution	13,568,190	13,398,649	11,765,153	1,793,499	1,777,849	1,280,934
KEY FINANCIAL RATIOS						
Gross profit	19.03%	14.30%	18.14%	18.26%	14.22%	8.86%
Net profit/(loss) (after tax to sales)	9.24%	4.03%	6.64%	7.02%	(0.37%)	(8.23%)
Debt equity	14:86	14:86	19:81	34:66	27:73	58:42
Current ratio	1.68	1.52%	1.23%	6.90%	0.00%	0.99%
Return on assets	0.11	0.05%	0.07%	0.02%	-2.63%	-0.05%
Return on equity	0.24	0.10%	0.17%	0.11%	-0.01%	-0.23%
Inventory turnover - Times	3.50	4.00	3.94	1.30	5.17	3.38
Fixed assets turnover - Times	2.90	2.82	2.59	0.45	1.08	0.94
Assets turnover - Times	1.24	1.31	1.08	0.23	0.72	0.62
SHARES AND EARNINGS						
Break-up Value without revaluation	15.03	12.53	11.11	10.81	4.06	(2.96)
Break-up Value with revaluation	17.90	15.40	12.62	12.32	11.98	7.03
Earnings per Share from continued operation	3.31	1.42	2.07	1.20	(0.09)	(3.12)
Earnings per Share from discontinued operation	-	-	0.13	0.18	0.01	(0.04)
Price Earnings Ratio						
No. of Shares ('000)	376,801	376,801	117,582	117,582	74,987	33,890
Dividend	302,149	524	524	-	-	-
PRODUCTION						
Weaving Production ('000 Kgs)	21,168	21,989	18,087	4,857	4,123	3,910

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 35 of listing regulations of Karachi Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The company has applied the principles contained in the CCG in the following manner:

1. The company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Name
Independent Director	Mr. Pervez Saeed
Executive Director	Sheikh Zafar Ahmed Mr. Anas Rahman
Non-Executive Directors	Mr. Khaleequr Rahman Mr. Shabbir Ahmed Mr. Perwez Ahmed Mr. Jonathan R. Simon Mr. Jawed Yunus Tabba

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).

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 a NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. No casual vacancy has arisen during the year ended on June 30, 2013.

5. The company has prepared a “Code of Conduct” and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.

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, other executive and non-executive directors, have been taken by the board/shareholders.

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 two training programs for its directors during the year.

10. The board shall approve appointment of CFO, Company Secretary and Head of Internal Audit made after the Code has taken effect, including their remuneration and terms and conditions of employment.

11. The directors' report for this year has been prepared in compliance with the requirements of the CCG 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 CCG.

15. The board has formed an Audit Committee. It comprises three members, of whom one is independent director and two 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 CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The board has formed an HR and Remuneration Committee. It comprises four members, of whom three are non-executive directors and one is Chief Executive. The chairman of the committee is a non executive director.

18. The board has outsourced the internal audit function to Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company.

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

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange.

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.

23. We confirm that all other material principles enshrined in the CCG have been complied with.

On behalf of the Board of Directors

Anas Rahman
Chief Executive

Karachi: September 19, 2013

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 for the year ended **June 30, 2013** prepared by the Board of Directors of **Feroze1888 Mills Limited** ("the Company") to comply with the Listing Regulation No.35 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited, where the Company is listed.

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

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

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

Karachi:

Date: September 19, 2013

Rahman Sarfaraz Rahim Iqbal Rafiq
Chartered Accountants
Engagement partner: Muhammad Waseem

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Feroze1888 Mills Limited** ("the Company") as at **June 30, 2013** and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

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

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2013 and of the profit, total comprehensive income, cash flows and changes in equity for the year then ended; and

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

Rahman Sarfaraz Rahim Iqbal Rafiq
Chartered Accountants
Engagement partner: Muhammad Waseem

Karachi:

Date: September 19, 2013

BALANCE SHEET
AS AT JUNE 30, 2013

	Note	2013	2012
		(Rupees in '000)	
ASSETS			
Non-current assets			
Property, plant and equipment	4	4,545,236	4,705,280
Intangible assets	5	15,426	20,692
Long term investment		10	10
Long term deposits		5,300	5,260
Current assets			
Stores and spares	6	373,799	334,355
Stock-in-trade	7	3,464,152	2,769,521
Trade debts - considered good	8	2,222,197	1,776,672
Advances, prepayments and other receivables	9	772,681	450,260
Taxation		32,374	22,908
Cash and bank balances	10	43,791	105,542
		6,908,994	5,459,258
		11,474,966	10,190,500
SHARE CAPITAL & RESERVES			
Authorised share capital			
400,000,000 (2012: 400,000,000) ordinary shares of Rs. 10 each		4,000,000	4,000,000
Issued, subscribed and paid-up capital	11	3,768,009	3,768,009
Capital reserve		758,663	758,663
Accumulated profit		1,138,038	194,552
		5,664,710	4,721,224
Surplus on revaluation of fixed assets	12	1,080,662	1,080,662
LIABILITIES			
Non-current liabilities			
Long term finance - secured	13	606,252	795,828
Current liabilities			
Trade and other payables	14	1,802,672	1,659,934
Accrued mark-up	15	61,846	63,763
Short term borrowings - secured	16	2,071,710	1,698,041
Current portion of long term finance	13	187,114	171,048
		4,123,342	3,592,786
Contingencies and commitments	17	—	—
		11,474,966	10,190,500

The annexed notes 1 to 38 form an integral part of these financial statements.

ANAS RAHMAN
CHIEF EXECUTIVE

SHEIKH ZAFAR AHMED
DIRECTOR

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

	Note	2013	2012
		(Rupees in '000)	
Sales - net	18	13,484,144	13,272,199
Cost of sales	19	(10,917,659)	(11,373,914)
Gross profit		2,566,485	1,898,285
Administrative cost	20	(482,018)	(458,143)
Distribution cost	21	(383,153)	(357,355)
Other operating cost	22	(98,458)	(59,254)
		(963,629)	(874,752)
Operating profit		1,602,856	1,023,533
Finance cost	23	(216,772)	(345,788)
Profit before taxation		1,386,082	677,745
Taxation	24	(140,449)	(142,602)
Profit after taxation		1,245,635	535,142
Earnings per share			
- Basic and diluted	25	3.31	1.42

The annexed notes 1 to 38 form an integral part of these financial statements.

ANAS RAHMAN
CHIEF EXECUTIVE

SHEIKH ZAFAR AHMED
DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012
	(Rupees in ‘000)	
Profit for the year	1,245,635	535,142
Other comprehensive income for the year	—	—
Total comprehensive income for the year	1,245,635	535,142

The annexed notes 1 to 38 form an integral part of these financial statements.

ANAS RAHMAN
CHIEF EXECUTIVE

SHEIKH ZAFAR AHMED
DIRECTOR

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013	2012
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		1,386,084	677,745
Adjustments for non cash and other items:			
Depreciation		339,960	364,459
Amortization		17,645	17,647
Finance costs		216,772	345,788
Workers' welfare fund		10,787	11,063
Workers' profits participation fund		73,519	36,260
Provision for bad debt		—	16,283
Loss / (Gain) on disposal of property, plant and equipment		178	(4,361)
		658,861	787,139
Operating cash flows before working capital changes		2,044,945	1,464,884
Changes in working Capital	27	(1,491,422)	1,645,302
Cash generated from operations		553,523	3,110,186
Finance costs paid		(273,124)	(367,756)
Income tax paid & deducted at source		(149,915)	(123,911)
Net cash generated from operating activities		130,484	2,618,520
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(215,430)	(180,035)
Sales proceeds on disposal of property, plant and equipment		23,136	7,378
Long term deposits		(40)	(760)
Net cash (used) in investing activities		(192,334)	(173,417)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(200,059)	—
Repayment of long term finance		(173,510)	(173,636)
Net cash used in financing activities		(373,569)	(173,636)
Net (decrease)/increase in cash & cash equivalents during the year		(435,420)	2,271,467
Cash and cash equivalents at the beginning of the year		(1,592,499)	(3,863,966)
Cash and cash equivalents at the end of the year	28	(2,027,919)	(1,592,499)

The annexed notes 1 to 38 form an integral part of these financial statements.

ANAS RAHMAN
CHIEF EXECUTIVE

SHEIKH ZAFAR AHMED
DIRECTOR

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

	Share capital	Capital reserve	Accumulated (loss) / profit	Total
	(Rupees in '000)			
Balance as at July 1, 2011	3,768,009	758,663	(340,066)	4,186,606
Total comprehensive income for the year ended June 30, 2012				
Profit for the year	—	—	535,142	535,142
Transactions with owners - Final cash dividend @ Rs. 2.00 per share for the year ended June 30, 2011	—	—	(524)	(524)
Balance as at June 30, 2012	3,768,009	758,663	194,552	4,721,225
Balance as at July 1, 2012	3,768,009	758,663	194,552	4,721,225
Total comprehensive income for the year ended June 30, 2013				
Profit for the year	—	—	1,245,635	1,245,635
Transactions with owners:				
- Final cash dividend for the year ended June 30, 2012				
- @ Rs. 2.00 per share for all shareholders except directors, their relatives and associates.	—	—	(524)	(524)
- @ Rs. 0.50 per share to directors, their relatives and associates.	—	—	(188,269)	(188,269)
- Interim cash dividend				
- @ Rs. 1.50 per share for all shareholders except directors, their relatives and associates.	—	—	(393)	(393)
- @ Rs. 0.30 per share to directors, their relatives and associates.	—	—	(112,962)	(112,962)
	—	—	(302,149)	(302,149)
Balance as at June 30, 2013	3,768,009	758,663	1,138,038	5,664,710

The annexed notes 1 to 38 form an integral part of these financial statements.

ANAS RAHMAN
CHIEF EXECUTIVE

SHEIKH ZAFAR AHMED
DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

1. THE COMPANY AND ITS OPERATIONS

1.1 The Company was incorporated in Pakistan as a public limited company. The shares of the Company are quoted on Karachi Stock Exchange. The Company is principally engaged in production and export of towels. The registered office of the Company is situated at H-23/4-A, Scheme # 3, Landhi Industrial Area, Karachi.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984 and the provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 have been followed.However for buisness combination of the entities under common control not covered by IFRS 3,the accounting principle used are those provided in guidelines issued for these by other statndard setting bodies that uses a similar conceptual framework to develop accounting standards i.e FASB Accounting Standard Codification (US GAAP) in line with guidance given in IAS 8.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except that the land which is carried at revalued amount and certain exchange elements have been incorporated in the cost of the relevant assets.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the Company's functional and presentation currency.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the management to make the judgment, estimates, assumptions and use judgments that affect the application of policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Estimates, assumptions and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments and estimates made by management that may have a significant risk of material adjustments to the financial statements in subsequent years are as follows:

	Note
a) Useful lives and residual values of property, plant and equipment	3.7
b) Taxation	3.3
c) Staff retirement benefits	3.1
d) Estimation for impairment in respect of trade debts	3.11
e) Provision for obsolete / slow moving stores and spares and stock-in-trade	3.9 & 3.10.

2.5 Initial application of standards, amendments or an interpretation to existing standards

a) Standards, amendments to published standards and interpretations that are effective in 2013 and are relevant to the Company:

- Prepayments of a minimum funding requirement (amendments to IFRIC 14), effective from January 1, 2011. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The Company's does not have any defined benefit plan, hence, these amendments will have no impact on the Company's financial statements.

- IAS 24 (revised), 'Related Party Disclosures',effective from January 1, 2011. The revised standard supersedes IAS 24, 'Related party disclosures', issued in 2003. Application of the revised standard will only impact the format and extent of disclosures presented in the Company's financial statements.

b) Standards, amendments to published standards and interpretations that are effective in 2013 but not relevant to the Company

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations and therefore have not been analyzed in detail.

c) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

Following new standards, amendments and interpretation to existing standards have been issued but are not effective for the financial year beginning on July 1, 2012 and have not been early adopted by the Company:

- IAS 1 (amendments) - 'Presentation of Items of Other Comprehensive Income' effective from July 1, 2012. The amendment requires entities to separate items presented in Other Comprehensive Income into two groups, based on whether or not they may be recycled to profit or loss in future.

- IAS 19 (ammendments) - effective from January 1, 2013. It prescribes the accounting and disclosure by employers for employee benefits.

- IAS 32 (amendments) - 'Offsetting Financial Assets and Financial Liabilities' effective from January 1, 2014. The amendments clarify (a) the meaning of 'currently has a legally enforceable right of set-off'; and (b) that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.

- "IFRS 7 (amendments) - 'Disclosures - Offsetting Financial Assets and Financial Liabilities' effective from January 1, 2013. These amendments require entities to disclose information so that users of its financial statements are able to evaluate the effect or potential effect of netting arrangements and similar agreements on the entity's financial position.

- IFRS 9, 'Financial Instruments', effective for periods beginning on or after January 1, 2015. IFRS 9 addresses the classification and measurement of financial assets. The Company is yet to asses the full impact of IFRS 9.

- IFRS 10, 'Consolidation financial statements', effective for periods beginning on or after January 1, 2013. This standard replaces all of the guidance on control and consolidation in IAS 27, 'Consolidated and separate financial statements' and SIC 12, 'Consolidation - separate purpose entities'. This standard is not expected to have any impact on the Company's financial statements.

- IFRS 11, 'Joint arrangements', effective for periods beginning on or after January 1, 2013. This standard brings in changes in definition of joint arrangements and reduces the 'types' of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. This standard is not expected to have any impact on the Company's financial statements.

- IFRS 12, 'Disclosure of interests in other entities', effective for periods beginning on or after January 1, 2013. This standard set out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11; it replaces the disclosure requirements currently found in IAS 28, 'Investments in associates'; and requires entities to disclose information that helps users to evaluate the nature, risks and financial effects associated with the entity's interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities. This standard is not expected to have any impact on the Company's financial statements.

- IFRS 13, 'Fair value measurement', effective for periods beginning on or after January 1, 2013. This standard explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. This standard is not expected to have any impact on the Company's financial statements.

There are a number of minor amendments in other IFRS and IAS which are part of annual improvement project published in May and June 2012 (not addressed above). These amendments are unlikely to have any impact on the Company's financial statements and therefore have not been analysed in detail.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Staff retirement benefits

3.1.1 Defined contribution plans

The Company operates an approved defined contribution provident fund for its eligible employees. Monthly contributions are made both by the Company and employees to the fund at the rate of 10% of basic salary.

3.1.2 Employees' compensation absences

The Company accounts for the liability in respect of employees' compensation absences in the year in which these are earned.

3.2 Provisions

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

3.3 Taxation

Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any. The charge for the current tax also includes adjustments where necessary, relating to prior years which arise from assessments framed / finalized during the year.

The Company's income is chargeable to tax under final tax regime prescribed under the Income Tax Ordinance, 2001.

Deferred

Deferred tax is recognised using the balance sheet method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Currently, no deferred tax is recognised since Company's income is wholly chargeable to tax under the final tax regime of the Income Tax Ordinance, 2001.

3.4 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

3.5 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.6 Share capital

Ordinary shares are classified as equity and recognised at their face value. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.7 Property, plant and equipment

3.7.1 Owned

These are stated at historical cost less accumulated depreciation and impairment loss, if any, except for land that are shown at revalued amounts. Depreciation is charged to profit and loss account applying the reducing balance method whereby the cost of an asset is written off over its useful life at the rates specified in note 12 to the financial statements except for lease hold improvement which are depreciated on straight line basis over the period of 3 to 5 years. Depreciation on additions is charged from the month the asset is available for use upto the month preceding the month of disposal.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than the recoverable amount.

Where major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Disposal of asset is recognised when significant risk and rewards incidental to ownership have been transferred to buyers. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are taken to the profit and loss account.

Depreciation method, useful lives and residual values are reviewed annually and adjusted, if appropriate, at each balance sheet date.

Repairs and maintenance are charged to income as and when incurred.

3.7.2 Capital work in progress

Capital work-in-progress is stated at cost less impairment, if any. It consists of expenditure incurred and advances made in respect of tangible and intangible assets in the course of their construction and installation. Transfers are made to relevant operating fixed assets category as and when assets are available for use.

3.8 Intangible assets

Computer software is capitalized on the basis of cost incurred to acquire and bring to use the specific software. Amortization is charged to the profit and loss account using the 'straight line' method on period of 5 year. Amortization on additions is charged from the month of purchase of the intangible asset. Intangible asset is derecognized on disposal, or when no future economic benefits are expected from use. Any resulting gain or loss on derecognition are recognized in profit and loss account. The estimated useful life and the amortization methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3.9 Stores and spares

Stores and spares, excluding items in transit, are valued at lower of moving average cost and net realisable value. Provision is made for slow moving and obsolete items, based on management's best estimate regarding their future usability.

Items in transit are valued at cost comprising invoice values plus other charges incurred thereon accumulated to the reporting date.

Net realisable value signifies the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

3.10 Stock-in-trade

Raw materials are valued at average cost and finished goods are valued at lower of average cost and net realisable value.

Work-in-process is valued at average cost of raw-materials including a proportionate of manufacturing overheads.

By products [Waste products] are valued at net realisable value.

Net realisable value signifies the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to be incurred to make the sale. Provisions are made in the financial statements for obsolete and slow moving stock-in-trade based on management's best estimate regarding there future usability.

3.11 Trade and other receivables

Trade and other receivables are carried at original invoice amount / cost, which is the fair value of the consideration to be received, less an estimate made for doubtful debts which is determined based on management review of outstanding amounts and previous repayment pattern. Balances considered bad and irrevocable are written off.

3.12 Cash and cash equivalents

Cash and cash equivalents in the cash flow statement includes cash in hand, balance with banks, and bank overdrafts / short term borrowings. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

3.13 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company’s activities.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria has been met for each of the Company’s activities as described below:

- Sale of goods & services
  Sales are recorded on dispatch of goods to the customer or on performance of services.

- Interest / mark up income
  Income on deposits and other operating income are recorded on accrual basis.

3.14 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset in which case such costs are capitalised as part of the cost of that asset. Borrowing costs includes exchange differences arising on foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

3.15 Foreign currency transactions and translation

These financial statements are presented in Pak Rupees, which is Company’s functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

3.16 Impairment of non-financial assets

Assets that are subject to depreciation / amortisation are reviewed at each balance sheet date to identify circumstances indicating occurrence of impairment loss or reversal of previous impairment losses. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sale and value in use. Reversal of impairment loss is restricted to the original cost of the asset.

3.17 Financial assets

3.17.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.There were no financial assets at fair value through profit or loss on the balance sheet date.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise deposits, trade debts, other receivables and cash and cash equivalents in the balance sheet.

c) Held to maturity financial assets

Held to maturity financial assets are non derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention and ability to hold to maturity. There were no held to maturity financial assets at the balance sheet date.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose off it within 12 months of the end of the reporting date.

3.17.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed out in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account as part of other income when the Company's right to receive payments is established.

Changes in fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account as part of other income. Dividends on available-for-sale equity instruments are recognised in the profit and loss account as part of other income when the Company's right to receive payments is established.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade and other receivables is described in note 3.11.

3.18 Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual right to the cash flow from the financial assets expire or is transferred. Financial liabilities are derecognised when they are extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expired. Financial instruments carried on the balance sheet include investment, trade and other receivables, advances, cash and bank balances, deposits, borrowings and trade and other payables . The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

3.19 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are off set and the net amount is reported in the balance sheet only when the Company has a legally enforceable right to offset the recognised amount and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.20 Transactions with related parties

Transactions with related parties are carried out on commercial terms and conditions.

3.21 Earnings per share

The company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary share holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.22 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognised in the financial statements in the period in which these are approved.

		Note	2013	2012
			(Rupees in '000)	
4	**PROPERTY, PLANT AND EQUIPMENT**			
	Operating fixed assets	4.1	4,384,677	4,614,092
	Capital work-in-progress	4.4	126,103	44,230
	Lease hold improvements		34,455	46,958
			4,545,236	4,705,280

4.1 Operating fixed assets

	Continued Operations													Discontinued operation	
	Lease hold land	Free hold land	Building on Leasehold Land	Building on Freehold Land	Plant & Machinery	Tools and euipment	Electric fittings	Office Equipment	Computers	Furniture and Fixtures	Vehicles	Arms and Ammunitions	Sub Total	Plant & Machinery	Total
	Rupees														
As at July 01, 2011															
Cost	736,731	145,676	538,217	136,476	4,672,255	17,634	186,557	12,832	53,083	34,102	104,175	42	6,637,780	5,292	6,643,072
Accumulated depreciation	-	-	(296,555)	(47,965)	(1,753,823)	(6,533)	(72,162)	(6,546)	(24,326)	(15,408)	(39,515)	(26)	(2,262,859)	(5,158)	(2,268,017)
Net book value	736,731	145,676	241,662	88,511	2,918,432	11,101	114,395	6,286	28,757	18,694	64,660	16	4,374,921	134	4,375,055
Year ended June 30, 2012															
Opening net book value	736,731	145,676	241,663	88,511	2,918,432	11,102	114,395	6,286	28,757	18,694	64,660	16	4,374,923	134	4,375,055
Additions / transfers during the year	-	-	5,177	11,774	52,650	6,064	4,356	2,416	2,912	910	9,015	-	95,274	-	95,274
Surplus on revaluation	352,382	160,224	-	-	-	-	-	-	-	-	-	-	512,606	-	512,606
Disposals / transfers															
Cost	-	-	-	-	-	-		(50)	-	-	(9,514)	-	(9,564)	(5,292)	(14,856)
Accumulated depreciation	-	-	-	-	-	-		25	-	-	5,850	-	5,875	5,158	11,033
Net book value	-	-	-	-	-	-	-	(25)	-	-	(3,664)	-	(3,689)	(134)	(3,823)
Depreciation for the year	-	-	(24,320)	(9,734)	(285,573)	(8,854)	(11,501)	(996)	(8,366)	(1,901)	(13,775)	(2)	(365,022)	-	(365,022)
Closing net book value	1,089,113	305,900	222,520	90,551	2,685,509	8,312	107,250	7,681	23,303	17,703	56,236	14	4,614,092	-	4,614,092
													-		
As at July 1, 2012															
Cost	1,089,113	305,900	543,394	148,250	4,748,603	23,698	190,913	15,198	55,995	35,012	103,676	42	7,259,794	-	7,259,794
Adjustments (refer note 34)	(2,138)	2,138	12,746		(58,360)	(23,698)	1,146	3,599	(797)	1,109	53,405	-	(10,850)		(10,850)
	1,086,975	308,038	556,140	148,250	4,690,243	-	192,059	18,797	55,198	36,121	157,081	42	7,248,944	-	7,248,944
Accumulated depreciation	-	-	(320,875)	(57,699)	(2,054,781)	(15,387)	(83,663)	(7,517)	(32,692)	(17,309)	(47,440)	(28)	(2,637,391)	-	(2,637,391)
Adjustments (refer note 34)	-	-	(12,832)		26,733	15,387	(735)	(1,013)	(1,917)	(1,688)	(20,645)	-	3,291		3,291
	-	-	(333,707)	(57,699)	(2,028,048)	-	(84,398)	(8,530)	(34,609)	(18,997)	(68,085)	(28)	(2,634,101)	-	(2,634,101)
Net book value	1,086,975	308,038	222,433	90,551	2,662,195	-	107,662	10,267	20,589	17,124	88,996	14	4,614,844	-	4,614,844
Year ended June 30, 2013															
Opening net book value	1,086,975	308,038	222,433	90,551	2,662,195	-	107,662	10,267	20,589	17,124	88,996	14	4,614,844	-	4,614,844
year	-	-	702	-	87,650	-	1,829	2,086	5,113	7	35,597	-	132,984	-	132,984
Surplus on Revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposals / transfers															
Cost	-	-	-	-	(53,837)	-	-	-	-		(7,880)		(61,717)	-	(61,717)
Accumulated depreciation	-	-	-	-	34,381	-	-	-	-		4,156		38,537	-	38,537
Net book value	-	-	-	-	(19,456)	-	-	-	-	-	(3,723)	-	(23,179)	-	(23,179)
Depreciation for the year	-	-	(22,249)	(9,055)	(268,002)	-	(10,806)	(1,608)	(6,449)	(1,713)	(20,086)	(2)	(339,971)	-	(339,971)
Closing net book value	**1,086,975**	**308,038**	**200,886**	**81,496**	**2,462,387**	**-**	**98,684**	**10,745**	**19,253**	**15,418**	**100,783**	**12**	**4,384,677**	**-**	**4,384,677**
As at June 30, 2013															
Cost	1,086,975	308,038	556,842	148,250	4,724,056	-	193,888	20,883	60,311	36,128	184,798	42	7,320,212	-	7,320,212
Accumulated depreciation	-	-	(355,956)	(66,754)	(2,261,669)	-	(95,204)	(10,138)	(41,058)	(20,710)	(84,015)	(30)	(2,935,534)	-	(2,935,534)
Net book value	**1,086,975**	**308,038**	**200,886**	**81,496**	**2,462,387**	**-**	**98,684**	**10,745**	**19,253**	**15,418**	**100,783**	**12**	**4,384,677**	**-**	**4,384,677**
Annual rates of depreciation	-	0%	10%	10%	10%	10%	10%	15%	30%	10%	20%	15%		10%	

		2013	2012
		-------(Rupees in '000)-------	
4.2	Depreciation charge for the year has been allocated as under:-		
	Cost of sales	319,875	341,768
	Administrative cost	20,085	22,691
		339,960	364,459

4.3 Details of disposal of property, plant and equipment having book value of more than Rs. 50,000 during the year are as follows:

Continuing	Cost	Accumulated depreciatio	Written down value	Sale proceeds	Gain / (loss)	Mode of disposal	Party
	------------Rupees in '000------------						
Plant & Machinery							
4 Open End Machinery BD-200 200RN 200	5,900	1,816	4,084	4,400	316	Negotiations	Star Textile Mills Limited
Winding Machine Autocone	3,038	1,849	1,189	2,300	1,111	Negotiations	Star Textile Mills Limited
Suzer Loom P7200 130" with Jaquard	24,907	17,764	7,143	5,200	(1,943)	Negotiations	Mr. Shahzeb Khan
Suzer Loom P7200 130" with Jaquard	3,558	2,538	1,020	1,000	(20)	Negotiations	Mr. Mohammad Ali
TFO Machine Murata-363	14,489	9,183	5,306	3,250	(2,056)	Negotiations	Sardar Tex
Doubler Machine Murata Model-023	1,945	1,232	713	750	37	Negotiations	Sardar Tex
	53,837	34,381	19,456	16,900	(2,556)		
Vehicles:							
Mazda Van	425	312	113	588	475	Negotiation	Shia Imamia Ismalia Khidmat Committee
Suzuki Cultus	604	424	180	399	219	Negotiation	Mr. Naeem Qureshi
Suzuki Cultus	626	389	238	473	235	Negotiation	BRC Pakistan (Pvt) limited
Toyota Corolla GLI	1,758	29	1,728	1,758	29	Negotiation	EFU General Life Insurance
Loading Van	564	73	491	564	73	Negotiation	EFU General Life Insurance
Suzuki Cultus	603	442	161	350	189	Negotiation	Mr. Aftab Ahmed S/o Ali Mohammad
Suzuki Cultus	593	476	117	350	233	Negotiation	Mr. Saifullah S/o Hakim Enayat Ullah
Suzuki Mehran	335	277	58	210	152	Negotiation	Mr. Aquil ur Rehman S/o Saif ur Rehman
Suzuki Ravi	372	259	113	273	160	Negotiation	Mr. M .Ayub S/o M .Yaseen
Toyota Corolla	879	690	189	540	351	Negotiation	Mr. Amanullah S/o Abdul Rehman
Suzuki Mehran	377	280	97	228	130	Negotiation	Mr. M . Riaz S/o M Islam Khan
Suzuki Mehran	372	251	121	256	135	Negotiation	Mr. Zeeshan S/o M . Shafi Malik
Suzuki Mehran	372	256	116	249	132	Negotiation	Mr. M Islam Khan S/o Shams ur Rehman
	7,880	4,156	3,723	6,236	2,512		
Total rupees in '000	**61,717**	**38,537**	**23,179**	**23,136**	**(44)**		

4.4 Capital work-in-progress

	2013	2012
Opening balance at the beginning of the year	44,230	132,515
Additions during the year:		
Machines under installation	127,342	12,453
Building under construction	8,850	44,565
Others (electric fittings)	5,827	5,136
	142,019	62,154
Transferred to operating fixed assets	(60,146)	(150,439)
Closing balance at the end of the year	126,103	44,230

		2013	2012
		-------(Rupees in '000)-------	
5	**INTANGIBLE ASSETS**		
	Software		
	Cost		
	Opening balance	30,308	4,595
	Additions during the year	—	25,713
	Closing blance	30,308	30,308
	Accumulated Amortization		
	Opening balance	(9,616)	(4,471)
	Charge for the year	(5,266)	(5,145)
	Closing balance	(14,882)	(9,616)
		15,426	20,692
6	**STORES AND SPARES**		
	General stores	140,085	82,210
	Chemicals	150,165	190,522
	Packing stores	107,477	85,551
		397,727	358,283
	Provision for slow moving	(23,928)	(23,928)
		373,799	334,355
7	**STOCK-IN-TRADE**		
	Raw material	1,595,129	1,457,190
	Work-in-process	1,100,317	727,535
	Finished goods	768,706	584,796
		3,464,152	2,769,521
8	**TRADE DEBTS - CONSIDERED GOOD**		
	Export	2,216,224	1,730,637
	Local	5,973	46,035
		2,222,197	1,776,672

Trade debts includes an amount of Rs. 359.657 million (2012: Rs. 367.195) receivable from a related party.

		Note	2013	2012
			(Rupees in '000)	
9	**ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES**			
	Advances - considered good			
	Suppliers		258,251	13,122
	Employees		211	664
			258,462	13,786
	Short term prepayments		402	945
	Sales tax refundable		152,699	70,286
	Export rebate		138,659	123,751
	Duty drawback		148,212	166,702
	Special excise duty		6,981	15,433
	Research and development support		3,070	6,374
	Security deposits	9.1	26,244	—
	Markup receivable		29,821	—
	Others		8,131	52,983
			772,681	450,260

9.1 Security deposit includes an amount of Rs. 18.155 million paid to a related party.

		2013	2012
10	**CASH AND BANK BALANCES**		
	Cash in hand	42,743	2,009
	Cash at bank - current accounts	1,048	103,533
		43,791	105,542

11 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2013	2012		2013	2012
Number of Shares			Rupees In '000	
116,728,612	116,728,612	Ordinary shares fully paid in cash	1,167,286	1,167,286
859,020	859,020	Ordinary shares issued as fully paid bonus shares	8,590	8,590
259,213,336	259,213,336	Ordinary shares issued as fully paid consideration other than for cash consideration	2,592,133	2,592,133
376,800,968	376,800,968		3,768,009	3,768,009

		2013	2012
12	**SURPLUS ON REVALUATION OF FIXED ASSETS**		
	Balance as at July 01	1,080,662	568,060
	Surplus on revaluation during the year	—	512,602
		1,080,662	1,080,662

12.1 The Company performed revaluation by independent valuer M/s. Joseph Lobo (Private) Limited (an approved valuer from Pakistan Bank's Association) reports dated July 15, 2011on the basis of present market value. Previously the revaluation was performed by M/s.Iqbal A.Nanji on October 29, 2008.This represents surplus on revaluation on land only.

		Note	2013	2012
			(Rupees in '000)	
13	**LONG TERM FINANCE - SECURED**			
	From			
	- Banks-secured	13.1	793,366	966,876
	Less :current maturity		(187,114)	(171,048)
			606,252	795,828

13.1 Long term finance from bank

	Note	Type of loan	Installments Number	Installments Commencing from	Unavailed credit as at 30 June 2012	2013	2012
					(Rupees in '000)		
Long term finance utilised under mark-up arrangements:							
Habib Bank Limited	13.2	Term loan	9 half yearly	30 September 2010	–	35,506	59,177
	13.3	Term Loan	16 Half Yearly	December 3, 2011	–	25,836	29,812
	13.3	Term Loan	16 Half Yearly	July 28, 2012	–	38,062	43,500
	13.3	Term Loan	16 Half Yearly	July 28, 2012	–	13,124	15,000
	13.3	Term Loan	16 Half Yearly	July 20, 2013	–	190,900	203,625
	13.3	Term Loan	16 Half Yearly	July 20, 2013	–	36,940	39,400
Habib Metropolitan Bank Limited	13.3	Term Loan	16 Half Yearly	December 16, 2010	–	19,436	23,324
	13.3	Term Loan	16 Half Yearly	December 16, 2010	–	34,750	41,700
	13.3	Term Loan	16 Half Yearly	May 19, 2012	–	8,529	9,843
	13.3	Term Loan	16 Half Yearly	May 25, 2012	–	15,843	18,281
	13.3	Term Loan	16 Half Yearly	August 9, 2012	–	19,250	22,000
	13.3	Term Loan	16 Half Yearly	April 1, 2013	–	42,187	45,000
	13.3	Term Loan	10 Half Yearly	January 6, 2013	–	177,930	197,700
	13.3	Term Loan	10 Half Yearly	December 6, 2012	–	11,200	14,000
	13.3	Term Loan	10 Half Yearly	July 29, 2013	–	51,450	51,450
	13.3	Term Loan	10 Half Yearly	July 29, 2013	–	35,280	35,280
Bank Al habib Limited	13.2	Term loan	16 quarterly	14 September 2010	–	—	16,703
		Term loan	11 quarterly	14 June 2010	–	—	24,795
Askari Bank Limited	13.2	Term loan	Monthly 36	1 September 2009	–	—	2,000
Standard Chartered Bank (Pakistan) Limited	13.2	Term loan	14 quarterly	10 Feburary 2011	–	37,143	74,286
						793,366	966,876
Less: Current portion shown under current liabilities						(187,114)	(171,048)
						606,252	795,828

13.2 These carry markup at the rate of 7%. The mark-up rates and repayment dates mentioned represents revised rates and dated agreed with the banks on restructuring of long term finance in the year 2009 (Refer note 17.1). These loans are secured by first charge over operating fixed assets and hypothecation of stock-in- trade and stores and spares.

13.3 These loans have been obtained in acquiring imported and local textile machinery.The rate of markup is 7.5% to 11.2%. These are secured against specific charge on the fixed assets and equitable mortgage over immovable properties.

	Note	2013	2012
		------- (Rupees in '000) -------	
14 TRADE AND OTHER PAYABLES			
Creditors	14.1	1,139,430	554,671
Bills discounted		220,211	849,597
Accrued expenses		133,558	135,022
Workers' profits participation fund	14.2	73,519	34,295
Workers' welfare fund		10,787	20,140
Retention money		49,590	40,978
Advance from customers		13,124	3,088
Payable to provident fund		11,098	5,806
Unclaimed dividend		102,412	321
Others		48,943	16,016
		1,802,672	1,659,934

14.1 This include an amount of Rs. 295.37 million (2012: Rs.347.91 million) payable to related parties.

14.2 Workers' profits participation fund (WPPF)

	2013	2012
Opening balance	34,295	48,384
Interest on WPPF	—	688
Contribution for the year	73,519	34,295
	107,814	83,367
Less: Payment during the year	(34,295)	(49,072)
Closing balance	73,519	34,295

15 ACCRUED MARK-UP

	2013	2012
Long term finance	22,085	17,602
Short term borrowings	39,761	46,161
	61,846	63,763

16 SHORT TERM BORROWINGS - secured

	2013	2012
Export re-finance	1,930,000	1,521,660
Running / short term finances	141,710	176,381
	2,071,710	1,698,041

These balances represent short term working capital finance facilities and export re-finance facility of Rs. 2,072 million (2012: Rs. 1,698 million) which was secured by pari passu ranking hypothecation charge over stores and spares, cotton yarn, finished goods and export bills under collection and trade debts amounting to Rs. 6,308 million (2012: Rs. 5,341 million) of the Company. The rate of mark-up for running / short term finance is 3 months KIBOR + 0.5% to 2.5% per annum (2012: 3 months KIBOR +0.5% to 2.5% per annum). The rate of mark-up for export re-finance is SBP rate + full spread per annum (2012: SBP rate + full spread per annum).

17 CONTINGENCIES AND COMMITMENTS

17.1 Contingencies

In terms of renegotiated restructuring package approved by banks (refer note 13) the markup amounting to Rs. 130.717 million for the period of 18 months from December 2007 to June 2009 was not charged by the banks on long term finance and to be waived if the Company fulfills its obligation as per agreed repayment schedule. The Company has not made any provision in this respect as it continues to fulfill its obligations under the aforesaid renegotiated restructuring package and in anticipation that it shall continue to settle the same as per the revised repayment schedules.

17.2 Commitments

Guarantees issued by commercial banks to Sui Southern Gas Company Limited on behalf of the Company amounting to 148.09 million (2012: Rs. 127.56 million).

Guarantees issued by commercial bank to supplier and Central Excise Department on behalf of the Company amounting to Rs. 1.55 million (2012: Rs. 84.23 million and 2011: Rs. 85.63 million) and Rs. 39.35 million (2012: Rs. 46.46 million and 2011 : Rs.45.10 million) respectively.

	Note	2013	2012
		(Rupees in '000)	
- Letters of credit		147,507	147,507
- Capital expenditure		27,255	27,255

18 SALES - net

	Note	2013	2012
Local		269,460	180,197
Export		13,775,418	13,575,780
Export rebate and duty drawback		175,371	157,580
		14,220,249	13,913,557
Less: Sales tax		—	(12,157)
Commission & others		(736,105)	(629,201)
		(736,105)	(641,358)
		13,484,144	13,272,199

19 COST OF SALES

	Note	2013	2012
Opening stock of finished goods		583,224	628,114
Add: cost of goods manufactured	19.1	11,103,141	11,329,024
		11,686,365	11,957,138
Less: closing stock of finished goods		(768,706)	(583,224)
		10,917,659	11,373,914

		Note	2013	2012
			(Rupees in '000)	
19.1	**Cost of goods manufactured**			
	Raw material consumed	19.1.1	6,686,358	6,787,722
	Stores consumed		1,598,799	1,522,427
	Salaries, wages and benefits		586,110	505,945
	Fuel, power and water	19.1.2	729,036	648,429
	Outside manufacturing charges		650,219	516,268
	Contractor charges		444,382	456,371
	Insurance		18,950	21,216
	Repair and maintenance		61,312	60,597
	Vehicle running expenses		5,916	1,711
	Communication and transportation		36,702	51,138
	Other manufacturing expenses		143,762	134,866
	Amortization of Leasohold land improvements		12,502	12,502
	Depreciation		319,875	341,768
			11,475,923	11,060,957
	Opening work-in-process		727,535	995,602
	Closing work-in-process		(1,100,317)	(727,535)
			11,103,141	11,329,024

			2013	2012
19.1.1	**Raw material consumed**			
	Opening stock		1,453,541	1,504,112
	Purchases during the year		7,009,946	6,737,151
			8,463,487	8,241,263
	Less: closing stock		(1,595,129)	(1,453,541)
			6,868,358	6,787,722

19.1.2 This include amount of Rs. 35.2 million (2012: Rs. 30 million) in respect of staff retirement benefits.

		Note	2013	2012
20	**ADMINISTRATIVE COST**			
	Salaries, wages and benefits	20.1	309,559	288,349
	Bad debts written off		—	16,283
	Repairs and maintenance		23,262	17,722
	Rent, rates and taxes		2,745	2,053
	Vehicle running expenses		19,246	21,592
	Conveyance and traveling		9,189	8,420
	Utilities		14,789	6,116
	Printing and stationery		486	1,524
	Postage, telegram and telephone		13,609	10,473
	Legal and professional		7,838	15,712
	Fees & subscriptions		18,209	11,928
	Amortization		5,143	5,145
	Depreciation		20,085	22,691
	Miscellaneous expenses		37,858	30,135
			482,018	458,143

20.1 This includes amount of Rs. 17.93 million (2012: 14.4 million) in respect of staff retirement benefits.

			2013	2012
21	**DISTRIBUTION COST**			
	Freight and insurance		230,987	204,630
	Inspection and forwarding charges		107,531	108,700
	Showroom and exhibitions		9,404	5,940
	Export development surcharge		32,483	37,044
	Market research		2,748	1,041
			383,153	357,355

		Note	2013	2012
			(Rupees in '000)	
22	**OTHER OPERATING COST**			
	Loss / (gain) on disposal of property, plant and equipment		178	(4,361)
	Property, plant and equipment written off		—	134
	Auditors' remuneration	22.1	1,100	1,334
	Workers' profit participation fund		73,519	36,260
	Workers' welfare fund		10,787	11,063
	Donations	22.2	12,874	14,824
			98,458	59,254
22.1	**Auditors' remuneration**			
	Audit fee		800	500
	Half yearly review and special audit		200	200
	Other certification		100	634
			1100	1,334

22.2 None of the directors and their spouses had any interest in these donations.

		Note	2013	2012
23	**FINANCE COST**			
	Mark-up on:		81,412	95,353
	- Long term finance		164,205	284,547
	- Short term borrowings		245,617	379,900
	Guarantee commission		—	2,081
	Bank charges		40,142	47,140
	Discounting charges		5,248	26,126
	Interest on WPPF		—	473
	Exchange gain		(74,235)	(109,932)
			216,772	345,788
24	**TAXATION**			
	Current	24.1	140,449	142,602
	Prior year		—	—
			140,449	142,602

24.1 The Company's income is chargeable to tax under Final Tax Regime prescribed under the Income Tax Ordinance, 2001 and hence tax reconciliation is not being presented.

25 EARNINGS PER SHARE - BASIC AND DILUTED

	2013	2012
Profit after taxation	1,245,635	535,142
	(Number)	(Number)
Weighted average number of ordinary shares	376,800,968	376,800,968
	(Rupees)	(Rupees)
Earnings per share	3.31	1.42

26 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Particulars	2013 Chief Executive	2013 Directors	2013 Executives	2013 Total	2012 Chief Executive	2012 Directors	2012 Executive	2012 Total
	(Rupees in '000)							
Meeting fees	**-**	**10**	**-**	**10**	-	9	-	9
Managerial remuneration	**9,755**	**8,384**	**152,419**	**170,558**	8,400	-	149,631	158,031
Bonus	**1,703**	**2,150**	**10,437**	**14,290**	1,050	-	8,502	9,552
Retirement benefits	**650**	**233**	**12,231**	**13,114**	560	-	7,625	8,185
	12,108	**10,777**	**175,087**	**197,972**	10,010	9	165,758	175,777
No. of Persons	**1**	**7**	**92**	**100**	1	7	71	79

26.1 The Chief Executive and Directors are provided with the Company's maintained cars.

26.2 The meeting fees has been paid to non executive directors only.

27 PROVIDENT FUND DISCLOSURES

		Note	2013	2012
			(Rupees in '000)	
(i)	Size of the fund		307,649	264,212
(ii)	Cost of investment made		265,017	229,017
(iii)	Percentage of investments made		86.1%	85.7%
(iv)	Fair value of investments		265,039	226,442

Breakup Of Investment - At Fair Value	**Rs. in '000**	**%**	**Rs. in '000**	**%**
- Shares in listed Companies	3,941	1.5%	3,918	1.7%
- Mutual Funds	11,098	4.2%	8,524	3.8%
- Investment in deposit certificates	250,000	94.3%	214,000	94.5%
	265,039		226,442	

28 Working capital changes

	2013	2012
(Increase) / decrease in current assets		
Stores and spares	(39,444)	63,062
Stock-in-trade	(694,631)	373,563
Trade debts - considered good	(445,703)	633,701
Advances, prepayments and other receivables	(322,421)	(77,914)
	(1,502,199)	992,413
Increase / (decrease) in current liabilities		
Trade and other payables	10,777	652,889
	(1,491,422)	1,645,302

29 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise of the following balance sheet amounts:

	2013	2012
Cash and bank balances	43,791	105,542
Short term borrowings - secured	(2,071,710)	(1,698,041)
	(2,027,919)	(1,592,499)

30 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of group companies, directors and their close family members, major shareholders of the Company, key management personnel and staff provident fund. Remuneration and benefits to executives of the Company are in accordance with the terms of the employment while contribution to the provident fund is in accordance with staff service rules. Remuneration of chief executive, directors and executives is disclosed in note to the financial statements. Transactions with related parties and balances outstanding at the year end, other than those disclosed elsewhere in the financial statements are given below:

		2013	2012
		(Rupees in '000)	
Nature of transactions	**Relationship**		
Sales of goods	Associate	1,206,185	1,733,581
Purchases	Associate	217,647	430,501
Manufacturing and other expenses	Associate	718,486	676,224
Balances			
Payable to related parties	Associate	82,422	19,283

31 PRODUCTION CAPACITY

Towel	Looms		Capacity Normal	Actual
	Installed	Worked		
2013	276	276	26,160	21,168
2012	284	278	26,640	21,989

32 FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

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

- Credit risk
- Liquidity risk
- Market risk

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance. Overall, risks arising from the Company's financial assets and liabilities are limited. The Company consistently manages its exposure to financial risk without any material change from previous period in the manner described in notes below.

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

32.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same party, or when counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by change in economics, political or other conditions. Concentration of credit risk indicates that relative sensitivity of the Company's performance to development affecting a particular industry.

The carrying amount of financial assets represents the maximum credit exposure. To manage exposure to credit risk, the Company applies credit limits to their customers. Cash is held only with banks with high quality credit worthiness.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is:

	2013	2012
	(Rupees in '000)	
Long term investment	10	10
Long term deposits	5,300	5,260
Trade debts	2,222,197	1,776,672
Advances, prepayments and other receivables	8,131	52,983
Bank balances	1,048	103,533
	2,236,686	1,938,458

The maximum exposure to credit risk at the balance sheet date by geographic region is as follows:

Domestic	5,973	252,580
United States	2,096,377	1,147,093
Gulf states	8,679	7,060
European countries	99,674	77,541
Other regions	11,494	292,397
	2,222,197	1,776,671

	2013	2012
	(Rupees in '000)	
Impairment losses		
The aging of trade debts at the balance sheet date was:		
Not past due	1,841,511	360,075
Past due 1-60 days	373,671	1,122,899
Past due 61 days -90 days	322	207,480
More than 90 days	6,693	86,217
	2,222,197	1,776,672

Based on assessment conducted of individual customers, the management believes that receivable falling within the age bracket of upto one year does not require any impairment provision other than to the extent determined above.

Based on past experience, consideration of financial position, past track records and recoveries, the Company believes that trade debts past due upto one year do not require any impairment except as provided in these financial statements, if any. None of the other financial assets are either past due or impaired.

The credit quality of Company's liquid funds is high since the counter parties are banks with reasonable external credit ratings.

32.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

On the reporting date, the Company has cash and bank balances and unutilised credit lines of Rs. 43.8 million (2012:Rs. 92 million) and Rs. 3,910 million (2012: Rs.3.614 million).

The following are the contractual maturities of financial liabilities, including interest payments:

	2013				
	Carrying Amount	**Contractual cash flows**	**Twelve months or less**	**Two to five years**	**More than five years**
	(Rupees in '000)				
Non-derivative Financial liabilities					
Long term finance including accrued mark-up	**793,366**	**(797,909)**	**191,657**	**291,229**	**315,023**
Short term borrowings	**2,071,710**	**(2,071,710)**	**2,071,710**	**-**	**-**
Trade and other payables	**1,802,672**	**(1,818,074)**	**1,818,074**	**-**	**-**
	4,667,748	**(4,687,693)**	**4,081,441**	**291,229**	**315,023**

	2012				
	Carrying Amount	Contractual cash flows	Twelve months or less	Two to five years	More than five years
	(Rupees in '000)				
Non-derivative Financial liabilities					
Long term finance including accrued mark-up	1,030,639	(1,037,080)	171,049	574,368	291,663
Short term borrowings	1,698,041	(1,698,041)	1,698,041	-	-
Trade and other payables	1,659,934	(1,659,934)	1,659,934	-	-
	4,388,614	(4,395,055)	3,602,296	574,368	291,663

32.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company is exposed to currency risk and interest rate risk.

32.3.1 Currency risk

Foreign currency risk is the risk that the value of financial asset or a liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions entered into foreign currencies.

Exposure to currency risk

The Company is exposed to currency risk on trade debts, sales, trade payables and purchases that are denominated in a currency other than the respective functional currency of the Company. The currencies in which these transactions are denominated is the US Dollars.

The Company's exposure to foreign currency risk is as follows:

	2013		2012	
	Rupees	**USD**	Rupees	USD
	in '000		in '000	
Trade debts	**2,216,224**	**22,341**	1,730,637	18,593
Bills discounted	**(220,211)**	**(2,220)**	(849,597)	(9,038)
Trade payables	**-**	**-**	-	-
Gross balance sheet exposure	**1,996,013**	**20,121**	881,040	9,555
Outstanding letters of credit	**-**	**-**	-	-
	1,996,013	**20,121**	881,040	9,555

The following significant exchange rates have been applied:

	2013		**2012**	
	Average rate	**Reporting date rate**	**Average rate**	**Reporting date rate**
	(Rupees)		**(Rupees)**	
USD to PKR	**96.48**	**99.2**	89.97	85.85

Sensitivity Analysis

A 10 percent strengthening / weakening of the PKR against USD at 30 June would have decreased / increased post-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013.

	2013	**2012**
	(Rupees in '000)	
Effect on profit		
Increase / decrease	181,023	89,817

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

32.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from short and long term borrowings from banks . At the reporting date, the interest rate profile of the Company's interest-bearing financial instruments was as follows:

	Carrying amount	
	2013	2012
	--------(Rupees in '000)--------	
Financial liabilities		
Fixed rate instruments		
Long term finance	793,366	966,876
Variable rate instruments		
Short term borrowings	2,071,710	1,698,041

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 and loss. Therefore, a change in 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 in interest rates at the reporting date would have increased / (decreased) profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

	Effect on profit and loss	
	100bp inrease	100bp decrease
	--------(Rupees in '000)--------	
As at 30 June 2013		
Cash flow sensitivity-Variable rate instruments	13,466	(13,466)
As at 30 June 2012		
Cash flow sensitivity-Variable rate instruments	11,037	(11,037)

The sensitivity analysis prepared is not necessarily indicative of the effects on profit for the year and liabilities of the Company.

32.3.3 Fair value of financial instruments

The 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.

33 OPERATING SEGMENTS

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

33.1 Revenue from export sales represents 96.8% (2012 : 95.2 %) of the total revenue of the Company.

33.2 All non-current assets of the Company at 30 June 2013 are located in Pakistan.

33.3 CAPITAL RISK MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, sustain future development of the business, safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Board of Directors monitors the return on capital, which the Company defines as net profit after taxation divided by total shareholders' equity. The Board of Directors also monitors the level of dividend to ordinary shareholders. There were no changes to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

34 RECLASSIFICATION

Corresponding figures have been rearranged and reclassified to reflect more appropriate presentation of events and transactions for the comparision. Significant reclassification made as follows:

34.1

Description	Cost	Accumulated depreciation	Written down value	Cost	Accumulated depreciation	Written down value
	As reported on June 30, 2012			As reported on June 30, 2013 (Opening)		
	(Rupees in '000)					
Lease hold land	1,089,113	-	1,089,113	1,086,975	-	1,086,975
Free hold land	305,900	-	305,900	308,038	-	308,038
Building on lease hold land	543,395	(320,875)	222,520	556,140	(333,707)	222,433
Building on free hold land	148,250	(57,699)	90,551	148,250	(57,699)	90,551
Plant & machinery	4,724,905	(2,039,396)	2,685,509	4,690,243	(2,028,048)	2,662,195
Tools and equipment	23,698	(15,386)	8,312	-	-	-
Electric fittings	190,913	(83,663)	107,250	192,059	(84,398)	107,662
Office equipments	15,198	(7,517)	7,681	18,797	(8,530)	10,267
Computers	55,995	(32,692)	23,303	55,198	(34,609)	20,589
Furniture & fixtures	35,013	(17,309)	17,704	36,121	(18,997)	17,124
Vehicles	103,676	(47,440)	56,236	157,081	(68,085)	88,996
Arms & ammunitions	42	(28)	14	42	(28)	14
	7,236,096	**(2,622,004)**	**4,614,092**	**7,248,944**	**(2,634,101)**	**4,614,844**

34.2

Reclassification from Component	Reclassification to Component	Note	Amount
Long term finance	Short term borrowings	15	11,289
Salaries, wages and benefits	Outside manufacturing charges	19.1	143,430

35 ROUNDING OFF

All figures in the financial statements are rounded off to the nearest thousand.

36 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on September 19, 2013 has proposed a cash dividend in respect of the year ended 30 June 2013 of Rs. 1.50 per share (2012: Rs 2.00 per share) amounting to Rs. 393,263 (2012: Rs. 524,350) for all shareholders of the Company except directors, their relatives and associates and Rs. 0.30 per share (2012: Rs 0.50 per share) amounting to Rs. 112,961,641 (2012: Rs. 188,269,402) for directors, their relatives and associates which aggregates Rs. 113,354,904 (2012: Rs. 188,793,752), for approval of the members at the Annual General Meeting to be held on October 30, 2013. These financial statements do not include the effect of this proposed cash dividend which will be accounted for in the financial statements for the year ending 30 June 2014.

37 NUMBER OF EMPLOYEES

The total and average number of employees during the year and as at June 30, 2013 and 2012 respectively are as follows:

	2013	2012
	(Number)	
Total number of employees as at June 30	2,657	2,556
Average number of employees during the year	2,570	2,489

38 DATE OF AUTHORIZATION FOR ISSUE

Theses financial statements were authorised for issue on September 19, 2013 by the Board of Directors of the Company.

ANAS RAHMAN
CHIEF EXECUTIVE

SHEIKH ZAFAR AHMED
DIRECTOR

Feroze1888 Mills Limited

PROXY FORM

I/We, ____

of ____

being a member of **FEROZE1888 MILLS LIMITED** holding ______________________

ordinary shares hereby appoint ______________________________

as per Share Register Folio No, ______________ and/or CDC Participant I.D. No. ______________

and Sub Account No. ______________ hereby appoint ______________________

of ____

another member of the Company, as my/our proxy to vote for me/us and my behalf at the **41st Annual General Meeting** of the Company to be held at B-4/A, SITE, Karachi on Wednesday, October 30, 2013 at 09:00 a.m. and at any adjournement thereof.

Signed this ______________ day of ____________ 2013.

Please affix Rs. 5/- Revenue Stamp

Signed ______________________________

WITNESSES:

1. Signature ______________________
   Name ______________________
   Address ______________________
   ____
   NIC or ______________________
   Passport No. ______________________

2. Signature ______________________
   Name ______________________
   Address ______________________
   ____
   NIC or ______________________
   Passport No. ______________________

Note :

- A member entitled to attend and vote at the meeting may appoint a proxy in writing to attend the meeting and vote on the member's behalf. A Proxy should be a member of the Company.
- If a member is unable to attend the meeting, he/she/they may complete and sign this form and send it to the Company Secretary at the Registered Office so as to reach not less than 48 hours before the time appointed for holding the meeting.
- For CDC Account Holders / Corporate Entities

In addition to the above the following requirements have to be met:

(i) The proxy form shall be witnessed by two persons whose names, addresses and NIC numbers shall be stated on the form.
(ii) Attested copies of NIC or the passport of the beneficial owner(s) and the proxy shall be proved with the proxy form.
(iii) The proxy shall produce his/her NIC or original passport at the time of the meeting.
(iv) In case of a corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.