

The background of the cover features a close-up of cotton bolls on the left and a blurred view of textile machinery on the right. The overall color palette is light and airy, with soft blues and whites.

**HIRA TEXTILE MILLS**

L I M I T E D



Annual Report | 2020

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## COMPANY INFORMATION

### CHAIRPERSON

Mrs. Shahnaz Umar

### CHIEF EXECUTIVE

Mr. Mohammad Mahboob

### BOARD OF DIRECTORS

|                         |  |
|-------------------------|--|
| Mrs. Shahnaz Umar       | ( Non-Executive / Chairperson )                  |
| Mr. Mohammad Mahboob    | ( Executive Director / Chief Executive Officer ) |
| Mrs. Sadiya Umair       | ( Non-Executive )                                |
| Mr. Muhammad Tariq      | ( Non-Executive )                                |
| Mr. Saeed Ahmed Khan    | ( Executive Director )                           |
| Mr. Shaukat Nazir Malik | ( Non-Executive / Independent Director )         |
| Mrs. Zainab Malik       | ( Non-Executive / Independent Director )         |

### AUDIT COMMITTEE

|                         |          |
|-------------------------|----------|
| Mr. Shaukat Nazir Malik | Chairman |
| Mr. Muhammad Tariq      | Member   |
| Mrs. Zainab Malik       | Member   |

### HUMAN RESOURCE & REMUNERATION COMMITTEE

|                      |             |
|----------------------|-------------|
| Mrs. Zainab Malik    | Chairperson |
| Mrs. Sadiya Umair    | Member      |
| Mr. Mohammad Mahboob | Member      |

### COMPANY SECRETARY & CHIEF FINANCIAL OFFICER

Mr. Saeed Ahmad Khan

### AUDITORS

M/S Rahman Sarfaraz Rahim Iqbal Rafiq  
(Chartered Accountants)  
Member of Russell Bedford International  
House No 72-A, Faisal Town, Lahore.

### TAX ADVISER

Tipu Associates  
97/8-B, Babar Block, New Garden Town, Lahore.

### LEGAL ADVISER

Salman Akram Raja.  
Raja Mohammad Akram & Co.,  
Advocates & Legal Consultants  
33-C Main Gulberg Lahore.

### REGISTRAR OF THE COMPANY

Vision Consulting Ltd.  
3 – C , 1st floor, LDA Flats, Lawrance Road Lahore.  
Ph: + 92 42 36283096-97

### REGISTERED OFFICE

8-Km, Manga Raiwind Road, Raiwind, District Kasur.  
Ph: + 92 42 35392305-07 , Fax: + 92 42 35392308  
W: www.hiratex.com.pk

### MILLS

8 KM Manga Raiwind Road Raiwind District Kasur.

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that 29th annual general meeting of the members of Hira Textile Mills Limited will be held on Tuesday, October 28, 2020 at 02.30 PM at the registered office (MILL SITE) of the company i.e. 8-KM, Manga Raiwind Road, District Kasur, to transact the following:

1. To confirm the minutes of the last General Meeting.
2. To receive and adopt the audited accounts of the company for the year ended on June 30, 2020 together with the Directors and auditor's reports thereon.
3. To consider appointment of external audits for the financial year ending June 30, 2021.
4. To transact any other business with the permission of the Chair.

(By the order of the Board)



**Saeed Ahmad Khan**  
Company Secretary

Lahore: October 06, 2020

### Notes

- 1- A member entitled to attend and vote at the General Meeting may appoint any person as proxy to attend and vote instead of him/her. No person other than a member shall act as proxy. The 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 or authority, in order to be valid, must be deposited at the registered office of the company at least 48 hours before the time of the meeting and must be duly stamped, signed and witnessed.
- 2- Any individual beneficial owner of CDC entitle to attend and vote at this meeting, must bring his/her original CNIC or passport, account and participants. ID numbers to prove his/her identity and incase of proxy it must enclose an attested copy of his/her CNIC of passport. Representatives of corporate members should bring the usual documents requires for such purpose.

In terms of sub section 1(b) of Section 134 of the Companies Act, 2017, Members can also attend and participate in the AGM through video conference facility, if members residing the vicinity, collectively holding 10% or more shareholding, provide their consent in writing, to participate in the AGM through video conference at least ten (10) days prior to date of AGM. After receiving

the consent of the members in aggregate 10% or more shareholding, the Company will intimate members regarding venue of video conference facility at least five (5) days before the date of the AGM along with complete information necessary to enable them to access such facility.

- 4- The audited financial statements of the company for the year ended June 30, 2020 have been placed at the website: [www.hiratex.com.pk](http://www.hiratex.com.pk)
- 5- Shareholders are requested to immediately notify change in address. If any to the company share register M/s. Vision Consulting Ltd. 3-C, 1st floor, LDA Flats, Lawrence Road Lahore. And also furnish attested photocopy of their CNIC as per listing regulation, if not provided earlier.

## حرائیکسٹائل ملز لمیٹیڈ اطلاع سالانہ اجلاس عام

بذریعہ نوٹس ہذا مطلع کیا جاتا ہے کہ حرائیکسٹائل ملز لمیٹیڈ کے حصص داران کا انیسواں (29th) سالانہ اجلاس عام 28 اکتوبر 2020ء (بروز بدھ) بوقت دوپہر 02:30 بجے کمپنی کے رجسٹرڈ آفس (ملز سائٹ) 8 کلومیٹر ماٹکارا نیوٹن روڈ ضلع قصور میں درج ذیل امور کی انجام دہی کے لئے منعقد ہوگا۔

- 1- پچھلے سالانہ اجلاس عام کی کاروائی کی توثیق۔
- 2- 30 جون 2020ء کو ختم ہونے والے سال کے لئے ڈائریکٹرز اور آڈیٹرز کی رپورٹ مع آڈٹ شدہ حسابات کی وصولی اور منظوری
- 3- 30 جون 2021ء کو ختم ہونے والے سال کے لئے کمپنی کے بیرونی آڈیٹرز کا تقرر اور ان کے مشاہرے کا تعین۔
- 4- چیئر پرسن کی اجازت سے دیگر امور کی انجام دہی۔

بحکم بورڈ

لاہور  
16 اکتوبر 2020ء



سعید احمد خان  
کمپنی سیکرٹری

### نوٹس:

- 1- اجلاس ہذا میں شرکت اور ووٹ دینے کا اہل ممبر اپنی بجائے شرکت اور ووٹ دینے کے لئے کسی دوسرے ممبر کو اپنا پراکسی مقرر کر سکتا ہے۔ پراکسیاں تا آئندہ منوثر ہو سکیں اجلاس کے انعقاد کے وقت سے کم از کم 48 گھنٹے قبل کمپنی کے رجسٹرڈ دفتر میں لازماً پہنچ جائیں۔
- 2- سی ڈی سی (CDC) کے حصہ داروں سے التماس ہے کہ اجلاس میں شرکت کے وقت پیش کرنے کے لئے اپنا اصل شناختی کارڈ، اکاؤنٹ نمبر یا پاسپورٹ ساتھ لائیں۔
- 3- حصص یافتگان اجلاس میں بذریعہ ووڈ یولنک سہولت شریک ہو سکتے ہیں کمپنی کو اجلاس کے انعقاد سے کم از کم دس روز قبل کسی دوسرے شہر میں مقیم دس فیصد یا زائد شیئر ہولڈرز کی جانب سے بذریعہ ووڈ یولنک اجلاس میں شرکت کی خواہش موصول ہونے کی صورت میں کمپنی متعلقہ مقام پر ووڈ یولنک سہولت کا اہتمام کرے گی اور کمپنی اجلاس کے انعقاد سے کم از کم پانچ دن پہلے ووڈ یولنک سہولت کے مقام سے ممبران کو مطلع کرے گی۔
- 4- کمپنی کے آڈٹ شدہ مالیاتی حسابات برائے سال ختم 30 جون 2020ء کمپنی کی ویب سائٹ [www.hiratex.com.pk](http://www.hiratex.com.pk) پر چسپاں کر دیئے گئے ہیں۔
- 5- حصص یافتگان سے درخواست ہے کہ وہ اپنے پتے میں تبدیلی سے متعلق اطلاع فوری طور پر کمپنی کے رجسٹر اری میسرز ووٹن کنسلٹنگ لمیٹیڈ - C-3- فرسٹ فلور - ایل ڈی اے فیلڈس لارنس روڈ لاہور کو دیں۔ اسکے علاوہ جنھوں نے اپنے شناختی کارڈ کی کاپیاں مہیا نہیں کیں ہیں وہ بھی اپنے شناختی کارڈ کی مصدقہ کاپی بھیجیں۔

### **VISION STATEMENT**

A dynamic profitable and professionally managed successful business organization.

### **MISSION STATEMENT**

Hira Textile Mills Ltd is committed to the highest standards of integrity, honesty, openness and professionalism in all of its activities whenever they are undertaken.

We, the Management Team of HTML are striving to improve the quality of yarn by continuously improving its manufacturing facilities. We are committed to positioning the Company at the apex of the industry by satisfying our valued customers, archiving superior returns for shareholders, by providing congenial work environment where the employees feel part of the organization and be a good corporate citizen by fulfilling our social responsibilities.

## CHAIRPERSON'S REVIEW

It gives me pleasure to present you the annual review of the audited financial statement for the year ended June 30, 2020 and the overall performance of Board. I would take this opportunity to invite you for 29<sup>th</sup> Annual General Meeting of the Company.

### Review of the Company's Performance

Due to decrease in sales during this financial year, performance of the company in term of profitability is in alarming position. The global slowdown due to COVID-19 Corona Virus pandemic started closing down economies through lock downs as a means to control the spread of virus. The company faced this period diligently. The company's operations and business activities remained completely suspended almost 2 months. Day by day competition from neighboring countries is increasing. Margins have been squeezed and it appears that they will be further compressed in time to come. I would like to appreciate the efforts of the management towards cost reduction, better utilization of capacities and product development. During the current year debt restructuring have been carried out with one bank and draft agreement for restructuring has been completed with another bank has been finalized. After implementation of restructuring, significant milestone for the company would be achieved. The Company has to work harder to compete with increasing competition. Plans of the Company should yield better efficiencies and reduce production cost.

The Board is aware of the importance of its role in achieving objectives of the Company. The Board acknowledges its responsibility for corporate & financial reporting Framework and is committed to good Corporate Governance. Board is devoted and focused towards Company's value and mission. All the significant issue throughout the year were presented before The Board and its committees to strengthen and formulize the corporate decision making process and partially all the related party transactions were approved by the Board on the recommendation of audit committee.

The Board has prepared and approved the Director's report is published with the quarterly and annual financial statements of the company and the content of the Directors report are in accordance with the requirement of applicable law and regulations. The Board ensured that the adequate system of internal control is in place and has been effectively implemented and monitored.

During current year, one non-executive Director resigned and an independent non-executive Director appointed in place of resignee director. The Board of Directors met four times during the year to review the overall performance, appraise financial results and overall effectiveness of the role played by the Board in achieving the company's objectives. Meeting agendas and supporting papers were provided in timely manner for the Board meeting. Attendance of Board members in Board and committee meeting has been satisfactory. Board members do have the suitable knowledge, variety of expertise and experience that is required to successfully govern the business. Individual Board members are committed to perform for the betterment of the company. Areas of planning, risk management, policy development, budgeting, reporting, monitoring and approval have been appropriately given time and discussed with better outcomes.

On behalf of the Board, I appreciate the support of all financial institution. I express gratitude to our valued customers. It is hard work and dedication of all our employees that have made such results possible.



**Mrs. Shahnaz Umar**  
(Chairperson)

Lahore: October 05, 2020

## چیئر پرسن کی جائزہ رپورٹ

30 جون 2020ء کو ختم ہونے والے سال کے لیے آڈٹ شدہ مالی حسابات پر سالانہ جائزہ رپورٹ اور بورڈ کی مجموعی کارکردگی کی رپورٹ پیش کرتے ہوئے خوشی محسوس کرتی ہوں۔ اس موقع سے فائدہ اٹھاتے ہوئے میں آپ کو کمپنی کی سالانہ انٹیمپس میں مینٹگ میں شرکت کی دعوت دیتی ہوں۔

فروخت میں کمی کی وجہ سے کمپنی کو منافع بخش ہونے کے معاملہ میں ایک خطرناک صورتحال کا سامنا ہے۔ اس کمپنی کو بھی پوری دنیا کی طرح کرونا-19 کی عالمی وباء اور اس سے نتیجے میں معاشی سست روی کی وجہ سے ایک مشکل سال کا سامنا کرنا پڑا۔ کمپنی نے اس مدت کا بڑی تندی سے سامنا کیا۔ کمپنی کی کاروباری اور آپریشنل سرگرمیاں تقریباً 2 ماہ تک معطل رہیں۔ ہمسایہ ممالک کے ساتھ کاروباری مسابقت میں اضافہ ہو رہا ہے جس کی وجہ سے کاروباری منافع سکڑ رہا ہے اور ایسا محسوس ہوتا ہے کہ اس میں مزید وسعت ہوگی۔ میں مینجمنٹ کی اخراجات میں کمی لانے، استعداد کار کا بہتر استعمال کرنے اور مصنوعات کی ترقی کے لئے کاوشوں کو سراہتی ہوں۔ اس سال کے دوران کمپنی نے ایک بینک کے ساتھ ری سٹرکچرنگ کروائی اور ایک بینک کے ساتھ ری سٹرکچرنگ کے معاملات طے پا گئے ہیں۔ اس ری سٹرکچرنگ کی بدولت کمپنی اپنے اہداف حاصل کرنے میں کامیاب ہو جائے گی۔ کمپنی کے جاری منصوبوں کی تکمیل کے لیے اسے انتھک کوشش کرنا ہوگی جس کی بدولت کمپنی کی استعداد کار میں بہتری اور یوں پیداوار کی لاگت میں کمی واقع ہوگی۔

بورڈ کمپنی کے مقاصد کے حصول کیلئے اپنے کردار سے بخوبی واقف ہے۔ بورڈ کارپوریٹ گورننس اور مالیاتی ساخت کی رپورٹنگ کے سلسلہ میں اپنی ذمہ داریوں کو تسلیم کرتا ہے اور کارپوریٹ گورننس کی بہتر تکمیل کے لئے پُر عزم ہے۔ بورڈ نے کمپنی کے مشن کی تکمیل پر اپنی پوری توجہ صرف کی ہوئی ہے اور اس کیلئے پوری طرح سرشار ہے۔ سال بھر میں تمام اہم مسائل بورڈ یا اس کی کمیٹیوں کے روبرو کاروباری فیصلہ سازی کے عمل کو منطوب بنانے کیلئے پیش کیے گئے اور خاص طور پر کمپنی کی طرف سے کیے گئے تمام متعلقہ پارٹی کے ساتھ لین دین کو آڈٹ کمیٹی کی سفارشات پر بورڈ نے منظوری دی۔

بورڈ نے اس بات کو بھی یقینی بنایا ہے کہ مجلس نفعی رپورٹ کمپنی کی سہ ماہی اور سالانہ مالیاتی حسابات کے ساتھ شائع ہو اور مجلس نفعی رپورٹ کا مواد قابل اطلاق قوانین اور قواعد و ضوابط کے مطابق ہو۔ بورڈ نے اس بات کو بھی یقینی بنایا ہے کہ اندرونی کنٹرول کا مناسب نظام موجود ہے اور اس کی موثر طریقے سے عملدرآمد اور نگرانی کی جاتی رہے۔

موجودہ سال کے دوران ایک غیر ایگزیکٹو ڈائریکٹر نے استعفیٰ دیا اور اس کی جگہ پر ایک آزاد غیر ایگزیکٹو ڈائریکٹر کو تعینات کیا گیا۔ بورڈ آف ڈائریکٹرز نے سال کے دوران مجموعی کارکردگی کا جائزہ لینے کیلئے مالیاتی نتائج کی تشخیص اور بورڈ کے ذریعے کمپنی کے مقاصد کے حصول میں ادا کردہ کردار کی مجموعی کارکردگی ماپنے کے لیے چار ملاقاتیں کیں۔ بورڈ کے اجلاسوں کے لیے مینٹگ ایجنڈے اور معاون کاغذات بروقت وصول کیے گئے۔ بورڈ اور اس کی دیگر کمیٹیوں کے ممبران کی حاضری تسلی بخش رہی۔ بورڈ کے ممبران متنوع پس منظر رکھنے والے انتہائی تجربہ کار اور کاروبار کو کامیابی سے چلانے کا وسیع تجربہ رکھتے ہیں۔ بورڈ ممبران انفرادی طور پر بھی کمپنی کی بہتری کیلئے پُر عزم ہیں۔ بورڈ مینٹگ میں منصوبہ بندی کے عمل اور ادارہ کو لاحق خطرات، پالیسی ڈیولپمنٹ، تخمینہ سازی اور مالیاتی ساخت کی نگرانی اور منظوری پر معقول طریقے سے بحث و تجویز کی جاتی ہے۔

بورڈ کی جانب سے میں مالیاتی اداروں کے تعاون کو قدر کی نگاہ سے دیکھتی ہوں۔ میں معزز صارفین کا تہہ دل سے شکریہ ادا کرتی ہوں اور اپنے تمام ملازمین کا بھی جنکی شب و روز محنت کی بدولت بہتر نتائج ممکن ہو سکے۔

A. U. A.

مسز شہناز عمر

(چیئر پرسن)

15 اکتوبر 2020ء

## DIRECTORS REPORT TO THE MEMBERS

The Board of Directors feels pleasure in presenting the Company's Audited financial statements together with the auditor's report thereon for the year ended on June 30, 2020

Financial Statements have been endorsed by the Chief Executive Officer and the Chief Financial Officer in accordance with the Code of corporate Governance, having been recommended for approval by the Audit Committee of the Board and approved by the Board of Directors for presentation.

### Company Performance

Following are the operating & Financial results:-

|                               | <i>(Rupees in Million)</i> |             |
|-------------------------------|----------------------------|-------------|
|                               | 2020                       | 2019        |
| Net Sale                      | 1,463.374                  | (2,645.989) |
| Gross (Loss)                  | (66.415)                   | (1,061.512) |
| Share of (Loss) of Hira Terry | (68.867)                   | (567.992)   |
| (Loss)/Profit before taxation | (291.199)                  | (1,859.805) |
| Provision for taxation        | (12.590)                   | (156.037)   |
| (Loss) for the year           | (303.789)                  | (2,015.842) |
| (Loss)/Earning per Share      | (3.51)                     | (23.28)     |

Sales revenue of Company remained lower by 40% mainly due to weak demand of spun yarn in the Faisalabad yarn market and COVID-19 global pandemic which adversely impacted the textile industry as well as business of the company. The company faced the challenging times where we faced compulsory closure of mills for a period of almost two months from March 24, 2020 to May 12, 2020, cancellation of sales orders, disruption in supply chain and constant threat of the spread of virus. The company bore estimated revenue loss of Rs. 180 million during the lock down period. The management of the company managed to curtail losses which have reduced to Rs. 303 million from Rs. 2,015.84 million for the previous financial year. This was possible due to effective cost cutting initiatives taken by the management and shift to an efficient product mix which lowered production cost and in turn resulted in reduction in gross loss ratio from 40% in the previous year to 4.5%.

Loss per share for the year is Rs. 3.51 as compared to loss per share of Rs. 23.28 during the corresponding previous year.

Due to the above factors, the Company faced severe liquidity crisis due to which it was unable to make timely repayments of loans and interest/mark-up thereon. Four banks have filed

recovery suits against the Company in Lahore High Court. Similarly the Company has also filed recovery claims against four banks in Lahore High Court.

The management is concerned about the profitability of the company for the coming year due to extremely weak demand of spun yarn and ever increasing production cost, high cotton price and uncertainty about the size of cotton crop and yarn and increasing mark-up rate. However the management is putting its best efforts to maximize company's profit and taking all measures to cope with these challenges.

The Company has shifted its product mix from manufacturing of coarse count yarn to fine count yarn. This has lead to lower cost of raw material (primarily cotton) and reduction in manpower requirements, reduction in per spindle cost through savings in energy costs as well as upto 60% savings in labour costs. This, coupled with a company-wide cost-cutting drive, is expected to provide the much needed breathing room in terms of liquidity.

Further the management of the company has entered into negotiation with the providers of debt finances for restructuring of long term and short term debt including accrued interest/mark-up thereon. The Company has proposed a re-structuring plan to enable the Company to maintain its going concern status, which is the only WIN-WIN situation for all of the stake holders. During the current year the company successfully negotiated the restructuring/ rescheduling facility agreement with the Bank of Punjab whereby the bank has converted all overdue borrowings and interest thereon into a two long term financing facilities and has also allowed grace periods of upto 18 months from the reporting date. Further restructuring / rescheduling agreement with Faysal Bank has been finalized in principal and is in the process of final approval. Rounds of negotiations for debt restructuring with National Bank of Pakistan are also in process and the management expects to secure a favourable deal soon. The management is confident that it will be able to secure a reasonable arrangement with other bank of principal repayment in 20 semi-annual installment with three (3) years grace period, which will relieve the Company of its liquidity crises and ultimately the profitability of the Company will increase.

### Capital Expenditures

The Company sold out/ discarded 18 doubling and twisting machines and installed 9 second hand ring machines by spending Rs. 40.256 million and spent Rs. 6.449 million on power house on major overhauling of machinery.

## Dividend

Due to Loss of the company and circumstances discussed above, the Board of Directors has not recommended dividend for the year ended June 30, 2020.

## Related Parties

The transactions between the related parties were made at arm's length prices determined in accordance with the comparable uncontrolled prices method. The company has fully complied with the best practices of the transfer pricing as contained in the listing regulation of Pakistan Stock exchanges. On recommendation of audit committee the Board has approved related party transactions and transfer pricing policy in line with Company's Act. 2017, the Listed Companies Code of Corporate Governance Regulations 2017 and Companies Related Parties Transactions and Maintenance of Related Records Regulations, 2018, in its meeting held on February 26, 2019.

## Financial Statements Audit and Auditors Report

The auditors of the Company have modified their report and issued an adverse opinion on the following matters:

- 1- Bankers of the Company have not responded to auditors' request for direct confirmation debt finances amounting to Rs. 1,337.847 million and accrued interest thereon amounting to Rs. 265.8 million.
- 2- Outstanding principal and accrued interest pertaining to various short term borrowings reported in the annexed financial statements are not in agreement with responses to auditors' requests for direct confirmation from the bankers of the Company. As a result, current liabilities as at June 30, 2020 are understated by Rs. 2.87 million and Rs. 15.746 million on account of outstanding principal and accrued interest respectively.
- 3- The Company was unable to make timely repayments of long term finances and interest thereon. As a result, the Company breached provisions of long term financing agreements with MCB Bank Limited (see note 11.2), National Bank of Pakistan (see note 11.3) and Habib Bank Limited (see note 11.5) whereby the entire liability under these agreements has become payable on demand. International Accounting Standard 1 'Presentation of Financial Statements' requires that if an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current. However,

the Company continues to classify these finances as non-current liabilities. Had these been classified as current liabilities, the total current liabilities of the Company as at June 30, 2020 would have been higher by Rs. 208.159 million.

- 4- Hira Terry Mills Limited, a related party, has not responded to auditors' request for direct confirmation for transactions and balances amounting to Rs. 363.642 million and Rs. 212.728 million respectively.
- 5- The Company has presented extracts of the financial position and performance of Hira Terry Mills Limited, an associate, on the basis of financial statements that are neither audited nor authenticated by the Board of Directors of the Associate
- 6- The Company has incurred gross loss of Rs. 66.415 million and loss after tax of Rs. 303.789 million during the year ended June 30, 2020. As at June 30, 2020, the Company has accumulated losses of Rs. 1,799.701 million. Its current liabilities exceed current assets by Rs. 960.179 million. The Company has not been able to make timely repayments of its debt finances and interest thereon. The providers of debt finances have filed recovery suits against the Company for Rs. 1,775.437 million. All short term borrowing facilities availed by the Company stand expired. These factors indicate existence of material uncertainty that raises doubts about the Company's ability to continue as a going concern and that the Company may not be able to discharge its liabilities and realize its assets in the normal course of business. We consider that in the absence of any favourable settlement with the providers of debt finances, related party, ability to obtain further financing and revival of its operations, the Company may not be able to settle its liabilities and realize its assets in the normal course of business. Consequently, the use of going concern assumption in the preparation of annexed financial statements is not appropriate and adjustments may be required to the amounts reported in the financial statements.

## We give below our opinion on the qualified matters;

- 1- Due to long overdue liabilities outstanding in banks and the Company's account has been shifted to bank's SAM department/or in the court. Normally banks never respond to the direct confirmation request from the auditors.

- 2- The differences in the amount of interest due is because of the fact that the bank is accruing interest at rates as per financing agreements whereas the Company has recognized interest at the banks cost of funds because as per prevailing laws the Bank can charge interest only upto the bank's cost of funds as certified by SBP from time to time. Therefore, the Company has recognized the liability only to the extent of cost of funds.
- 3- The recovery of these finances is subjudice to Lahore High Court. The management intends to carry out restructuring negotiations with these bankers the results of which cannot be ascertained at this stage. Accordingly, the management has classified these liabilities as non-current.
- 4- The annexed financial statements have been prepared, ongoing concern basis, based on the following:
  - a. The management of the company has entered into negotiation with the providers of debt finances for restructuring of long term and short term debt including accrued interest thereon. The management successfully negotiated restructuring of short term debt and lease liabilities, including accrued interest thereon with the Bank of Punjab, whereby liabilities amounting to Rs. 229.453 million was converted into long term finance with a grace period upto December 2021 and accrued interest amounting to Rs. 10.899 million was converted into interest free long term finance with repayments commencing from December 2026. A restructuring / rescheduling agreement with Faysal Bank Limited has been finalized in principal and is in the process of final approval. The management is confident that it will be able to secure a reasonable arrangement. Further, rounds of negotiations for debt restructuring with National Bank of Pakistan are also in process and the management expects to secure a favourable deal soon.
  - b. The management is vigorously contesting the recovery suits filed by providers of debt finances. Further, the Company has filed countersuits claiming and aggregate recovery of 3,053.244 million.
  - c. The Company has continued financial support of its directors and sponsors. Upto June 30, 2020, the directors and sponsors of the Company has provided financial support amounting to Rs. 531.44 million.
  - d. The Company has shifted its product mix from manufacturing of coarse count yarn to fine count yarn. This will lead to lower cost of raw material

(primarily cotton) and reduction in manpower requirements, reduction in per spindle cost through savings in energy costs as well as upto 60% savings in labour costs. This, coupled with a company-wide cost-cutting drive, is expected to provide the much needed breathing room in terms of liquidity.

#### **ISO 9001 – 2008 Certification**

The company continues to operate the high standard of quality and had obtained latest version of certification, which is renewed every year. The quality control certification will help to build up trust of new and old customers.

#### **Environments, Health and Safety**

The Company maintains safe working conditions without risk to the health of all employees and public at large. The management has maintained safe environment in all its operations throughout the year and is constantly upgrading their living facilities.

#### **Future Plans**

Although the performance of the company is not satisfactory during the year and the future market situation is changing to adversely due to decrease in the yarn prices. The management is formulating multi-dimensional strategy to tackle all these issues. We are focusing on diversification of our product range along with value addition and consolidating our efforts on quality improvements.

#### **Corporate & Financial Reporting Frame Work**

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

- i. The financial statements prepared by the management of the Company present fairly its true state of affairs, the results of its operations, cash flows and changes in equity.
- ii. Proper books of account of the Company have been maintained.
- iii. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- iv. International Finance Reporting Standards (IFRS) as applicable in Pakistan have been followed in preparation of financial statements. Any departures therefrom has been adequately disclosed and explained.
- v. The system of internal control is sound and has been effectively implemented and monitored.
- vi. There are no doubts upon the Company's ability to continue as a going concern.

- vii. Operating and financial data and key ratio of six years are annexed.
- viii. The value of investment of contributory provident fund as at June 30, 2020 amount to Rs. 6.519 Million.
- ix. The pattern of shareholding as at June 30, 2020 is annexed.
- x. No trade in the shares of the company were carried out by Directors, CEO, CFO, Company secretary, their spouses and minor children, during year 2019-2020.

#### Board Meeting

During the year under review Eight (6) meetings were held. Attendance by each Director is as follows:

| Name of Director  | Attendance |
|---|------------|
| Mrs. Shahnaz Umar   | 5 (Five)   |
| Mr. Mohammad Mahboob  | 6 (Six)    |
| Mrs. Mohammad Tariq   | 6 (Six)    |
| Mrs. Sadiya Umair   | 5 (Five)   |
| Mr. Shaukat Nazir Malik - <i>Independent Director</i>                   | 4 (Four)   |
| Mr. Saeed Ahmed Khan  | 6 (Six)    |
| Mrs. Zainab Malik - <i>Independent Director appointed on 25-10-2019</i> | 2 (Two)    |

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

#### Audit Committee

The Board of Directors in compliance with the code of corporate governance has established an audit committee which is fully functional. The committee comprises three members. Chairman of the committee is an Independent non-executive director. During the year four (4) meetings of Audit Committee were held. Attendance by each Director is as follows.

| Name of Director  | Attendance |
|---|------------|
| Mr. Shaukat Nazir Malik (Chairman)                            | 4 (Four)   |
| Mr. Muhammad Tariq  | 4 (Four)   |
| Mrs. Zainab Malik<br>Appointed in place of Mr. Mohammad Saeed | 2 (Two)    |

#### Human Resource Committee

In compliance with the code of Corporate Governance, the Board of Directors has constituted a Human Resource Committee (HR Committee) whose members consist of three Directors of whom two are non-executive directors appointed by the Board of Directors. During the year one (1) meetings of HR committee of the Board were held – attendance by each Director is as follows:

| Name of Director             | Attendance |
|------------------------------|------------|
| Mrs. Zainab Malik (Chairman) | 1 (One)    |
| Mr. Muhammad Mahboob         | 1 (One)    |
| Mrs. Sadiya Umair            | 1 (One)    |

#### Auditors

The present auditors Rehman Sarfaraz Rahim Iqbal Rafiq (Chartered accountants), retire at the conclusion of the annual general meeting and being eligible and has offered themselves for reappointment for the financial year ending June 30, 2021.

#### Acknowledgements

Continued diligence and devotion of the staff and workers of the company and good human relations at all levels deserve acknowledgement. The Directors also wish to place on record their thanks to the bankers and other stakeholders for their continued support to the company.

On Behalf of the Board



MRS. SHAHNAZ UMAR  
(Director/ Chairperson)



MOHAMMAD MAHBOOB  
(Director/Chief Executive Officer)

Lahore: October 05, 2020

## حرائیکسٹائل ملز لمیٹڈ

### ممبران کے لیے ڈائریکٹرز کی رپورٹ

بورڈ آف ڈائریکٹرز کمپنی کے سالانہ 30 جون 2020ء کو ختم ہونے والے سال کے لئے نظر ثانی شدہ مالیاتی حسابات اور اس پر ڈائریکٹرز کی رپورٹ پیش کرتے ہوئے خوشی محسوس کرتے ہیں۔ کوڈ آف کارپوریٹ گورننس کے تحت کمپنی کے حسابات تصدیق شدہ منجانب چیف ایگزیکٹو آفیسر اور چیف فنانس آفیسر اور جسکی بورڈ آڈٹ کمیٹی نے سفارش کی اور بورڈ آف ڈائریکٹرز نے پیش کرنے کی اجازت دی۔

### کمپنی کی کارکردگی:

کمپنی کے آپریٹنگ مالیاتی نتائج درج ذیل ہیں:-

| سال 2019ء   | سال 2020ء  |                                   |
|-------------|------------|-----------------------------------|
| ملین روپے   | ملین روپے  |                                   |
| 2,645.989   | 1,463.3742 | فروخت                             |
| (1,061.512) | (66.415)   | مجموعی (نقصان)                    |
| (567.992)   | (68.867)   | حرائیری کے (نقصان) / منافع کا حصہ |
| (1,859.805) | (291.199)  | قبل از ٹیکس (نقصان)               |
| 156.159     | (12.590)   | ٹیکس                              |
| (2,015.842) | (303.789)  | بعد از ٹیکس (نقصان) / منافع       |
| (23.28)     | (3.51)     | نی شیئر (نقصان) / آمدنی (EPS)     |

کمپنی کی فروخت آمدن میں 40 فیصد کمی کی بڑی وجہ فیصل آباد کی سوتر منڈی میں دھاگے کی طلب میں مندی اور کرونا-19 کی عالمی وبائی بیماری ہے۔ جس نے ٹیکسٹائل کی صنعت کے ساتھ کمپنی کے کاروبار پر بڑی طرح سے اثر ڈالا ہے۔ ہماری کمپنی نے ان مشکل حالات کا سامنا کیا۔ جہاں ہمیں مل کو تقریباً دو ماہ کے عرصہ جو کہ 24 مارچ 2020ء سے 12 مئی 2020ء تک لازمی بند رکھنا، سیل آرڈر کی منسوخی، سپلائی چین میں خلل اور اس وباء کے پھیلاؤ کے مشکل خطرہ کا سامنا کرنا پڑا۔ لاک ڈاؤن کے دوران کمپنی کو آمدن کی مد میں 180 ملین کا خسارہ ہوا۔ کمپنی کی انتظامیہ اپنے پچھلے سال کے نقصانات 2015.84 ملین روپے سے گھٹا کر اس سال 303 ملین روپے تک لانے میں کامیاب رہی ہے۔ اخراجات میں مؤثر کمی اور اپنی مصنوعات میں تبدیلی کے نتیجے میں مجموعی نقصان 40.12 فیصد سے کم ہو کر 4.50 فیصد ہو گیا ہے۔ فی شیئر نقصان پچھلے سال کے 23.28 روپے سے کم ہو کر 3.51 روپے ہو گیا ہے۔

اوپر دیئے گئے عوامل کی وجہ سے کمپنی کو شدید مالی بحران کا سامنا ہے اور اسی وجہ سے کمپنی اپنے قرضہ جات اور مارک اپ کی بروقت ادائیگی نہ کر سکی۔ چارٹریٹوں نے کمپنی کے خلاف عدم ادائیگی کی وجہ سے لاہور ہائی کورٹ میں کیسز پیش کر دیے ہیں۔ اسی طرح کمپنی نے بھی ان چارٹریٹوں پر ریکوری کلیم کے کیسز لاہور ہائی کورٹ میں کئے ہیں۔

کمپنی انتظامیہ کو آنے والے سال میں دھاگے کی مانگ میں کمی اور مسلسل بڑھتی ہوئی پیداواری لاگت نیز کپاس کی بڑھتی ہوئی قیمتیں اور کپاس کی پیداواری غیر یقینی کیفیت اور دھاگے کی غیر یقینی قیمتوں کی وجہ سے سخت سال دکھائی دے رہا ہے۔ تاہم انتظامیہ اپنی تمام صلاحیت بروئے کار لاتے ہوئے کمپنی کے منافع میں بہتری کیلئے کوشاں ہے۔

کمپنی نے اپنی مصنوعات کو موٹے دھاگے سے باریک دھاگے میں تبدیل کر لیا ہے جس کی وجہ سے خام مال کی قیمت میں کمی اور مزدوروں کی تعداد اور 60% اخراجات میں کمی، فی سپنڈل اخراجات میں کمی کے ساتھ، بجلی کی لاگت میں بھی کمی واقع ہوگی اور یوں کمپنی اپنے اخراجات میں کمی کی بدولت اپنے مالیاتی بحران پر قابو پانے کے لئے پرامید ہے۔

مزید یہ کہ کمپنی کی انتظامیہ کمپنی کو قرضہ مہیا کر نیوالوں سے طویل مدتی اور کم مدتی قرضوں کی ادائیگیوں کی بشمول سود مارک اپ کی ادائیگی کے سلسلہ میں بات چیت کر رہی ہے اس سلسلے میں کمپنی نے ادائیگیوں کا ایک منصوبہ پیش کیا ہے تاکہ کمپنی اپنی رواں دواں صلاحیت کو قائم دائم رکھے اور یہی تمام لوگوں کے لئے کامیابی کی ضمانت ہے۔ اس سال کے دوران کمپنی کا پنجاب بینک سے قرضوں کی ری سٹرکچرنگ کا معاہدہ ہو گیا ہے جس کے مطابق بینک نے اپنے قابل ادا اصل ذرا اور سود کو طویل مدتی قرضوں میں بدل دیا ہے اور اٹھارہ ماہ کی رعایتی مدت بھی دی ہے۔ اسی طرح فیصل بینک کے ساتھ بھی ری سٹرکچرنگ کے معاملات طے پا گئے ہیں اور یہ بینک کے ذمہ داران کے پاس منظوری کے مرحلے میں ہیں۔ مزید برآں نیشنل بینک آف پاکستان کے ساتھ بھی ری سٹرکچرنگ پر مذاکرات کے کئی دور ہو چکے ہیں اور کمپنی امید کرتی ہے کہ بینک سے ایک سازگار معاہدہ طے پا جائے گا۔ انتظامیہ پوری طرح مطمئن ہے کہ وہ باقی بینکوں کے ساتھ معقول انتظامات کے تحت جو کہ اصل زر کو 20 آدھ سالہ اقساط بشمول 3 سالہ رعایتی مدت میں ادائیگیوں پر مشتمل ہے اور یہ کمپنی کو اس کے (Liquidity) لیکوڈٹی بحرانوں سے نجات دلائے گا اور بالآخر کمپنی کے منافع میں اضافہ ہوگا۔

## کیپٹل اخراجات:

کمپنی نے اس سال 18 عدد دھاگے کوڈبل اور ٹوٹسٹ کرنے والی مشینوں کو فروخت کر دیا ہے اور 9 عدد پرانی اچھی حالت کی دگا گہ بنانے والی مشینیں لگا دی ہیں۔ جن کی لاگت 40.256 ملین روپے ہے اس کے علاوہ 6.449 ملین روپے پاور ہاؤس کی اور ہالنگ کی مد میں خرچ کیے ہیں۔

## منافع منقسمہ:

بورڈ آف ڈائریکٹرز نے ختمہ سال 30 جون 2020ء کیلئے کمپنی کے نقصان میں ہونے کی بناء پر کوئی منافع تجویز نہیں کیا۔

## متعلقہ پارٹیز:

متعلقہ پارٹیوں کے درمیان لین دین قابل رسائی قیمتیں مقرر کر کے کیا گیا۔ کمپنی پاکستان اسٹاک ایکسچینج کی لسٹنگ ضابطے میں موجود قیمتوں کے تعین کے بہترین طریقوں پر عمل پیرا ہے۔ آڈٹ کمیٹی کی سفارشات پر بورڈ نے متعلقہ پارٹیوں کے درمیان لین دین قابل رسائی قیمتوں کے تعین کے بارے میں کمپنیز ایکٹ 2017ء، لسٹڈ کوڈ آف میٹیننس آف ریلٹیو ریکارڈ ریگولیشنز 2018ء کی رہنمائی کی روشنی میں تبادلے کی قیمتوں کے بارے میں پالیسی کی منظوری اپنے اجلاس منعقدہ 26 فروری 2019ء میں دی ہے۔

## مالی حسابات کا آڈٹ اور آڈیٹرز کی رپورٹ:

کمپنی کے مالی حسابات پر آڈیٹرز نے اپنی رپورٹ کچھ تبدیلیوں کے ساتھ درج ذیل امور کے بارے میں اپنا منفی نقطہ نظر دیا ہے۔

- 1- کمپنی کے بینکرز نے 1337.48 ملین روپے واجب الادا اور اصل زر اور 265.80 ملین روپے سود کی مد میں مالی واجبات کی آڈیٹرز کو براہ راست تصدیق نہیں کی اور نہ ہی کوئی جواب دیا ہے۔
- 2- واجب الادا اصل زر اور سود کی جو رقم ان مالی حسابات میں دی گئی ہے وہ کمپنی کے بینکرز کی طرف سے واجب الادا اصل زر کی مد میں 15.746 ملین روپے اور سود کی مد میں 2.87 ملین روپے رواں سال میں ادا نیکیوں کی مد میں کم دکھائی گئی ہے۔
- 3- کمپنی MCB بینک، نیشنل بینک اور حبیب بینک کو بروقت آدا نیکیاں نہیں کر سکی جس کی وجہ سے معاہدہ کے مطابق اب یہ تمام آدا نیکیاں فوری طور پر کرنا ہوں گی۔ اس سلسلہ میں انٹرنیشنل اکاؤنٹنگ سینڈرڈ۔1 (مالی حسابات کو پیش کرنا) کے متعلق بیان کرتا ہے کہ اگر کوئی ادارہ دوران سال کسی بھی وقت طویل مدتی آدا نیگی کے معاہدے کو توڑتا ہے تو یہ طویل مدتی واجب الادا آدا نیکیاں فوری طور پر کرنا ہوں گی اور اسے رواں مدتی ذمہ داری تصور کیا جائیگا۔ تاہم کمپنی اس رقم کو طویل مدتی واجب الادا آدا نیکیوں میں شمار کرتی ہے۔ اگر ان طویل مدتی واجب الادا آدا نیکیوں کو رواں مدتی واجب الادا آدا نیکیوں میں شمار کیا جائے تو 30 جون 2020ء کو ختم ہونے والے سال میں 208.15 ملین روپے کی رقم رواں واجب الادا آدا نیکیوں کی مد میں زیادہ ہوگی۔
- 4- تعلق دار کمپنی حرا میری نے 363.64 ملین کے کاروبار اور 212.728 ملین کے بیلنس کے متعلق آڈیٹرز کو براہ راست کوئی جواب نہیں دیا ہے۔
- 5- کمپنی نے تعلق دار کمپنی کا نفع و نقصان اور دیگر جامع آمدن کا حصہ اپنے حساب کتاب میں شمار کیا ہے وہ نہ تو آڈٹ شدہ ہے اور نہ ہی کمپنی کے بورڈ آف ڈائریکٹرز سے تصدیق شدہ ہیں۔
- 6- کمپنی نے 30 جون 2020ء کو ختم ہونے والے سال کے دوران مجموعی نقصان 66.415 ملین روپے اور بعد از ٹیکس نقصان 303.789 ملین روپے ظاہر کیا ہے۔ کمپنی کے کل نقصان کی رقم اس مدت تک 1799.70 ملین روپے ہو چکا ہے۔ اسکے موجودہ واجبات اسکے موجودہ اثاثہ جات سے 960.179 ملین روپے زیادہ ہیں جس کی وجہ سے کمپنی اپنا سود/مارک آپ اور اپنے قرضہ جات کی ٹائم پر آدا نیکیاں نہ کر سکی کمپنی کو قرضہ مہیا کرنے والوں نے کمپنی سے 1775.437 ملین روپے کی وصولی کے لئے کمپنیز دراصل کر دیے ہیں۔ اور تمام رواں مدتی قرض کی سہولیات ختم ہو چکی ہیں۔ یہ کمپنی کے رواں دواں ہونے پر شہادت کو جنم دے رہے ہیں اور کمپنی ان آدا نیکیوں کے معمول کے کاروباری حالات میں ادا کرنے کی صلاحیت نہیں رکھتی۔ ہم سمجھتے ہیں کہ کمپنی قرضہ دینے والے اداروں سے معاملات طے کیے بغیر اپنا معمول کا کاروبار جاری رکھنے اور اپنے کاروبار پر اپریٹرز کو بحال رکھنے کے قابل نہ ہوگی۔

آڈیٹرز کے اعتراضات پر ہم اپنا درج ذیل نقطہ نظر پیش کرتے ہیں۔

- 1- بینکوں کے بقایا جات کی عدم آدا نیگی کی بنا پر کمپنی کے حسابات بینکوں کے (SAM) نامی ادارے یا کورٹ میں منتقل کر دیے ہیں۔ عام طور پر بینک ایسے معاملات میں آڈیٹرز کو براہ راست کوئی جواب نہیں دیتے۔
- 2- سود میں فرق کی وجہ یہ ہے کہ بینک نے مالیاتی معاہدہ کے مطابق سود کا حساب بنایا ہے جبکہ کمپنی نے بینک کی کاسٹ آف فنڈ کے مطابق سود کو شمار کیا ہے۔ جو کہ ٹیبٹ بینک آف پاکستان کے رواں سال کے مروجہ قانون کے مطابق ہے اور بینک کی کاسٹ آف فنڈ کی حد تک کمپنی نے اسے شمار کیا ہے۔
- 3- بینکوں کی ریکوری سے متعلق معاملات لاہور ہائی کورٹ میں چل رہے ہیں۔ انتظامیہ بینکوں سے ریٹائر کچرنگ سے متعلق مذاکرات کر رہی ہے اور اس مرحلہ پر ان مذاکرات کے نتائج کا تعین نہیں کیا جاسکتا اور اس طرح کمپنی نے ان واجبات کو طویل مدتی واجبات کی مد میں لیا ہے۔
- 4- رواں دواں صلاحیت کو قائم رکھنے کے لئے درج ذیل اقدامات کئے جا رہے ہیں۔

الف۔ کمپنی کی انتظامیہ کمپنی کو قرضہ مہیا کرنے والوں سے طویل مدتی اور کم مدتی قرضوں کی آدا نیکیوں کی بشمول سود/مارک آپ کی آدا نیگی کے سلسلہ میں بات چت کر رہی ہے اس سلسلہ میں کمپنی کی انتظامیہ نے بینک آف پنجاب کے ساتھ کامیاب مذاکرات کے ذریعے اپنے قرضوں کی ریٹائر کچرنگ کرائی ہے جس کے مطابق کم مدتی قرضوں کی رقم 229.453 ملین روپے کو طویل مدتی قرض میں بدل دیا ہے جس میں رعایتی مدت

دسمبر 2021ء تک کی دی گئی ہے اور 10.89 ملین روپے کے سود کو بغیر سود طویل مدتی قرض میں بدل دیا ہے اور اسکی ادائیگی دسمبر 2026ء سے شروع ہوگی۔ اسی طرح فیصل بینک کے ساتھ بھی قرض کی ریٹریٹنگ کے معاملات اصولی طور پر طے پا گئے ہیں اور معاہدہ منظوری کے مرحلہ میں ہے۔ مزید برآں نیشنل بینک آف پاکستان کے ساتھ مذاکرات کے کئی دور ہو چکے ہیں اور انتظامیہ امید کرتی ہے کہ بینک سے ایک سازگار معاہدہ جلد پایہ تکمیل کو پہنچے گا۔

ب۔ کمپنی اپنی پوری ذمہ داری کے ساتھ قرضہ دینے والے اداروں کی طرف سے دائر کردہ کیسز کو لڑ رہی ہے۔ مزید کمپنی نے بھی ان بینکوں کے خلاف 3053.244 ملین کی ریکوری کے کیسز دائر کیے ہیں۔

پ۔ کمپنی کو اسکے ڈائریکٹرز اور سپونرز کی طرف سے قرض کی شکل میں مسلسل مدد جاری ہے۔ 30 جون 2020ء تک اسکے ڈائریکٹرز/سپونرز نے طویل اور قبیل مدتی قرضوں کی صورت میں 531.58 ملین روپے کمپنی کو دیئے اس قرضہ دینے والے ان ڈائریکٹرز/سپونرز نے قرض پر سود/ماک اپ ہمیشہ معاف کیا ہے۔

ج۔ کمپنی نے اپنی مصنوعات کو موٹے دھاگے سے باریک دھاگے میں تبدیل کر لیا ہے جس کی وجہ سے خام مال کی قیمت کی اور مزدوروں کی تعداد اور 60% اخراجات میں کمی۔ فی سپینڈل اخراجات میں کمی کے ساتھ۔ بجلی کی لاگت میں بھی کمی واقع ہوگی اور یوں کمپنی اپنے اخراجات میں کمی کی بدولت اپنے مالیاتی بحران پر قابو پانے کے لئے پر امید ہے۔

### آئی ایس اے 900:2008 کی سرٹیفیکیشن:

کمپنی کو ایٹمی کے اعلیٰ معیار پر کام جاری رکھتی ہے اور سرٹیفیکیشن کا ورژن حاصل کر چکی ہے۔ کوالٹی کنٹرول سرٹیفیکیشن سے نئے اور پرانے گاؤں کا اعتماد تعمیر کرنے میں مدد ملتی ہے۔

### ماحول، صحت اور تحفظ:

کمپنی اپنے ملازمین اور عوام کی صحت کے لئے خطرات سے بچنے کے لئے محفوظ کام کے حالات کو برقرار رکھتی ہے۔ انتظامیہ نے سال بھر اپنی تمام کاروائیوں میں محفوظ ماحول کو برقرار رکھا ہے اور مسلسل ان کی حفاظت اور زندگی کی سہولیات کو بہتر بنایا ہے۔

### مستقبل کے منصوبے:

اگرچہ کمپنی کی کارگردگی سال کے دوران اطمینان بخش نہیں رہی لیکن منڈی کی صورتحال دھاگے کی قیمتوں میں کمی کی وجہ سے حوصلہ افزا نہیں ہے انتظامیہ نے اس صورتحال سے نمٹنے کے لئے ہمہ جہتی تدابیر اختیار کرنے کا منصوبہ بنایا ہے۔ ہم اپنی پوری توجہ اپنی پیداوار کو بلیو ایڈیشن پیداوار میں تبدیل کرنے اور کوالٹی میں بہتری لانے پر مامور کئے ہوئے ہیں۔ کمپنی نے اس سال کے دوران نئی مصنوعات کو متعارف کرانے کا منصوبہ بنایا ہے۔

### کارپوریٹ گورننس کے ضابطہ کی تعمیل:

بورڈ آف کارپوریٹ گورننس کے تحت کمپنی کے ڈائریکٹرز رپورٹ پیش کرنے میں خوشی محسوس کرتے ہیں۔

کارپوریٹ گورننس کے ضابطہ کے مطابق، ڈائریکٹرز بخوشی بیان کرتے ہیں:

i- کمپنی کی انتظامیہ کی طرف سے تیار کردہ، مالیاتی حسابات، اس کے امور، آپریشنز کے نتائج، نقدی بہاؤ اور ایکویٹی میں تبدیلیوں کو منصفانہ طور پر ظاہر کرتا ہے۔

ii- کمپنی کے کھاتہ جات بالکل صحیح طور سے بنائے گئے ہیں۔

iii- مالی حسابات کی تیاری میں مناسب "کاؤنٹنگ پالیسیوں" کو تسلسل کے ساتھ لاگو کیا گیا ہے اور کاؤنٹنگ کے تخمینہ جات مناسب اور دانشمندانہ فیصلوں پر مبنی ہیں۔

vi- مالی حسابات کی تیاری میں پاکستان میں لاگو بین الاقوامی مالیاتی رپورٹنگ (IFRS) کے معیارات کی پیروی کی گئی ہے، اور کسی بھی انحراف کا موزوں انکشاف اور وضاحت کی گئی ہے۔

v- "اندرونی کنٹرول" کے نظام کا ڈیزائن مستحکم ہے اور اسکی موثر طریقے سے عملدرآمد اور نگرانی کی جاتی ہے۔

iv- کمپنی کے رواں دواں ہونے کی صلاحیت پر کوئی قابل ذکر شکوک و شبہات نہیں ہیں۔

iiiv- گزشتہ چھ سال کا کلیدی آپریشننگ اور مالیاتی شماریات منسلک ہے۔

iiiiv- کنٹری بیجری پر ڈیوٹ فنڈ کی مالیت 30 جون 2020ء کے خاتمہ پر 6.519 ملین روپے رہی۔

xi- 30 جون 2020ء کو شیئر ہولڈنگ کا پیٹرن منسلک ہے۔

x- مالی سال کے اختتام پر کمپنی مالی حالت کو متاثر کرنے والی کوئی منفی مادی تبدیلیاں اور وعدے جن کا تعلق اس بیلنس شیٹ سے ہو تو قیود پذیر نہیں ہوئے ہیں۔

ix- 2019-2020 کمپنی کے حصص میں اس کے ڈائریکٹرز، سی ای او، سی ایف او، کمپنی سیکرٹری اور ان کے زوج اور نابالغ بچوں کی طرف سے کوئی تجارت نہیں کی گئی ہے۔

### بورڈ آف ڈائریکٹرز کے اجلاس:

زیر جائزہ سال کے دوران بورڈ آف ڈائریکٹرز کے چھ اجلاس منعقد ہوئے ہر ڈائریکٹر کی حاضری درج ذیل ہے۔

| نام   | تعداد حاضری |
|---|-------------|
| مسز شہناز عمر                                 | 5 (پانچ)    |
| محمد محبوب                                    | 6 (چھ)      |
| محمد طارق                                     | 6 (چھ)      |
| مسز سعدیہ عمیر                                | 5 (پانچ)    |
| شوکت نذیر ملک (آزاد ڈائریکٹر)                 | 4 (چار)     |
| سعید احمد خان                                 | 6 (چھ)      |
| مسز زہب ملک (25 اکتوبر 2019ء کو تعینات ہوئیں) | 2 (دو)      |

جوڈائریکٹرز بورڈ کے چند اجلاسوں پر حاضر نہ ہو سکے ان کی غیر حاضری کو چھٹی قرار دیا گیا۔

#### آڈٹ کمیٹی:

کارپوریٹ گورننس کے ضابطہ کی تعمیل میں بورڈ آف ڈائریکٹرز نے آڈٹ کمیٹی تشکیل دی ہے جو مکمل طور پر کام کر رہی ہے۔ کمیٹی تین ممبران پر مشتمل ہے۔ کمیٹی کے چیئر مین ایک آزاد ڈائریکٹر ہیں دوران سال آڈٹ کمیٹی کے چار اجلاس منعقد ہوئے ہر ڈائریکٹر کی حاضری درج ذیل ہے۔

| ڈائریکٹر کا نام    | حاضری                                 |
|--------------------|---------------------------------------|
| جناب شوکت نذیر ملک | 4 (چار)                               |
| جناب محمد طارق     | 4 (چار)                               |
| مسز زہب ملک        | 2 (دو) محمد سعید کی جگہ تعینات ہوئیں۔ |

#### ہیومن ریسورس کمیٹی:

کوڈ آف کارپوریٹ گورننس کی تعمیل کرتے ہوئے بورڈ آف ڈائریکٹرز نے ایک ہیومن ریسورس کمیٹی تشکیل دی ہے جو کہ تین ممبران پر مشتمل ہے جس میں دو ڈائریکٹران ایگزیکٹو ہیں۔ دوران سال ہیومن ریسورس کمیٹی کا ایک اجلاس منعقد ہوا۔ ہر ڈائریکٹر کا حاضری درج ذیل ہے۔

| ڈائریکٹر کا نام   | حاضری   |
|-------------------|---------|
| محترمہ سعدیہ عمیر | 1 (ایک) |
| محترمہ زہب ملک    | 1 (ایک) |
| محترم محمد طارق   | 1 (ایک) |

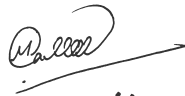
#### آڈیٹرز:

موجودہ آڈیٹرز مسز رحمان سرفراز رحیم اقبال رفیق۔ چارٹرڈ اکاؤنٹنٹس ریٹائر ہو گئے ہیں اور اہل ہونے کی بناء پر مالی سال جون 2021ء کے تقرر کیلئے خود کو پیش کرتے ہیں۔

#### اعتراف:

کمپنی کے عملے اور کارکنان کی مسلسل محنت اور جذبہ اور تمام سطحوں پر اچھے تعلقات کا اعتراف کرتے ہیں۔ ڈائریکٹرز بینکرز اور دیگر حصہ داروں کا بھی کمپنی کی مسلسل حمایت پر شکریہ ادا کرتے ہیں۔

منجانب بورڈ:



محمد محبوب

(ڈائریکٹر/چیف ایگزیکٹو آفیسر)



مسز شہناز عمر

(ڈائریکٹر/چیئر پرسن)

لاہور۔ 15 اکتوبر 2020ء



## FINANCIAL SUMMARY

Amount Rs.(000)

|  | 2020             | 2019               | 2018             | 2017           | 2016           | 2015           |
|--|------------------|--------------------|------------------|----------------|----------------|----------------|
| <b>Net Sales</b>                             | 1,463,374        | 2,645,989          | 2,171,757        | 3,361,275      | 3,523,396      | 4,061,800      |
| Cost of Sales                                | (1,529,789)      | (3,707,501)        | (2,325,426)      | (3,106,262)    | (3,188,731)    | (3,587,519)    |
| <b>Gross profit</b>                          | <b>(66,415)</b>  | <b>(1,061,512)</b> | <b>(153,669)</b> | <b>255,013</b> | <b>334,666</b> | <b>474,281</b> |
| Administration Expenses                      | (42,630)         | (35,938)           | (47,838)         | (53,669)       | (63,862)       | (76,844)       |
| Selling Expenses                             | (36)             | (2,893)            | (12,364)         | (41,175)       | (36,677)       | (50,039)       |
| <b>Operating Profit</b>                      | <b>(109,081)</b> | <b>(1,100,343)</b> | <b>(213,872)</b> | <b>160,169</b> | <b>234,127</b> | <b>347,398</b> |
| Other Operating Income                       | 45,920           | 30,229             | 3,327            | 876            | 5,715          | 801            |
| <b>Profit before Interest &amp; Taxation</b> | <b>(63,161)</b>  | <b>(1,070,114)</b> | <b>(210,545)</b> | <b>161,045</b> | <b>239,842</b> | <b>348,199</b> |
| Other Operating Expenses                     | (415)            | (763)              | (14)             | (207)          | (1,596)        | (5,956)        |
| Financial & Other Charges                    | (166,352)        | (220,936)          | (205,016)        | (219,556)      | (228,410)      | (270,151)      |
| Notional interest                            | 7,597            | -                  | -                | -              | -              | -              |
| Share of profit Hira Terry Mills Ltd.        | (68,868)         | (567,992)          | (124,970)        | 102,676        | 91,565         | 78,303         |
| <b>Profit before Taxation</b>                | <b>(291,199)</b> | <b>(1,859,805)</b> | <b>(540,544)</b> | <b>43,958</b>  | <b>101,400</b> | <b>150,395</b> |
| Provision for Taxation                       | (12,590)         | (156,037)          | (6,425)          | (36,503)       | (7,862)        | (58,057)       |
| <b>Profit after Taxation (Net Profit)</b>    | <b>(303,789)</b> | <b>(2,015,842)</b> | <b>(546,969)</b> | <b>7,456</b>   | <b>93,537</b>  | <b>92,338</b>  |

### Financial Position

|  |            |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|
| Current Assets                         | 815,828    | 1,164,764  | 2,257,623  | 2,627,405  | 2,255,468  | 2,340,097  |
| Current Liabilities                    | 1,776,007  | 2,459,510  | 2,280,329  | 2,951,446  | 2,464,531  | 2,428,841  |
| Operating Fixed Assets                 | 2,295,738  | 2,380,082  | 2,506,220  | 2,545,357  | 2,574,458  | 2,083,750  |
| Right of Use                           | 62,260     | 66,459     | -          | -          | -          | -          |
| Total Assets                           | 3,221,975  | 3,713,199  | 5,434,614  | 5,967,465  | 5,514,606  | 5,021,274  |
| Net Capital Employed                   | 1,884,871  | 1,718,746  | 3,662,236  | 3,545,253  | 3,050,075  | 2,592,433  |
| Long Term Debts                        | 1,141,249  | 1,122,338  | 1,127,709  | 426,044    | 466,125    | 589,701    |
| Share Holder,s Equity                  | 68,982     | (97,439)   | 1,947,860  | 2,497,864  | 1,945,237  | 1,852,817  |
| Surplus on Revaluation on Fixed Assets | 438,903    | 465,057    | 507,951    | 529,235    | 451,377    | 65,893     |
| Break -up Value Per Share (Rupees)     | 0.80       | (1.13)     | 22.50      | 28.85      | 22.47      | 23.54      |
| Number of shares                       | 86,577,920 | 86,577,920 | 86,577,920 | 86,577,920 | 86,577,920 | 78,707,200 |

### Financial Ratios Analysis (Annualized)

|                            |        |          |        |       |       |       |
|----------------------------|--------|----------|--------|-------|-------|-------|
| Current Ratio              | 0.46   | 0.47     | 0.99   | 0.89  | 0.92  | 0.96  |
| Total Debt to Total Assets | 35.42  | 30.23    | 20.75  | 7.14  | 8.45  | 11.74 |
| Acid -Test Ratio           | 27.03  | 35.31    | 15.98  | 16.55 | 17.26 | 17.59 |
| Debt Equity                | 94:06  | 110:(10) | 37:63  | 15:85 | 19:81 | 24:76 |
| Debt Coverage Ratio        | (0.31) | (3.82)   | (0.93) | 0.46  | 0.94  | 1.08  |
| Leverage Ratio             | 45.71  | (39.11)  | 1.79   | 1.39  | 1.83  | 1.71  |
| Interest Coverage Ratio    | 2.75   | 9.42     | 3.64   | 0.80  | 1.44  | 1.56  |
| Fixed Assets Turnover      | 0.62   | 1.08     | 0.87   | 1.32  | 1.37  | 1.95  |
| Total Assets Turnover      | 0.45   | 0.71     | 0.40   | 0.56  | 0.64  | 0.81  |

### Per Share Results & returns

|                                    |         |          |         |      |      |       |
|------------------------------------|---------|----------|---------|------|------|-------|
| Earning per Share                  | (3.51)  | (23.28)  | (6.32)  | 0.09 | 1.08 | 1.15  |
| Return on Capital employed- net    | (16.12) | (117.29) | (14.94) | 0.21 | 3.07 | 3.56  |
| Gross Profit to Sales              | -4.54   | -40.12   | -7.08   | 7.59 | 9.50 | 11.68 |
| Operating Profit To Sales          | (7.45)  | (41.59)  | (9.85)  | 4.77 | 6.64 | 8.55  |
| Net Income to Sale (Profit margin) | (20.76) | (76.18)  | (25.19) | 0.22 | 2.65 | 2.27  |
| Return on Assets (ROA)             | (9.43)  | (54.29)  | (10.06) | 0.12 | 1.70 | 1.84  |

## INFORMATION UNDER CLAUSE XVI(J) OF THE CODE CORPORATE GOVERNANCE As at June 30, 2020

| Description  | Shares Held       | %             |
|--|-------------------|---------------|
| <b>Director, Chief Executive Officer, and their Spouse, and minor children.</b>      |                   |               |
| MRS. SHAHNAZ UMAR  | 5,725,854         | 6.6135        |
| MR. MOHAMMAD MAHBOOB   | 500               | 0.0006        |
| MRS. SADIYA UMAIR  | 5,637,933         | 6.5120        |
| MR. MOHAMMAD TARIQ   | 500               | 0.0006        |
| MRS. ZAINAB MALIK (INDEPENDENT DIRECTOR)   | 500               | 0.0006        |
| MR. SAEED AHMED KHAN   | 2,420             | 0.0028        |
| MR. SHAUKAT NAZIR MALIK ( INDEPENDENT DIRECTOR )                                     | 967               | 0.0011        |
|  | <b>11,368,674</b> | <b>13.13</b>  |
| <b>Associated Companies, undertakings and related parties.</b> Adamjee Insurance Co. |                   |               |
|  | -                 | -             |
| <b>Banks, Development Finance Institutions, Non Banking Financial Institutions.</b>  |                   |               |
|  |                   | -             |
| <b>Joint Stock Companies</b>   | <b>2,620,818</b>  | <b>3.03</b>   |
| <b>Modarabas / P.FUND</b>  | <b>30,500</b>     | <b>0.04</b>   |
| <b>Govt. Institution</b>   | <b>72,567</b>     | <b>0.08</b>   |
| <b>General Public</b>  | <b>72,485,361</b> | <b>83.72</b>  |
| Local  |                   | -             |
| Foreign  | Nil               | -             |
|  | <b>86,577,920</b> | <b>100.00</b> |
| <b>Shareholders holding 5% or more</b>   |                   |               |
| MR. MUHAMMAD UMAR VIRK   | 23,563,258        | 27.22         |
| MRS. UMAIRA OMAR   | 8,603,922         | 9.94          |
| MRS. SHAHNAZ UMAR  | 5,725,854         | 6.61          |
| MRS. SADIYA UMAIR  | 5,637,933         | 6.51          |



## Pattern of Shareholding As at June 30, 2020

INCORPORATION No. 0023196

FORM 34

| Share Holders | Shareholding |    | Total<br>Shares Held |
|---------------|--------------|----|----------------------|
|               | From         | To |                      |
| 144           | 1            | -  | 4,168                |
| 223           | 101          | -  | 95,450               |
| 309           | 501          | -  | 260,452              |
| 714           | 1001         | -  | 2,103,240            |
| 268           | 5001         | -  | 2,172,619            |
| 137           | 10001        | -  | 1,767,247            |
| 84            | 15001        | -  | 1,566,894            |
| 64            | 20001        | -  | 1,529,556            |
| 39            | 25001        | -  | 1,124,852            |
| 35            | 30001        | -  | 1,167,306            |
| 15            | 35001        | -  | 580,796              |
| 14            | 40001        | -  | 604,625              |
| 33            | 45001        | -  | 1,622,775            |
| 12            | 50001        | -  | 638,750              |
| 11            | 55001        | -  | 650,500              |
| 7             | 60001        | -  | 427,716              |
| 8             | 65001        | -  | 548,560              |
| 6             | 70001        | -  | 442,567              |
| 4             | 75001        | -  | 314,000              |
| 3             | 80001        | -  | 255,000              |
| 8             | 85001        | -  | 700,950              |
| 2             | 90001        | -  | 185,000              |
| 18            | 95001        | -  | 1,791,500            |
| 4             | 100001       | -  | 410,399              |
| 3             | 105001       | -  | 326,500              |
| 1             | 110001       | -  | 115,000              |
| 6             | 115001       | -  | 713,500              |
| 4             | 120001       | -  | 495,063              |
| 3             | 125001       | -  | 398,500              |
| 7             | 135001       | -  | 1,020,000            |
| 5             | 160001       | -  | 828,089              |
| 2             | 170001       | -  | 350,500              |
| 9             | 180001       | -  | 1,784,255            |
| 2             | 200001       | -  | 410,500              |
| 3             | 230001       | -  | 701,750              |
| 1             | 240001       | -  | 263,500              |
| 3             | 300001       | -  | 1,041,500            |
| 5             | 400001       | -  | 2,443,500            |
| 7             | 500001       | -  | 4,053,000            |
| 2             | 600001       | -  | 1,237,250            |
| 1             | 800001       | -  | 860,000              |
| 2             | 900001       | -  | 1,966,000            |
| 1             | 1100001      | -  | 1,107,022            |
| 1             | 1900001      | -  | 1,966,602            |
| 1             | 2000001      | -  | 5,637,933            |
| 1             | 5700001      | -  | 5,725,854            |
| 1             | 5800001      | -  | 8,603,922            |
| 1             | 8700001      | -  | 11,180,186           |
| 1             | 11185001     | -  | 12,383,072           |
| <b>2235</b>   |              |    | <b>86,577,920</b>    |

## **STATEMENT OF COMPLIANCE WITH LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE) REGULATIONS, 2019**

The Company has complied with the requirements of the Regulations in the following manner:-

1. The total number of directors are 07 as per the following:
  - a. Male: 04
  - b. Female: 03
2. The composition of Board is as follows:
  - a) Independent Directors: 02 as named hereunder:
    - i. Mr. Shaukat Nazir Malik
    - ii. Mrs. Zainab Malik
  - b) Non-executive Directors: 03 as named hereunder:
    - i. Mrs. Shahnaz Umar
    - ii. Mrs. Sadiya Umair
    - iii. Mr. Mohammad Tariq
  - c) Executive Directors: 02 as named hereunder:
    - i. Mr. Mohammad Mahboob – Chief Executive Officer
    - ii. Mr. Saeed Ahmad Khan
  - d) Female Directors: 03 as named hereunder:
    - i. Mrs. Shahnaz Umar
    - ii. Mrs. Sadiya Umair
    - iii. Mrs. Zainab Malik
3. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company.
4. 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;
5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. The Board has ensured that complete record of particulars of significant policies along with their date of approval or updating is maintained by the company;
6. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by the Board/ shareholders as empowered by the relevant provisions of the Act and these Regulations;
7. The meetings of the Board were presided over by the Chairperson and, in her absence, by a director elected by the Board for this purpose. The Board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of Board;
8. The Board have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations;
9. The company has not arranged training programs for its directors during the year due to COVID-19. However, the company has planned training program for its directors in accordance with the requirements of PSX regulations. Three Directors who had completed their training had resigned and inducted new directors who have 14 years education and vast business experience in finance, accounts and corporate.
10. The Board has approved appointment of chief financial officer, company secretary and head of internal audit, including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations;
11. Chief financial officer and chief executive officer duly endorsed the financial statements before approval of the Board;
12. The Board has formed committees comprising of members given below:
  - a) Audit Committee:
    - i. Mr. Shaukat Nazir Malik (Chairman)
    - ii. Mrs. Zainab Malik
    - iii. Mr. Mohammad Tariq
  - b) HR and Remuneration Committee:
    - i. Mrs. Zainab Malik (Chairperson)
    - ii. Mrs. Sadiya Umair
    - iii. Mr. Mohammad Mahboob
13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance;
14. The frequency of meetings (quarterly/half yearly/ yearly) of the committee were as per following:-
  - a) Audit Committee: 04 meetings held during the year ended June 30, 2020.
  - b) HR and Remuneration Committee: 01 meeting held during the year ended June 30, 2020.
15. The Board has set-up an effective internal Audit function. The staff is considered to be suitably qualified and experienced for the purpose and is fully conversant with the policies and procedures of the company;

15. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan, that they and all their partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and that they and the partners of the firm involved in the audit are not a close relative (spouse, parent, dependent and non-dependent children) of the chief executive officer, chief financial officer, head of internal audit, company secretary or director of the company;
16. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these Regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard;
17. We confirm that all requirements of regulations 3, 6, 7, 8, 27, 32, 33 and 36 of the Regulations have been complied with, except as explained at Sr. 19;
18. The Company, currently has two elected independent directors out of total seven directors on the Board. Both the independent directors have requisite competencies, skills, knowledge and experience to discharge and execute their duties competently as per laws and regulations under which hereby fulfill the necessary requirements; therefore, not warrant the appointment of a third independent director. Accordingly, the fraction has not been rounded up as one under regulation 6(1).
19. We confirm that all other requirements of the Regulations have been complied with except for the requirement that the position of Chief Financial officer and Company Secretary has been held by the same person. The management is of the view, that the current CFO and Company Secretary is suitably qualified and professionally capable to act and fulfill the duties and responsibilities of both the roles. In addition, it is also a cost effective measure that is in the better interest of the shareholders of the Company, therefore hiring a separate person for both position is not feasible.

For and on behalf of the Board

A handwritten signature in black ink, appearing to read "A. Umar", is written over a horizontal line.

**MRS. SHAHNAZ UMAR**  
(CHAIRPERSON)

Lahore: October 05, 2020

## INDEPENDENT AUDITOR'S REVIEW REPORT

### To the members of HIRA TEXTILE MILLS LIMITED

#### Review Report on the Statement of Compliance contained in Listed Companies (Code of Corporate Governance) Regulations, 2019

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 ['the Regulations'] prepared by the Board of Directors of **HIRA TEXTILE MILLS LIMITED** ['the Company'] for the year ended **June 30, 2020** in accordance with the requirements of regulation 36 of the Regulations.

The responsibility for compliance with the Regulations is that of the Board of Directors of the Company. Our responsibility is to review whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Regulations and report if it does not and to highlight any non-compliance with the requirements of the Regulations. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Regulations.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' 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.

The Regulations require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out procedures to assess and determine the Company's process for identification of related parties and that whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the requirements contained in the Regulations as applicable to the Company for the year ended **June 30, 2020**.

Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in the paragraph reference where these are stated in the Statement of Compliance:

| Reference    |  |
|--------------|--|
| Paragraph 20 | As per Regulation 24, same person shall not simultaneously hold office of chief financial officer and the company secretary of a listed company. The offices of chief financial officer and company secretary are held by same person. |

**RAHMAN SARFARAZ RAHIM IQBAL RAFIQ**  
*Chartered Accountants*

Lahore: *October 05, 2020*

# INDEPENDENT AUDITOR'S REPORT

## To the members of HIRA TEXTILE MILLS LIMITED Report on the Audit of the Financial Statements

### Adverse Opinion

We have audited the annexed financial statements of **HIRA TEXTILE MILLS LIMITED** ['the Company'], which comprise the statement of financial position as at **June 30, 2020**, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion, because of the significance of the matters discussed in the 'Basis for Adverse Opinion' section of our report, the annexed statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof do not conform with the accounting and reporting standards as applicable in Pakistan and do not give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively do not give a true and fair view of the state of the Company's affairs as at June 30, 2020 and of the loss, other comprehensive loss, the changes in equity and its cash flows for the year then ended.

### Basis for Adverse Opinion

We have not received responses to our requests for direct confirmations from bankers of the Company for debt finances amounting to Rs. 1,337.847 million and accrued interest thereon amounting to Rs. 265.8 million. We were unable to satisfy ourselves by alternative means concerning these liabilities as at June 30, 2020 and the related interest expense for the year ended June 30, 2020. A material adjustment to these transactions and balances may be required.

Outstanding principal and accrued interest pertaining to various short term borrowings reported in the annexed financial statements are not in agreement with responses to our requests for direct confirmation from the bankers of the Company. As a result, current liabilities as at June 30, 2020 are understated by Rs. 2.87 million and Rs. 15.746 million on account of outstanding principal and accrued interest respectively.

As referred to in note 11, the Company was unable to make timely repayments of long term finances and interest thereon. As a result, the Company breached provisions of long term financing agreements with MCB Bank Limited (see note 11.2), National Bank of Pakistan (see note 11.3) and Habib Bank Limited (see note 11.5) whereby the entire liability under these agreements has become payable on demand. International Accounting Standard 1 'Presentation of Financial Statements' requires that if an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current. However, the Company continues to classify these finances as non-current liabilities. Had these been classified as current liabilities, the total current liabilities of the Company as at June 30, 2020 would have been higher by Rs. 208.159 million.

We have not received response to our request for direct confirmation from Hira Terry Mills Limited, a related party for transactions and balances amounting to Rs. 363.642 million and Rs. 212.728 million respectively. We were unable to satisfy ourselves by alternative means concerning these transactions and balances. A material adjustment to balances with the related party may be required.

As referred to in note 23, the Company has presented extracts of the financial position and performance of Hira Terry Mills Limited, an associate, on the basis of financial statements that are neither audited nor authenticated by the Board of Directors of the Associate. In the absence of audited/authenticated financial statements of associate we were unable to satisfy ourselves regarding these extracts.

As referred to in note 2.2 to the financial statements, the Company has incurred gross loss of Rs. 66.415 million and loss after tax of Rs. 303.789 million during the year ended June 30, 2020. As at June 30, 2020, the Company has accumulated losses of Rs. 1,799.701 million. Its current liabilities exceed current assets by Rs. 960.179 million. The Company has not been able to make timely repayments of its debt finances and interest thereon. The providers of debt finances have filed recovery suits against the

Company for Rs. 1,775.437 million. All short term borrowing facilities availed by the Company stand expired. These factors indicate existence of material uncertainty that raises doubts about the Company's ability to continue as a going concern and that the Company may not be able to discharge its liabilities and realize its assets in the normal course of business. While the Company has prepared and presented the annexed financial statements on going concern basis based on the factors explained in note 2.2, we consider that in the absence of any favourable settlement with the providers of debt finances, ability to obtain further financing and revival of its operations, the Company may not be able to settle its liabilities and realize its assets in the normal course of business. Consequently, the use of going concern assumption in the preparation of annexed financial statements is not appropriate and adjustments may be required to the amounts reported in the financial statements. The financial statements do not disclose this fact.

We conducted our audit in accordance with International Standards on Auditing ['ISAs'] as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan ['the Code'] and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter   | How our audit addressed the matter   |
|--|--|
| <p><b>1. COVID-19</b></p> <p>As part of the preparation of the financial statements, management is responsible to assess the possible effects of COVID-19 on the Company's liquidity and related ability to continue as a going concern and appropriately disclose the results of its assessment in the financial statements. The COVID-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of the financial statements its effects are subject to uncertainty.</p> <p>Management prepared a financial and liquidity risk analysis addressing amongst others future compliance with financing conditions as well as financing and cash requirements to ensure continuation of the Company's operations.</p> <p>Refer to note 56 to the financial statements regarding the impact of COVID-19.</p> | <p>We considered the uncertainties arising from COVID-19 in planning and performing our audit. Our procedures included:</p> <ul style="list-style-type: none"> <li>• evaluated the Company's most recent financial results forecasts and liquidity analysis underlying their going concern assessment and tested the integrity of the forecasts, including mathematical accuracy;</li> <li>• assessed the reliability of the forecasted cash flows by comparing with the historical performance and market expectations;</li> <li>• discussed the most recent forecast with management to understand their views on going concern and the potential impact of COVID-19 on the Company;</li> <li>• evaluated the assumptions in respect of projected available future cash flows from operating, financing and investing activities and projected key ratios for covenant calculations;</li> <li>• inspected supporting documentation such as contracts and underlying calculations and correspondence with financing and other relevant parties;</li> <li>• evaluated the Company's assessment of other accounting estimates within the financial statements which could be impacted by the challenging economic environment resulting from COVID-19, including trade receivables and inventory provisioning;</li> </ul> |

**Key audit matter**
**How our audit addressed the matter**

- and considered the appropriateness of the disclosures made in the financial statements in respect of the potential impact of COVID-19.

**2. Inventory valuation**

Stock in trade amounts to Rs 288.798 million as at the reporting date. The valuation of stock in trade at cost has different components, which includes judgment in relation to the allocation of labour and overheads which are incurred in bringing the stock to its present location and condition. Judgment has also been applied by management in determining the Net Realizable Value ['NRV'] of stock in trade.

The estimates and judgments applied by management are influenced by the amount of direct costs incurred historically, expectations of repeat orders to utilize the stock in trade, sales contract in hand and historically realized sales prices.

The significance of the balance coupled with the judgment involved has resulted in the valuation of inventories being identified as a key audit matter

The disclosures in relation to inventories are included in note 26.

To address the valuation of stock in trade, we assessed historical costs recorded in the inventory valuation; testing on a sample basis with purchase invoices. We tested the reasonability of assumptions applied by the management in allocating direct labour and direct overhead costs to inventories.

We also assessed management's determination of the net realizable value of inventories by performing tests on the sales prices secured by the Company for similar or comparable items of inventories.

**3. First time adoption of IFRS 16 – Leases**

As referred to in note 3.1 to the financial statements, the Company has adopted IFRS 16 – 'Leases'. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model with corresponding recognition of right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17 'Leases' i.e. operating and finance leases. For lessees all leases will be classified as finance leases only with the exception of certain short-term leases.

We have considered the first time application of IFRS 16 as a key audit matter due to significance of the change in accounting methodology, involvement of significant estimates and judgments resulting in adjustments, presentation and incremental quantitative and qualitative disclosures.

Our key procedures to review the application of IFRS 16 included, amongst others, review of managements' impact assessment of all lease arrangements in light of application of the new standard, review of lease contracts to determine whether the same are in scope of IFRS 16 and are also subject to recognition exemption under IFRS 16 for short-term and low value leases. We also reviewed contracts to determine whether it is a lease contract, and if so its various components, lease term, rental amount, payment terms, etc., reviewed the appropriateness of discount rate used by the Company to determine the present value of lease liability and calculation of related depreciation and finance charge.

#### Key audit matter

#### How our audit addressed the matter

#### 4. Tax contingencies

As disclosed in note 20 to the annexed financial statements, various tax matters are pending adjudication at various levels with the taxation authorities and other legal forums.

Such contingencies require the management to make judgments and estimates in relation to the interpretation of tax laws and regulations and the recognition and measurement of any provisions that may be required against such contingencies. Due to inherent uncertainties and the time period such matters may take to resolve, the management's judgments and estimates in relation to such contingencies may be complex and can significantly impact the financial statements. For such reasons we have considered tax contingencies as a key audit

Our key audit procedures in this area included, amongst others, a review of the correspondence of the Company with the relevant tax authorities and tax advisors including judgments or orders passed by the competent authorities.

We also obtained and reviewed confirmations from the Company's external tax advisor for their views on the status of each case and an overall opinion on the open tax position of the Company.

We involved internal tax experts to assess and review the management's conclusions on contingent tax matters and evaluated whether adequate disclosures have been made in note 19 to the annexed financial statements.

#### 5. Litigation and claims

As disclosed in note 20 to the annexed financial statements, the Company is involved in litigation in respect of various matters including Gas Infrastructure Developments Cess and recovery claims by various banks.

Given the nature of contingencies, the assessment of the existence of the present legal or constructive obligation, analysis of the probability of the related payments and analysis of a reliable estimate, requires significant management's judgements to ensure appropriate accounting and disclosures. These judgements can change over time as new facts emerge and the case progresses. Therefore, we have identified this matter as a key audit matter.

Our audit procedures included the following:

- Assessed management's processes to identify new possible litigations, obligations and changes in existing obligations through inquiries from management and review of the minutes of meetings of the Board of Directors and Audit Committee.
- Reviewed of the relevant information including case proceedings, legal opinions related industry information and correspondences in respect of the ongoing litigations.
- Obtained confirmation from the legal counsel of the Company to evaluate the status of the pending litigations and view point of the Company's legal counsel thereon.
- Examined legal and professional expenses to confirm that all pending legal matters are identified and disclosed.
- Re-computed the amounts of obligations and recorded liabilities based on available underlying information and confronted parameters.
- Assessed the appropriateness of the related disclosures made in the accompanying financial statements in light of IAS 37 'Provisions and Contingencies'.

#### Information other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Board of Directors for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017(XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of user taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on Other Legal and Regulatory Requirements**

Based on our audit, we further report that in our opinion:

- a) except for the possible effects of matters explained in 'Basis of Adverse Opinion' section of our report:
  - i. proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
  - ii. the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
  - iii. investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- b) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is **ZUBAIR IRFAN MALIK**.

**RAHMAN SARFARAZ RAHIM IQBAL RAFIQ**  
*Chartered Accountants*

**Lahore: October 05, 2020**

## STATEMENT OF FINANCIAL POSITION

### AS AT JUNE 30, 2020

|  | Note | 2020<br>Rupees       | 2019<br>Rupees       |
|--|------|----------------------|----------------------|
| <b>EQUITY AND LIABILITIES</b>                                |      |                      |                      |
| <b>SHARE CAPITAL AND RESERVES</b>                            |      |                      |                      |
| <i>Authorized capital</i>                                    |      |                      |                      |
| 87,000,000 (2019: 87,000,000) ordinary shares of Rs. 10 each |      | 870,000,000          | 870,000,000          |
| Issued, subscribed and paid-up capital                       | 7    | 865,779,200          | 865,779,200          |
| Share premium  | 8    | 82,500,000           | 82,500,000           |
| Surplus on revaluation of property, plant and equipment      | 9    | 438,903,099          | 465,056,876          |
| Loan from directors and sponsors                             | 10   | 481,500,000          | -                    |
| Accumulated losses   |      | (1,799,700,701)      | (1,510,775,030)      |
| <b>TOTAL EQUITY</b>  |      | <b>68,981,598</b>    | <b>(97,438,954)</b>  |
| <b>LIABILITIES</b>   |      |                      |                      |
| <b>NON-CURRENT LIABILITIES</b>                               |      |                      |                      |
| Long term finances   | 11   | 1,136,343,968        | 908,845,098          |
| Long term loan from directors and sponsors                   | 12   | -                    | 213,493,000          |
| Lease liabilities  | 13   | 4,904,925            | -                    |
| Employees retirement benefits                                | 14   | 14,876,450           | 7,893,687            |
| Deferred taxation  | 15   | 220,860,514          | 220,896,635          |
|  |      | <b>1,376,985,857</b> | <b>1,351,128,420</b> |
| <b>CURRENT LIABILITIES</b>                                   |      |                      |                      |
| Trade and other payables                                     | 16   | 558,699,716          | 809,150,599          |
| Unclaimed dividend   |      | 2,757,216            | 2,757,216            |
| Short term borrowings  | 17   | 809,279,436          | 1,345,646,184        |
| Accrued interest   | 18   | 366,899,587          | 242,790,441          |
| Current portion of non-current liabilities                   | 19   | 38,371,166           | 59,165,314           |
|  |      | <b>1,776,007,121</b> | <b>2,459,509,754</b> |
| <b>TOTAL LIABILITIES</b>                                     |      | <b>3,152,992,978</b> | <b>3,810,638,174</b> |
| <b>CONTINGENCIES AND COMMITMENTS</b>                         | 20   |                      |                      |
| <b>TOTAL EQUITY AND LIABILITIES</b>                          |      | <b>3,221,974,576</b> | <b>3,713,199,220</b> |

The annexed notes from 1 to 58 form an integral part of these financial statements.



CHIEF EXECUTIVE



CHIEF FINANCIAL OFFICER



DIRECTOR/CHAIRPERSON

## STATEMENT OF FINANCIAL POSITION

### AS AT JUNE 30, 2020

|   | Note | 2020<br>Rupees       | 2019<br>Rupees |
|---|------|----------------------|----------------|
| <b>ASSETS</b>   |      |                      |                |
| <b>NON-CURRENT ASSETS</b>                             |      |                      |                |
| Fixed assets  | 21   | 2,295,738,076        | 2,380,081,576  |
| Right-of-use assets                                   | 22   | 62,259,751           | 66,459,247     |
| Long term investments                                 | 23   | -                    | 68,867,548     |
| Long term deposits                                    | 24   | 48,148,652           | 33,026,841     |
|   |      | <b>2,406,146,479</b> | 2,548,435,212  |
| <b>CURRENT ASSETS</b>                                 |      |                      |                |
| Stores, spares and loose tools                        | 25   | 37,366,947           | 36,417,562     |
| Stock in trade  | 26   | 288,798,084          | 251,674,899    |
| Trade debts   | 27   | 184,206,555          | 605,316,530    |
| Advances, deposits, prepayments and other receivables | 28   | 252,842,646          | 196,726,360    |
| Advance income tax/income tax refundable              | 29   | 42,997,856           | 66,311,981     |
| Cash and bank balances                                | 30   | 9,616,009            | 8,316,676      |
|   |      | <b>815,828,097</b>   | 1,164,764,008  |
| <b>TOTAL ASSETS</b>                                   |      | <b>3,221,974,576</b> | 3,713,199,220  |

The annexed notes from 1 to 58 form an integral part of these financial statements.



CHIEF EXECUTIVE



CHIEF FINANCIAL OFFICER



DIRECTOR/CHAIRPERSON

## STATEMENT OF PROFIT OR LOSS

### FOR THE YEAR ENDED JUNE 30, 2020

|   | Note   | 2020<br>Rupees         | 2019<br>Rupees  |
|---|--------|------------------------|-----------------|
| <b>Sales - net</b>                        | 31     | <b>1,463,373,950</b>   | 2,645,989,119   |
| Cost of sales                             | 32     | <b>(1,529,789,245)</b> | (3,707,501,122) |
| <b>Gross loss</b>                         |        | <b>(66,415,295)</b>    | (1,061,512,003) |
| Distribution cost                         | 33     | <b>(36,410)</b>        | (2,893,481)     |
| Administrative expenses                   | 34     | <b>(42,629,685)</b>    | (35,937,831)    |
| Other income                              | 35     | <b>45,920,000</b>      | 30,229,008      |
| <b>Operating loss</b>                     |        | <b>(63,161,390)</b>    | (1,070,114,307) |
| Finance cost                              | 36     | <b>(166,351,700)</b>   | (220,935,640)   |
| Notional interest                         | 11.7.1 | <b>7,596,916</b>       | -               |
| Other charges                             | 37     | <b>(415,273)</b>       | (763,478)       |
| Share of loss of associate                | 23     | <b>(222,331,447)</b>   | (1,291,813,425) |
| <b>Loss before taxation</b>               |        | <b>(68,867,548)</b>    | (567,991,792)   |
| Taxation                                  | 38     | <b>(291,198,995)</b>   | (1,859,805,217) |
| <b>Loss after taxation</b>                |        | <b>(12,589,576)</b>    | (156,036,892)   |
| <b>Loss per share - basic and diluted</b> | 39     | <b>(3.51)</b>          | (23.28)         |

*The annexed notes from 1 to 58 form an integral part of these financial statements.*



CHIEF EXECUTIVE



CHIEF FINANCIAL OFFICER



DIRECTOR/CHAIRPERSON

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2020

|  | Note | 2020<br>Rupees       | 2019<br>Rupees         |
|--|------|----------------------|------------------------|
| <b>Items that may be reclassified subsequently to profit or loss</b>   |      |                      |                        |
| <b>Items that will not be reclassified to profit or loss</b>   |      |                      |                        |
| Remeasurement of defined benefit obligation  | 14.3 | (706,366)            | (208,015)              |
| Taxation related to remeasurements of defined benefit obligation   |      | 135,397              | 33,331                 |
| Taxation related to adjustment on surplus on revaluation of property, plant and equipment attributable to change in proportion of income taxation under final tax regime | 9    | (10,719,908)         | (28,239,808)           |
| Share of other comprehensive (loss)/income of associate - <i>unrealized</i>  |      | -                    | (1,041,983)            |
| <b>Other comprehensive loss</b>  |      | <b>(11,290,877)</b>  | <b>(29,456,475)</b>    |
| <b>Loss for the year</b>   |      | <b>(303,788,571)</b> | <b>(2,015,842,109)</b> |
| <b>Total comprehensive loss</b>  |      | <b>(315,079,448)</b> | <b>(2,045,298,584)</b> |

*The annexed notes from 1 to 58 form an integral part of these financial statements.*



CHIEF EXECUTIVE



CHIEF FINANCIAL OFFICER



DIRECTOR/CHAIRPERSON

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED JUNE 30, 2020

|   | <i>Note</i> | 2020                | 2019                |
|---|-------------|---------------------|---------------------|
|   |             | <i>Rupees</i>       | <i>Rupees</i>       |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                    |             |                     |                     |
| Cash generated from operations                                | 40          | 92,295,553          | 139,596,128         |
| Payments for:   |             |                     |                     |
| Employees retirement benefits                                 |             | (5,277,265)         | (9,248,760)         |
| Finance cost  |             | (23,746,554)        | (42,359,759)        |
| Income tax  |             | 103,917             | (6,812,970)         |
| <b>Net cash generated from operating activities</b>           |             | <b>63,375,651</b>   | <b>81,174,639</b>   |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                    |             |                     |                     |
| Purchase of property, plant and equipment                     |             | (46,704,590)        | (73,350,067)        |
| Proceeds from disposal of property, plant and equipment       |             | 8,120,000           | 4,168,000           |
| <b>Net cash used in investing activities</b>                  |             | <b>(38,584,590)</b> | <b>(69,182,067)</b> |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                    |             |                     |                     |
| Repayment of long term finances                               |             | (21,658,169)        | (4,340,000)         |
| Repayment of lease liabilities                                |             | (839,484)           | (4,691,517)         |
| Net decrease in short term borrowings                         |             | (994,075)           | (62,916,189)        |
| <b>Net cash generated from financing activities</b>           |             | <b>(23,491,728)</b> | <b>(71,947,706)</b> |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>   |             | <b>1,299,333</b>    | <b>(59,955,134)</b> |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b> |             | <b>8,316,676</b>    | <b>68,271,810</b>   |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>       | 41          | <b>9,616,009</b>    | <b>8,316,676</b>    |

*The annexed notes from 1 to 58 form an integral part of these financial statements.*



CHIEF EXECUTIVE



CHIEF FINANCIAL OFFICER



DIRECTOR/CHAIRPERSON

## STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED JUNE 30, 2020

|   | Share capital                                   | Capital reserves        |   |  | Revenue reserves             | Total equity<br>Rupees |
|---|---|-------------------------|---|--|------------------------------|------------------------|
|   | Issued subscribed and paid-up capital<br>Rupees | Share premium<br>Rupees | Surplus on revaluation of property, plant and equipment<br>Rupees | Loan from directors and sponsors<br>Rupees | Accumulated losses<br>Rupees |                        |
| <b>Balance as at July 01, 2018</b>  | 865,779,200                                     | 82,500,000              | 507,951,005   | -  | 491,629,425                  | 1,947,859,630          |
| <b>Comprehensive income</b>   |   |                         |   |  |                              |                        |
| Loss after taxation   | -   | -                       | -   | -  | (2,015,842,109)              | (2,015,842,109)        |
| Other comprehensive loss  | -   | -                       | (28,239,808)  | -  | (1,216,667)                  | (29,456,475)           |
| <b>Total comprehensive loss</b>   | -   | -                       | (28,239,808)  | -  | (2,017,058,776)              | (2,045,298,584)        |
| <b>Incremental depreciation</b>   | -   | -                       | (14,654,321)  | -  | 14,654,321                   | -                      |
| <b>Transaction with owners</b>  | -   | -                       | -   | -  | -                            | -                      |
| <b>Balance as at June 30, 2019</b>  | 865,779,200                                     | 82,500,000              | 465,056,876   | -  | (1,510,775,030)              | (97,438,954)           |
| <b>Balance as at July 01, 2019</b>  | 865,779,200                                     | 82,500,000              | 465,056,876   | -  | (1,510,775,030)              | (97,438,954)           |
| <b>Comprehensive income</b>   |   |                         |   |  |                              |                        |
| Loss after taxation   | -   | -                       | -   | -  | (303,788,571)                | (303,788,571)          |
| Other comprehensive loss  | -   | -                       | (10,719,908)  | -  | (570,969)                    | (11,290,877)           |
| <b>Total comprehensive loss</b>   | -   | -                       | (10,719,908)  | -  | (304,359,540)                | (315,079,448)          |
| <b>Surplus on revaluation of property, plant and equipment realised on disposal</b> |   |                         | (796,419)   | -  | 796,419                      | -                      |
| <b>Incremental depreciation</b>   | -   | -                       | (14,637,450)  | -  | 14,637,450                   | -                      |
| <b>Transaction with owners</b>  | -   | -                       | -   | -  | -                            | -                      |
| <b>Tranferred from long term loan from directors and sponsors</b>                   | -   | -                       | -   | 213,493,000                                | -                            | 213,493,000            |
| <b>Tranferred from short term borrowings</b>  | -   | -                       | -   | 268,007,000                                | -                            | 268,007,000            |
| <b>Balance as at June 30, 2020</b>  | 865,779,200                                     | 82,500,000              | 438,903,099   | 481,500,000                                | (1,799,700,701)              | 68,981,598             |

The annexed notes from 1 to 58 form an integral part of these financial statements.

  
CHIEF EXECUTIVE

  
CHIEF FINANCIAL OFFICER

  
DIRECTOR/CHAIRPERSON

# NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2020

### 1 LEGAL STATUS AND OPERATIONS

Hira Textile Mills Limited ['the Company'] is incorporated in Pakistan as a public limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017), and is listed on Pakistan Stock Exchange Limited. The principal activity of the Company is manufacturing and sale of yarn. The registered office and manufacturing facility of the Company is situated at 8 K.M. Manga Raiwind Road, District Kasur in the province of Punjab.

The Company has been placed on defaulters segment by Pakistan Stock Exchange Limited ['PSX'] under PSX regulations 5.11.1(b) 5.11.1(i).

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards ['IFRS'] issued by the International Accounting Standards Board ['IASB'] as notified under the Companies Act, 2017;
- Islamic Financial Accounting Standards ['IFAS'] issued by Institute of Chartered Accountants of Pakistan as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS and IFAS, the provisions of and directives issued under the Companies Act, 2017 have been followed.

#### 2.2 Appropriateness of the going concern assumption

The Company has been facing unfavorable market conditions, depressed yarn prices following weak demand of spun yarn, increase in raw material and production costs resulting in low margins for past few years. The production facility was closed for a month and half due to COVID-19 pandemic. As a result, the Company has incurred gross loss of Rs. 66.415 million and loss after taxation of Rs. 303.789 million during the year ended June 30, 2020. As at June 30, 2020, the Company has accumulated losses of Rs. 1,799.701 million as at the reporting date and its current liabilities exceed its current assets by Rs. 960.179 million. The Company has failed to make timely repayments of its debt finances and interest thereon due to which lenders have filed recovery suits against the Company. All short term borrowing facilities availed by the Company stand expired. These factors raise doubts about the Company's ability to continue as a going concern and that the Company may not be able discharge its liabilities and realize its assets in normal course of business. However, these financial statements have been prepared on going concern basis based on the following:

- a) The management of the company has entered into negotiation with the providers of debt finances for restructuring of long term and short term debt including accrued interest thereon. The management successfully negotiated restructuring of short term debt and lease liabilities, including accrued interest thereon with the Bank of Punjab, whereby liabilities amounting to Rs. 229.453 million was converted into long term finance (see note 11.6) with a grace period upto December 2021 and accrued interest amounting to Rs. 10.899 million was converted into interest free long term finance (see note 11.7) with repayments commencing from December 2026. A restructuring / rescheduling agreement with Faysal Bank Limited has been finalized in principal and is in the process of final approval. The management is confident that it will be able to secure a reasonable arrangement. Further, rounds of negotiations for debt restructuring with National Bank of Pakistan are also in process and the management expects to secure a favourable deal soon.
- b) The management is vigorously contesting the recovery suits filed by providers of debt finances. Further, the Company has filed countersuits claiming an aggregate recovery of 3,053.244 million (see note 20.1).
- c) The Company has continued financial support of its directors and sponsors. Upto June 30, 2020, the directors and sponsors of the Company has provided financial support amounting to Rs. 531.44 million .
- d) The Company has shifted its product mix from manufacturing of coarse count yarn to fine count yarn. This will lead to lower cost of raw material (primarily cotton) and reduction in manpower requirements, reduction in per spindle cost through savings in energy costs as well as upto 60% savings in labour costs. This, coupled with a company-wide cost-cutting drive, is expected to provide the much needed breathing room in terms of liquidity

The management believes that in view of the afore mentioned, the Company will able to continue as a going concern.

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 2.2 Basis of measurement

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

### 2.3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which forms the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Subsequently, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

#### 2.3.1 Critical accounting judgements

Judgments made by management in the application of accounting and reporting standards that have significant effect on the financial statements and estimates with a risk of material adjustment in subsequent years are as follows:

**(a) Business model assessment (see note 6.7.2)**

The Company classifies its financial assets on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The Company determines the business model at a level that reflects how financial assets are managed to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed.

#### 2.3.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are as follows:

**(a) Calculation of impairment allowance for expected credit losses on financial assets (see note 6.24.1)**

The Company recognizes a loss allowance for expected credit losses on financial assets carried at amortized cost on date of initial recognition. The amount of expected credit losses is updated on each reporting date to reflect the changes in credit risk since initial recognition of the respective financial asset. Estimating expected credit losses and changes there in requires taking into account qualitative and quantitative forward looking information. When measuring expected credit losses on financial assets the Company uses reasonable and supportable forward looking information as well as historical data to calculate the difference between the contractual cash flows due and those that the Company would expect to receive, taking into account cash flows from collateral and integral credit enhancements, if any. Probability of default constitutes a key input in measuring expected credit losses. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

**(b) Depreciation method, rates and useful lives of operating fixed assets (see note 6.1)**

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

**(c) Recoverable amount and impairment of non-financial assets (see note 6.24.2)**

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

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

**(e) Taxation (see note 6.2)**

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

**(f) Provisions (see note 6.14)**

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

**(g) Revaluation of property, plant and equipment (see note 6.1)**

Revaluation of property, plant and equipment is carried out by independent professional valuers. Revalued amounts of non-depreciable items are determined by reference to local market values and that of depreciable items are determined by reference to present depreciated replacement values.

**(h) Net realizable values of stock in trade (see note 6.5)**

The Company estimates net realizable values of its stock in trade as the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

### 2.4 Functional currency

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

### 2.5 Date of authorization for issue

These financial statements were authorized for issue on October 05, 2020 by the Board of Directors of the Company.

### 3 NEW AND REVISED STANDARDS, INTERPRETATIONS AND AMENDMENTS EFFECTIVE DURING THE YEAR.

The following new and revised standards, interpretations and amendments are effective in the current year but are either not relevant to the Company or their application does not have any material impact on the financial statements of the Company other than presentation and disclosures, except as stated otherwise.

#### 3.1 IFRS 16 - Leases (2016)

IFRS 16 supersedes IAS 17 - Leases, IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC-15 - Operating Leases- Incentives and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Whereas, for lessees all leases will be classified as finance leases only. However, as per relevant guidelines issued by Institute of Chartered Accountants of Pakistan, contracts under Ijarah will continue to be treated as operating leases under IFAS 2.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of July 01, 2019. Under this method, the standard is applied retrospectively with cumulative effect of initially applying standard recognised at the date of initial application and accordingly the Company is not required to restate prior year results.

The Company assessed its existing contracts and concluded that right-of-use assets as disclosed in these financial statements shall be recognised along with their corresponding lease liabilities. For other existing contracts, the Company elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of twelve months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low value assets').

The right-of-use assets were recognised based on the amount equal to their corresponding lease liabilities, adjusted for related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments. The Company did not have any sub-lease as on July 01, 2019. Accordingly, initial application of IFRS 16 did not have any impact on the opening retained earnings as of July 01, 2019 and on these financial statements.

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 3.2 IFRIC 23 - Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- The effect of changes in facts and circumstances.

### 3.3 Prepayment Features with Negative Compensation (Amendments to IFRS 9 - Financial Instruments)

IFRS 9 - Financial Instruments has been amended regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

### 3.4 Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28 - Investments in Associates and Joint Ventures)

IAS 28 - Investments in Associates and Joint Ventures have been amended to clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

### 3.5 Annual Improvements to IFRS Standards 2015 – 2017 Cycle

The annual improvements have made amendments to the following standards:

- **IFRS 3 - Business Combinations and IFRS 11 - Joint Arrangements** - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12 - Income Taxes** - The amendments clarify that the requirements in the former paragraph 52B (to recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.
- **IAS 23 - Borrowing Costs** - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

### 3.6 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19 - Employee Benefits)

IAS 19 - Employees Benefits has been amended to provide that:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

## 4 NEW AND REVISED STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE.

The following standards, interpretations and amendments are in issue which are not effective as at the reporting date and have not been early adopted by the Company.

|  | <b>Effective date<br/>(annual periods beginning<br/>on or after)</b> |
|--|--|
| IFRS 17 - Insurance contracts (2017)   | January 01, 2021   |
| Sale or contribution of assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures). | Deferred Indefinitely  |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

|   | <b>Effective date<br/>(annual periods beginning<br/>on or after)</b> |
|---|--|
| Amendments to References to the Conceptual Framework in IFRS Standards  | January 01, 2020   |
| Definition of a Business (Amendments to IFRS 3 - Business Combinations)   | January 01, 2020   |
| Definition of Material (Amendments to IAS 1 - First-time Adoption of International Financial Reporting Standards and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors)                   | January 01, 2020   |
| Interest Rate Benchmark Reform (Amendments to IFRS 9 - Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurements, and IFRS 7 - Financial Instruments: Disclosures).                   | January 01, 2020   |
| Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 - First-time Adoption of International Financial Reporting Standards).   | January 01, 2022   |
| Reference to the Conceptual Framework (Amendments to IFRS 3 - Business Combinations).   | January 01, 2022   |
| Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16 - Property, Plant and Equipment).  | January 01, 2022   |
| Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37 - Impairment of Assets).  | January 01, 2022   |
| Annual Improvements to IFRS Standards 2018–2020.  | January 01, 2022   |
| COVID-19 - Related Rent Concessions (Amendment to IFRS 16 - Leases).  | June 01, 2020  |
| Other than afore mentioned standards, interpretations and amendments, IABS has also issued the following standards which have not been notified by the Securities and Exchange Commission of Pakistan ['SECP']: |  |
| IFRS 1 - First Time Adoption of International Financial Reporting Standards   |  |
| IFRS 14 - Regulatory Deferral Accounts  |  |
| IFRS 17 – Insurance contracts (2017)  |  |

The Company intends to adopt these new and revised standards, interpretations and amendments on their effective dates, subject to, where required, notification by Securities and Exchange Commission of Pakistan under section 225 of the Companies Act, 2017 regarding their adoption. The management anticipates that the adoption of the above standards, amendments and interpretations in future periods, will have no material impact on the Company's financial statements other than in presentation/disclosures.

### 5 CHANGES IN ACCOUNTING POLICIES

The adoption of new and revised standards, interpretations and amendments effective during the year has resulted in changes to accounting policies as follows:

| <b>Previous accounting policy</b>   | <b>New accounting policy</b>  |
|---|---|
| <p><b>Liabilities against assets subject to finance lease</b></p> <p>Liabilities against assets subject to finance lease are classified as 'financial liabilities at amortized cost' respectively, however, since they fall outside the scope of measurement requirements of IFRS 9, these are measured in accordance with the requirements of IAS 17. On initial recognition, these are measured at cost, being their fair value at the date of commencement of lease, less attributable transaction costs. Subsequent to initial recognition, minimum lease payments made under finance leases are apportioned between the finance charge and the reduction of outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.</p> | <p><b>Lease Liabilities</b></p> <p>At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.</p> |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

| Previous accounting policy   | New accounting policy  |
|--|--|
| <p><b>Assets subject to finance lease</b></p> <p>Assets subject to finance lease are classified as 'operating fixed assets'. On initial recognition, these are measured at cost, being an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, these are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation, subsequent expenditure, de-recognition, and gains and losses on de-recognition are accounted for in accordance with the respective policies for operating fixed assets.</p>  | <p>In calculating the present value of lease payments, the Company uses if the interest rate implicit in the lease. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.</p>  |
| <p><b>Right-of-use assets</b></p> <p>The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred (if any), and lease payments made at or before the commencement date less lease incentives received (if any). Right-of-use assets are depreciated at the shorter of their useful lives and lease terms unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, in which case, these are depreciated over their estimated useful lives.</p>   | <p><b>Right-of-use assets</b></p> <p>The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred (if any), and lease payments made at or before the commencement date less lease incentives received (if any). Right-of-use assets are depreciated at the shorter of their useful lives and lease terms unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, in which case, these are depreciated over their estimated useful lives.</p> |
| <p><b>6 SIGNIFICANT ACCOUNTING POLICIES</b></p> <p>The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except of change referred to in note 5.</p>  |  |
| <p><b>6.1 Property, plant and equipment</b></p>  |  |
| <p><b>6.1.1 Operating fixed assets</b></p> <p>Operating fixed assets are measured at cost less accumulated depreciation and accumulated impairment losses with the exception of freehold land, which is stated at revalued amount, and buildings on freehold land and plant and machinery which are carried at revalued amounts less accumulated depreciation. Cost comprises purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition or construction, erection and installation.</p> <p>Major renewals and improvements to operating fixed assets are recognized in the carrying amount if it is probable that the embodied future economic benefits will flow to the Company and the cost of renewal or improvement can be measured reliably. The cost of the day-to-day servicing of operating fixed assets are recognized in profit or loss as incurred.</p> <p>The Company recognizes depreciation in profit or loss by applying reducing balance method over the useful life of each operating fixed asset using rates specified in note 21.1 to the financial statements. Depreciation on additions to operating fixed assets is charged from the month in which the item becomes available for use. Depreciation is discontinued from the month in which it is disposed or classified as held for disposal.</p> <p>An operating fixed asset is de-recognized when permanently retired from use. Any gain or loss on disposal of operating fixed assets is recognized in statement of profit or loss.</p> |  |
| <p><b>6.1.2 Capital work in progress</b></p> <p>Capital work in progress is stated at cost less identified impairment loss, if any, and includes the cost of material, labour and appropriate overheads directly relating to the construction, erection or installation of an item of operating fixed assets. These costs are transferred to operating fixed assets as and when related items become available for intended use.</p>   |  |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 6.1.3 Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred (if any), and lease payments made at or before the commencement date less lease incentives received (if any). Right-of-use assets are depreciated at the shorter of their useful lives and lease terms unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, in which case, these are depreciated over their estimated useful lives.

### 6.1.4 Spare parts held exclusively for capitalization

These are carried at cost less accumulated impairment. Cost is determined using moving average, except for items in transit, which are carried at invoice price plus related costs incurred upto the reporting date.

### 6.2 Surplus / deficit arising on revaluation of property, plant and equipment

Increases in the carrying amounts arising on revaluation of property, plant and equipment are recognised, net of tax, in other comprehensive income and accumulated in surplus on revaluation of property, plant and equipment in share capital and reserves. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the surplus on revaluation of property, plant and equipment to accumulated profit.

### 6.3 Investment in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of the associates have been incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the statement of financial position at cost as adjusted for post acquisition changes in the Company's share of net assets of the associates, less any impairment in the investment. Losses of an associates in excess of the Company's interest in that associate (which include any long term interest that, in substance, form part of the Company's net investment in the associate) are recognised only to the extent that the Company has incurred legal or constructive obligation or made payment on behalf of the associate.

### 6.4 Stores, spares and loose tools

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

### 6.5 Stock in trade

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

|                  |   |
|------------------|---|
| Raw material     | Weighted average cost   |
| Work in process  | Average manufacturing cost  |
| Finished goods   | Average manufacturing cost  |
| Stock in transit | Invoice price plus related cost incurred up to the reporting date |

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

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

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 6.6 Employee benefits

#### 6.6.1 Short-term employee benefits

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

#### 6.6.2 Post-employment benefits

##### (a) Defined benefit plan

The Company operates an unfunded gratuity scheme for all its employees at mill who have completed the minimum qualifying service period. Liability is adjusted on each reporting date to cover the obligation and the adjustment is charged to statement of profit or loss with the exception of remeasurements which are recognized in statement of comprehensive income. The amount recognized on statement of financial position represents the present value of defined benefit obligation. The details of the scheme are referred to in note 14 to the financial statements.

##### (b) Defined contribution plan

The Company operates an approved funded contributory provident fund for its employees at head office who have completed the minimum qualifying period of service as defined under the respective scheme. Equal monthly contributions are made both by the Company and the employees at the rate of 8.33% percent of basic salary and cost of living allowance, where applicable, to cover the obligation. Contributions are charged to statement of profit or loss.

### 6.7 Financial instruments

#### 6.7.1 Recognition

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

#### 6.7.2 Classification

The Company classifies its financial assets on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial liabilities are classified in accordance with the substance of contractual provisions. The Company determines the classification of its financial instruments at initial recognition as follows:

##### (a) Financial assets at amortized cost

These are financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cashflows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

##### (b) Financial liabilities at amortized cost

These are financial liabilities which are not derivatives, financial guarantee contracts, commitments to provide loans at below-market interest rate, contingent consideration payable to an acquirer in a business combination or financial liabilities that arise when transfer of a financial asset does not qualify for derecognition.

#### 6.7.3 Measurement

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

#### 6.7.4 Derecognition

A financial asset is derecognized when the Company's contractual rights to the cash flows from the financial assets expire or when the Company transfers the financial asset to another party without retaining control of substantially all risks and rewards of the financial asset. A financial liability is derecognized when the Company's obligations specified in the contract expire or a discharged or cancelled.

#### 6.7.5 Off-setting

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

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 6.8 Ordinary share capital

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

### 6.9 Loans and borrowings

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

### 6.10 Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses if the interest rate implicit in the lease. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

### 6.11 Operating leases as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### 6.12 Ijarah transactions

Ijarah payments under an Ijarah are recognized as an expense in the statements of profit or loss on a straight-line basis over the Ijarah terms unless another systematic basis are representative of the time pattern of the user's benefit, even if the payments are not on that basis.

### 6.13 Trade and other payables

#### 6.13.1 Financial liabilities

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

#### 6.13.2 Non-financial liabilities

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

### 6.14 Provisions and contingencies

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

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 6.15 Trade and other receivables

#### 6.15.1 Financial assets

These are classified as 'financial assets at amortized cost'. On initial recognition, these are measured at fair value at the date of transaction, plus attributable transaction costs, except for trade debts that do not have a significant financing component, which are measured at undiscounted invoice price. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method, with interest recognized in profit or loss.

#### 6.15.2 Non-financial assets

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

### 6.16 Revenue

Revenue is measured based on the consideration specified in a contract with a customer. Revenue from operations of the Company are recognized when the goods are provided, and thereby the performance obligations are satisfied. Revenue consists of sale of yarn. The Company's contract performance obligations are fulfilled at the point in time when the goods are dispatched to the customer. Invoices are generated and revenue is recognised at that point in time, as the control has been transferred to the customers

### 6.17 Comprehensive income

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

### 6.18 Borrowing costs

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

### 6.19 Operating segment

The Company is a single operating segment based on internal reporting to the Board of Directors of the Company.

### 6.20 Income tax

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

#### 6.20.1 Current taxation

Current tax is the amount of tax payable on taxable income for the year and any adjustment to the tax payable in respect of previous years.

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

#### 6.20.2 Deferred taxation

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

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 6.21 Earnings per share ['EPS']

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

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

### 6.22 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand and cash at banks.

### 6.23 Foreign currency transactions and balances

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

### 6.24 Impairment

#### 6.24.1 Financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets carried at amortized cost on date of initial recognition. The amount of expected credit losses is updated on each reporting date to reflect the changes in credit risk since initial recognition of the respective financial asset.

Impairment is recognized at an amount equal to lifetime expected credit losses for financial assets for which credit risk has increased significantly since initial recognition. For financial assets for which credit risk is low, impairment is recognized at an amount equal to twelve months' expected credit losses, with the exception of trade debts, for which the Company recognises lifetime expected credit losses estimated using internal credit risk grading based on the Company's historical credit loss experience, adjusted for factors that are specific to debtors, general economic conditions, and an assessment for both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss is reversed only to the extent that the financial asset's carrying amount after the reversal does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

The Company writes off a financial asset when there is information indicating that the counter-party is in severe financial condition and there is no realistic prospect of recovery. Any recoveries made post write-off are recognized in profit or loss.

#### 6.24.2 Non-financial assets

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

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

### 6.25 Dividend distribution to ordinary shareholders

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

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

|  | 2020               | 2019               |
|--|--------------------|--------------------|
|  | <i>Rupees</i>      | <i>Rupees</i>      |
| <b>7 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL</b>  |                    |                    |
| Ordinary shares of Rs. 10 each   |                    |                    |
| 48,000,000 (2019: 48,000,000) shares issued for cash   | 480,000,000        | 480,000,000        |
| 38,577,920 (2019: 38,577,920) shares issued as fully paid bonus shares   | 385,779,200        | 385,779,200        |
|  | <b>865,779,200</b> | <b>865,779,200</b> |
| <b>8 SHARE PREMIUM</b>   |                    |                    |
| This represents premium on issue of ordinary shares recognized under Section 83(1) of the repealed Companies Ordinance, 1984.  |                    |                    |
|  | 2020               | 2019               |
|  | <i>Rupees</i>      | <i>Rupees</i>      |
| <b>9 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>   |                    |                    |
| As at beginning of the year  | 465,056,876        | 507,951,005        |
| Incremental depreciation transferred to accumulated profits  |                    |                    |
| Incremental depreciation for the year  | (17,430,366)       | (17,450,456)       |
| Deferred taxation  | 2,792,916          | 2,796,135          |
|  | (14,637,450)       | (14,654,321)       |
| Surplus realised on disposal   |                    |                    |
| Surplus on the assets disposed off   | (948,381)          | -                  |
| Deferred taxation  | 151,962            | -                  |
|  | (796,419)          | -                  |
| Other adjustments  |                    |                    |
| Deferred tax adjustment attributable to changes in proportion of income taxation under final tax regime  | (10,719,908)       | (28,239,808)       |
| As at end of the year  | <b>438,903,099</b> | <b>465,056,876</b> |
| <b>10 LOAN FROM DIRECTORS AND SPONSORS</b>   |                    |                    |
| This represents loan obtained from directors and sponsors. The loans are interest free and payable at the discretion of the Company subject to subordination arrangements with providers of debt finances expected to be executed in ensuing year. The details are as follows: |                    |                    |
|  | <i>Note</i>        | 2020               |
|  |                    | <i>Rupees</i>      |
| As at beginning of the year  |                    | -                  |
| Transferred from long term loan from directors and sponsors  | 12                 | 213,493,000        |
| Transferred from short term borrowings   | 17.2               | 268,007,000        |
| As at end of the year  |                    | <b>481,500,000</b> |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

|  | <i>Note</i> | 2020<br><i>Rupees</i> | 2019<br><i>Rupees</i> |
|--|-------------|-----------------------|-----------------------|
| <b>11 LONG TERM FINANCES</b>   |             |                       |                       |
| These represent secured long term finances utilized under interest arrangements from banking companies |             |                       |                       |
| Term Finances ['TF']   |             |                       |                       |
| TF - I   | 11.1        | 17,276,667            | 21,575,000            |
| TF - II  | 11.2        | 316,088,000           | 316,088,000           |
| TF - III   | 11.3        | 466,788,303           | 466,788,303           |
| TF - IV  | 11.4        | 92,158,000            | 99,658,000            |
| TF - V   | 11.5        | 40,000,000            | 40,000,000            |
| TF - VI  | 11.6        | 229,453,080           | -                     |
| TF - VII   | 11.7        | 10,899,084            | -                     |
|  |             | <b>1,172,663,134</b>  | 944,109,303           |
| Current portion presented under current liabilities  | 19          | <b>(36,319,166)</b>   | (35,264,205)          |
|  |             | <b>1,136,343,968</b>  | 908,845,098           |

- 11.1** TF - I has been obtained from Askari Bank Limited to finance capital expenditure and is secured by charge over operating fixed assets of the Company, subordination of loan from directors and personal guarantees of the Company's Directors. The finance carries interest at 5% per annum (2019: 5% per annum) payable quarterly. The finance is repayable in eight equal quarterly installments with the first installment due in February, 2019. However, during the year, the lender has approved principal deferral for a period of one year under the State Bank of Pakistan BPRD circular No. 14 of 2020.
- 11.2** TF - II has been obtained from MCB Bank Limited on conversion of short term borrowings and is secured by charge over operating fixed assets of the Company, subordination of loan from directors and personal guarantees of the Company's Directors. The finance carries interest at 8% (2019: three months KIBOR plus 1%) per annum, payable quarterly. The finance is repayable in twenty equal quarterly installments with the first installment due in June 2020. An amount of Rs. 15.8 million and Rs. 55.711 million on account of principal and interest is overdue respectively as at the reporting date.
- 11.3** TF - III has been obtained from National Bank of Limited on conversion of short term borrowings and is secured by charge over operating fixed assets of the Company, personal guarantees of the Company's Directors and pledge of 25% shares of Hira Textile Mills Limited. The finance carries interest at rates ranging from 5% to 8% (2019: three months KIBOR plus 1%) per annum, payable quarterly. The finance is repayable in twenty equal quarterly installments with the first installment due in June 2020. An amount of Rs. 7.77 million and Rs. 77.842 million on account of principal and interest is overdue respectively as at the reporting date.
- 11.4** TF - IV has been obtained from Faysal Bank Limited on conversion of short term borrowings and is secured by charge over operating fixed assets of the Company, personal guarantees of the Company's Directors. The finance carries interest at rates ranging from a fixed rate of 5.6% to three months KIBOR plus 1% (2019: three months KIBOR plus 1%) per annum, payable quarterly. The finance is repayable in twenty equal quarterly installments with the first installment due in July 2020. An amount of Rs. 18.479 million on account of interest is overdue as at the reporting date.
- 11.5** TF - V has been obtained from Habib Bank Limited on conversion of short term borrowings and is secured by charge over operating fixed assets of the Company, personal guarantees of the Company's Directors. The finance carries interest at one month KIBOR plus 1% per annum (2019: one month KIBOR plus 1% per annum) payable monthly. The finance is repayable in forty equal monthly installments with the first installment due in April 2020. An amount of Rs. 3 million and Rs. 4.11 million on account of principal and interest is overdue respectively as at the reporting date.
- 11.6** TF - VI has been obtained from The Bank of Punjab on conversion of short term borrowing, lease liability and restructuring and is secured by charge over fixed and current assets of the company, existing ownership of leased assets and personal guarantees of Company's Directors. The finance carries interest at the lender's cost of funds, payable quarterly. The finance is repayable in twenty equal quarterly installments with the first installment due in December, 2021. During the year, the lender allowed payment of interest for the quarters ended March 31, 2020 and June 30, 2020 to be deferred till August 31, 2020 and September 30, 2020 respectively. An amount of Rs. 3.52 million on account of interest is overdue as at the reporting date.

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

- 11.7** TF-VII represents accrued interest on short term borrowings and lease liability obtained from The Bank of Punjab frozen on the request of the management and converted into long term finance. The finance is secured by charge over current and fixed assets of the Company, existing ownership of leased assets and personal guarantee of the Company's Director. The finance carries no interest. The finance is repayable in four equal quarterly installments with the first installment due in December 2026. The finance has been carried at amortised cost which has been determined using a discount rate of 8%.

|                               |        | 2020              | 2019          |
|-------------------------------|--------|-------------------|---------------|
|                               |        | <i>Rupees</i>     | <i>Rupees</i> |
| Face value of loan            |        | 18,496,000        | -             |
| Unamortized notional interest | 11.7.1 | (7,596,916)       | -             |
| <b>As at end of the year</b>  |        | <b>10,899,084</b> | -             |

**11.7.1 Unamortized notional interest**

|                              |  |                  |   |
|------------------------------|--|------------------|---|
| As at beginning of the year  |  | -                | - |
| Recognized during the year   |  | 7,596,916        | - |
| <b>As at end of the year</b> |  | <b>7,596,916</b> | - |

- 11.8** For mortgages and charges on assets as security for liabilities, refer to note 47 to the financial statements.

**12 LONG TERM LOAN FROM DIRECTORS AND SPONSORS**

These represent finances obtained from directors and sponsors of the Company and is unsecured. The finance carries interest at six months KIBOR plus 1.75% per annum (2019: six months KIBOR plus 1.75% per annum). As per the terms of this loan, the lenders on their sole discretion may waive full or partial payment of interest on these finances. As on the reporting date, these finances have been converted into interest free loans (See note 10), to be subordinated to debt finances in the ensuing year, as per mutual agreement between the Company and lending directors and sponsors. Accordingly, these have been classified as equity in accordance with the guidance provided in Technical Release - 32 'Accounting for Directors' Loan' issued by the ICAP.

|   | <i>Note</i> | 2020             | 2019          |
|---|-------------|------------------|---------------|
|   |             | <i>Rupees</i>    | <i>Rupees</i> |
| <b>13 LEASE LIABILITIES</b>                         |             |                  |               |
| Present value of minimum lease payments             | 13.1 & 13.2 | 6,956,925        | 22,086,409    |
| Current portion presented under current liabilities | 13.1 & 13.2 | (2,052,000)      | (22,086,409)  |
|   |             | <b>4,904,925</b> | -             |

- 13.1** These represent vehicles and machinery acquired under finance lease arrangements. The leases are priced at rates ranging from six months KIBOR plus 1.5% per annum (2019: three months to six months KIBOR plus 1.5% to 2% per annum). Lease rentals are payable monthly over a tenor ranging from 4 to 5 years. Under the terms of agreement, taxes, repairs, replacements and insurance costs in respect of assets subject to finance lease are borne by the Company. The Company also has the option to acquire these assets at the end of their respective lease terms by adjusting the deposit amount against the residual value of the asset and intends to exercise the option. During the year, lease liabilities amounting to Rs. 14.29 million have been transferred to long term finances (TF VI) (See note 11.5).

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

|   | <i>Note</i> | <b>2020</b>      | <b>2019</b>       |
|---|-------------|------------------|-------------------|
|   |             | <i>Rupees</i>    | <i>Rupees</i>     |
| Not later than one year                               |             | 2,468,727        | 16,975,515        |
| Later than one year but not later than five years     |             | 5,030,277        | 5,972,423         |
| <b>Total future minimum lease payments</b>            |             | <b>7,499,004</b> | <b>22,947,938</b> |
| Finance charge allocated to future periods            |             | (542,079)        | (861,529)         |
| <b>Present value of future minimum lease payments</b> |             | <b>6,956,925</b> | <b>22,086,409</b> |
| Not later than one year                               | 19          | (2,052,000)      | (22,086,409)      |
| Later than one year but not later than five years     |             | 4,904,925        | -                 |

### 14 EMPLOYEES RETIREMENT BENEFITS

The Company operates an unfunded gratuity scheme, a defined benefit plan, for all its workers who have completed the minimum qualifying service period. Under the scheme, the Company pays a lump-sum benefit equal to last drawn monthly gross salary for each year of service to scheme members whereas the members of the scheme are not required to make any contributions to the scheme. The scheme is administered by the management of the Company under the supervision and directions of the Board of Directors of the Company. The amount recognized on statement of financial position represents present value of defined benefit obligation.

|   | <i>Note</i> | <b>2020</b>       | <b>2019</b>   |
|---|-------------|-------------------|---------------|
|   |             | <i>Rupees</i>     | <i>Rupees</i> |
| <b>14.1 Movement in present value of defined benefit obligation</b> |             |                   |               |
| As at beginning of the year   |             | 9,708,387         | 12,154,649    |
| Charged to profit or loss for the year                              | 14.2        | 9,738,962         | 6,594,483     |
| Benefits paid during the year                                       |             | (5,277,265)       | (9,248,760)   |
| Actuarial loss arising during the year                              |             | 706,366           | 208,015       |
| As at end of the year   |             | <b>14,876,450</b> | 9,708,387     |
| Benefits due presented under current liabilities                    | 19          | -                 | (1,814,700)   |
|   |             | <b>14,876,450</b> | 7,893,687     |

|                                      | <i>Note</i> | <b>2020</b>      | <b>2019</b>   |
|--------------------------------------|-------------|------------------|---------------|
|                                      |             | <i>Rupees</i>    | <i>Rupees</i> |
| <b>14.2 Charge to profit or loss</b> |             |                  |               |
| Current service cost                 |             | 6,659,280        | 6,064,649     |
| Past service cost                    |             | 2,422,800        | -             |
| Interest cost                        |             | 656,882          | 529,834       |
|                                      |             | <b>9,738,962</b> | 6,594,483     |

### 14.3 Remeasurements recognized in statement of comprehensive income

Actuarial loss arising from changes in:

|                         |  |                |         |
|-------------------------|--|----------------|---------|
| Demographic assumptions |  | -              | -       |
| Financial assumptions   |  | -              | -       |
| Experience adjustments  |  | 706,366        | 208,015 |
|                         |  | <b>706,366</b> | 208,015 |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 14.4 Principal actuarial assumptions

Present value of defined benefit obligation has been determined using projected unit credit method. The liability as at the reporting date is based on actuarial valuation carried out by independent actuaries. The principal assumptions used in determining present value of defined benefit obligation are:

|                                      | 2020  | 2019   |
|--------------------------------------|-------|--------|
| Discount rate                        | 8.50% | 12.50% |
| Expected rates of increase in salary | 7.50% | 11.50% |

### 14.5 Average duration of the defined benefit obligation

The average duration of the defined benefit obligation is ten years.

### 14.6 Expected charge to statement of profit or loss for the next financial year

The expected charge to statement of profit or loss for the year ending June 30, 2020 amounts to Rs. 8.887 million.

### 14.7 Sensitivity analysis

An analysis of sensitivity for discount rate and expected rate of increase in salary used to determine the present value of defined benefit obligation as at the reporting date showing how the defined benefit obligation would have been affected by changes in relevant actuarial assumption that were reasonably possible at that date is as follows:

|                                      | 2020                                 |   | 2019                                 |   |
|--------------------------------------|--------------------------------------|---|--------------------------------------|---|
|                                      | Change<br>in actuarial<br>assumption | Defined<br>benefit<br>obligation<br><i>Rupees</i> | Change<br>in actuarial<br>assumption | Defined<br>benefit<br>obligation<br><i>Rupees</i> |
| Discount rate                        | + 1%                                 | 13,323,049  | + 1%                                 | 8,586,090   |
|                                      | - 1%                                 | 16,797,525  | - 1%                                 | 11,101,941  |
| Expected rates of increase in salary | + 1%                                 | 16,797,525  | + 1%                                 | 11,101,941  |
|                                      | - 1%                                 | 13,296,815  | - 1%                                 | 8,567,096   |

A change in expected remaining working lives of employees is not expected to have a material impact on the present value of defined benefit obligation. Accordingly, the sensitivity analysis for the same has not been carried out.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of defined benefit obligation as at the reporting date has been calculated using projected unit credit method, which is the same as that applied in calculating the defined benefit obligation to be recognized in these financial statements.



## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

**15.2** Deferred tax arising from timing differences pertaining to income from business is provided for only that portion of timing differences that represent income taxable under normal provisions of the Income Tax Ordinance, 2001 ['the Ordinance'] as revenue from export sales of the Company is subject to taxation under the final tax regime, while the remaining portion of revenue attracts assessment under normal provisions of the Ordinance. These differences are calculated at that proportion of total timing differences that the local sales, other than the indirect exports taxable under section 154 (3) of the Ordinance, bear to the total sales revenue based on historical and future trends. Deferred tax has been calculated at 29% (2019: 29%) of the timing differences so determined based on tax rates notified by the Government of Pakistan for future tax years.

**15.3** Deferred tax asset on unused tax losses and credits amounting to Rs. 1,451.836 million and long term investment amounting to Rs. 21.951 million has not been recognized as sufficient taxable profits are not expected to be available in future against which these could be utilized. The deferred tax asset on unused tax losses has been recognized only the extent of unabsorbed tax depreciation losses as these are available for use for an infinite period under the present income tax laws.

|                                    | <i>Note</i>                     | <b>2020</b>        | <b>2019</b>   |
|------------------------------------|---------------------------------|--------------------|---------------|
|                                    |                                 | <i>Rupees</i>      | <i>Rupees</i> |
| <b>16</b>                          | <b>TRADE AND OTHER PAYABLES</b> |                    |               |
| Trade creditors                    | 16.1                            | <b>182,017,052</b> | 698,912,708   |
| Accrued liabilities                |                                 | <b>98,040,223</b>  | 86,057,950    |
| Advances from customers            |                                 | <b>7,127,586</b>   | 17,435,179    |
| Payable to Provident Fund Trust    |                                 | <b>2,467,220</b>   | 1,622,737     |
| Tax deducted at source             |                                 | <b>649,896</b>     | 2,382,690     |
| Sales tax payable                  |                                 | <b>26,591,682</b>  | -             |
| Due to related party               | 16.2                            | <b>189,127,049</b> | -             |
| Workers' Profit Participation Fund |                                 | <b>781,124</b>     | 781,124       |
| Workers' Welfare Fund              |                                 | <b>1,958,211</b>   | 1,958,211     |
| Other payables                     |                                 | <b>49,939,673</b>  | -             |
|                                    |                                 | <b>558,699,716</b> | 809,150,599   |

**16.1** This includes nil (2019: Rs. 273 million) recognized as provision against debit note issue to Hira Terry Mills Limited, a related party.

**16.2** This represents advances obtained from Hira Terry Mills Limited, a related party, against rent on assets leased out to the related party under operating lease arrangement.

**16.3** This represents current account with a sponsor of the Company and includes amounts reimbursable to the sponsor against expenses paid for on behalf of the Company.

|                        | <i>Note</i>                  | <b>2020</b>        | <b>2019</b>   |
|------------------------|------------------------------|--------------------|---------------|
|                        |                              | <i>Rupees</i>      | <i>Rupees</i> |
| <b>17</b>              | <b>SHORT TERM BORROWINGS</b> |                    |               |
| Banking companies      | 17.1                         | <b>809,279,436</b> | 1,027,555,511 |
| Directors and sponsors | 17.2                         | -                  | 318,090,673   |
|                        |                              | <b>809,279,436</b> | 1,345,646,184 |

### **17.1** Banking companies

These represent short term finances utilized under interest arrangements from banking companies.

|                  |        |                    |               |
|------------------|--------|--------------------|---------------|
| Running finances | 17.1.1 | <b>413,162,339</b> | 502,638,414   |
| Term loans       | 17.1.2 | <b>396,117,097</b> | 524,917,097   |
|                  |        | <b>809,279,436</b> | 1,027,555,511 |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

**17.1.1** These facilities have been obtained from various banking companies for working capital requirements and are secured by charge over all present and future current assets of the Company and personal guarantees of sponsors. These carry interest at rates 8% per annum (2019: one to six months KIBOR plus 1% to 3% per annum) payable quarterly/monthly. During the year, short term borrowings amounting to Rs. 88.626 million were converted into long term finance (see note 11.6). As at the reporting date, Rs. 413.162 million and Rs 62.233 million on account of principal and interest respectively are over due.

**17.1.2** These facilities have been obtained from various banking companies for working capital requirements and are secured by charge over all present and future current, fixed assets of the Company. These carry interest at rates ranging from 5% to 15.13% (2019: 8.43% to 13.13%) per annum payable quarterly/monthly. During the year, short term borrowings amounting to Rs. 128.8 million were converted into long term finance (See note 11.6). As at the reporting date, Rs. 300 million and Rs. 95.272 million on account of principal and interest respectively are over due.

**17.1.3** All short term borrowing facilities stand expired as at the reporting date.

### 17.2 Loan from directors and sponsors

This represents loan obtained from directors for working capital requirements. The loan is unsecured, interest free and repayable on demand. Details are as follows:

|                               | <i>Note</i> | <b>2020</b>          | 2019               |
|-------------------------------|-------------|----------------------|--------------------|
|                               |             | <i>Rupees</i>        | <i>Rupees</i>      |
| As at beginning of the year   |             | <b>318,090,673</b>   | 301,662,373        |
| Obtained during the year      |             | -                    | 16,933,300         |
| Repaid during the year        |             | <b>(144,000)</b>     | (505,000)          |
| Transferred to equity         | 17.2.1      | <b>(268,007,000)</b> | -                  |
| Transferred to other payables | 16.3        | <b>(49,939,673)</b>  |                    |
| <b>As at end of the year</b>  |             | <b>-</b>             | <b>318,090,673</b> |

**17.2.1** As on the reporting date, these finances have been converted into interest free loans (See note 10), to be subordinated to debt finances in the ensuing year, as per mutual agreement between the Company and lending directors and sponsors. Accordingly, these have been classified as equity in accordance with the guidance provided in Technical Release - 32 'Accounting for Directors' Loan' issued by the ICAP.

|   | <i>Note</i> | <b>2020</b>        | 2019               |
|---|-------------|--------------------|--------------------|
|   |             | <i>Rupees</i>      | <i>Rupees</i>      |
| <b>18 ACCRUED INTEREST</b>                          |             |                    |                    |
| Long term finances                                  |             | <b>188,676,339</b> | 101,098,690        |
| Liabilities against assets subject to finance lease |             | -                  | 1,317,250          |
| Short term borrowings                               |             | <b>178,223,248</b> | 140,374,501        |
|   | <b>18.1</b> | <b>366,899,587</b> | <b>242,790,441</b> |

**18.1** During the year, accrued interest on long term finances, lease liabilities and short term borrowings amounting to Rs. 18.496 million have been converted to long term finances (See note 11.7).

**18.2** Accrued interest includes Rs. 317.166 million which is overdue as at the reporting date.

|  | <i>Note</i> | <b>2020</b>       | 2019              |
|--|-------------|-------------------|-------------------|
|  |             | <i>Rupees</i>     | <i>Rupees</i>     |
| <b>19 CURRENT PORTION OF NON-CURRENT LIABILITIES</b> |             |                   |                   |
| Long term finances                                   | 11          | <b>36,319,166</b> | 35,264,205        |
| Liabilities against assets subject to finance lease  | 13          | <b>2,052,000</b>  | 22,086,409        |
| Employee retirement benefits                         | 14          | -                 | 1,814,700         |
|  |             | <b>38,371,166</b> | <b>59,165,314</b> |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 20 CONTINGENCIES AND COMMITMENTS

#### 20.1 Contingencies

- 20.1.1** The Company received a demand order in respect of detection bill amounting to Rs. 6.7 million. The Company has filed an appeal before Oil and Gas Regulatory Authority against the said detection bill. The appeal has not been fixed for hearing so far.
- 20.1.2** For the tax year 2010, Assistant Commissioner Inland Revenue ['ACIR'] created a tax demand amounting to Rs. 186.6 million. The Company filed an appeal before Commissioner Inland Revenue-Appeals ['CIR-A'] who partially remanded back the case but upheld the reduction in refund amounting to Rs. 0.6 million. The Company has filed an appeal before the Appellate Tribunal Inland Revenue ['ATIR'], which is pending adjudication. The management and the tax / legal advisors of the Company are of the view that the matter will eventually be settled in favor of the Company.
- 20.1.3** For the tax year 2011, Deputy Commissioner Inland Revenue ['DCIR'] created a tax demand amounting to Rs. 28.7 million. The Company filed an appeal before CIR-A which is pending adjudication. The management and the tax / legal advisors of the Company are of the view that the matter will eventually be settled in favor of the Company.
- 20.1.4** Gas Infrastructure Development Cess ['GIDC'] has been levied with effect from December 15, 2011 on industrial gas customers firstly through OGRA notification and subsequently via GID Cess Ordinance 2014 and GID Cess Act 2015. The Company, along with other industrial concerns, has filed a writ petition in the Honorable High Court of Sindh challenging the imposition of GIDC. On October 26, 2016, the Honorable High Court of Sindh held that enactment of GIDC Act 2015 is ultra-vires to the constitution of Pakistan. The Company has not recognised any provision relating to GIDC aggregating to Rs. 73.9 million.
- 20.1.5** MCB Bank Limited filed a suit against the Company and others for recovery of Rs. 491.038 million, before the Honorable High Court Lahore vide COS No. 28331/2019. This suit is presently pending adjudication. This case is being vigorously and diligently contested by the Company. Further, the Company has filed a counter suit for recovery of Rs. 908.801 million before the Honorable High Court Lahore vide COS No. 41369/2019.
- 20.1.6** Bank Alfalah Limited filed a suit against the Company and others for recovery of Rs. 214.991 million, before the Honorable High Court Lahore vide COS No. 35823/2019. This suit is presently pending adjudication. This case is being vigorously and diligently contested by the Company. Further, the Company has filed a counter suit for recovery of Rs. 517.377 million before the Honorable High Court Lahore vide COS No. 64374/2019.
- 20.1.7** National Bank of Limited filed a suit against the Company and others for recovery of Rs. 823.027 million, before the Honorable High Court Lahore vide COS No. 13653/2020. This suit is presently pending adjudication. This case is being vigorously and diligently contested by the Company. Further, the Company has filed a counter suit for recovery of Rs. 1,476.893 million before the Honorable High Court Lahore vide COS No. 40272/2020.
- 20.1.8** Samba Bank Limited filed a suit against the Company and others for recovery of Rs. 246.381 million, before the Honorable High Court Lahore vide COS No. 1770/2020. This suit is presently pending adjudication. This case is being vigorously and diligently contested by the Company. Further, the Company has filed a counter suit for recovery of Rs. 150.173 million before the Honorable High Court Lahore vide COS No. 25832/2020.

|   | 2020              | 2019          |
|---|-------------------|---------------|
|   | <i>Rupees</i>     | <i>Rupees</i> |
| <b>20.1.7</b> Guarantees issued by banks on behalf of the Company | <b>29,542,428</b> | 29,542,428    |
| Post dated cheques to Collector of Customs                        | <b>7,920,000</b>  | 7,920,000     |
|   | <b>37,462,428</b> | 37,462,428    |

#### 20.2 Commitments

There are no commitments as at June 30, 2020

|                          | <i>Note</i> | 2020                 | 2019          |
|--------------------------|-------------|----------------------|---------------|
|                          |             | <i>Rupees</i>        | <i>Rupees</i> |
| <b>21 FIXED ASSETS</b>   |             |                      |               |
| Operating fixed assets   | 21.1        | <b>2,295,738,076</b> | 2,380,081,576 |
| Capital work in progress |             | -                    | -             |
|                          |             | <b>2,295,738,076</b> | 2,380,081,576 |

# NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2020

|                            | 2020                             |                     |                     |                     |                                  |              |                         |                        |                      |                     | 2019                             |  |                                  |                     |                     |                     |                                  |           |                         |                        |                      |                     |                                  |  |
|----------------------------|----------------------------------|---------------------|---------------------|---------------------|----------------------------------|--------------|-------------------------|------------------------|----------------------|---------------------|----------------------------------|--|----------------------------------|---------------------|---------------------|---------------------|----------------------------------|-----------|-------------------------|------------------------|----------------------|---------------------|----------------------------------|--|
|                            | COST/REVALUED AMOUNT             |                     |                     |                     |                                  | DEPRECIATION |                         |                        |                      |                     | COST/REVALUED AMOUNT             |  |                                  |                     |                     | DEPRECIATION        |                                  |           |                         |                        |                      |                     |                                  |  |
|                            | As at<br>July 01, 2019<br>Rupees | Additions<br>Rupees | Disposals<br>Rupees | Transfers<br>Rupees | As at<br>June 30, 2020<br>Rupees | Rate<br>%    | July 01, 2019<br>Rupees | For the year<br>Rupees | Adjustment<br>Rupees | Transfers<br>Rupees | As at<br>June 30, 2020<br>Rupees | Net book<br>value as at<br>June 30, 2020<br>Rupees | As at<br>July 01, 2018<br>Rupees | Additions<br>Rupees | Disposals<br>Rupees | Transfers<br>Rupees | As at<br>June 30, 2019<br>Rupees | Rate<br>% | July 01, 2018<br>Rupees | For the year<br>Rupees | Adjustment<br>Rupees | Transfers<br>Rupees | As at<br>June 30, 2019<br>Rupees | Net book<br>value as at<br>June 30, 2019<br>Rupees |
| Freehold land              | 183,480,000                      | -                   | -                   | -                   | 183,480,000                      | -            | -                       | -                      | -                    | -                   | 183,480,000                      | -  | 183,480,000                      | -                   | -                   | -                   | -                                | -         | -                       | -                      | -                    | -                   | -                                | 183,480,000  |
| Buildings on freehold land | 350,525,941                      | 509,963             | -                   | -                   | 351,035,904                      | 5            | 49,544,598              | 15,056,535             | -                    | 64,601,133          | 286,434,771                      | -  | 350,525,941                      | -                   | -                   | -                   | -                                | 5         | 33,703,475              | 15,841,123             | -                    | -                   | 49,544,598                       | 300,981,343  |
| Plant and machinery        | 1,934,691,906                    | 32,110,376          | (42,790,959)        | -                   | 1,924,011,323                    | 5            | 261,360,104             | 84,473,057             | (34,657,338)         | 311,175,823         | 1,612,835,500                    | -  | 1,934,691,906                    | 61,072,912          | -                   | -                   | -                                | 5         | 175,135,019             | 86,225,085             | -                    | -                   | 261,360,104                      | 1,673,331,802                                      |
| Electric installation      | 164,584,448                      | 8,065,705           | -                   | -                   | 172,650,153                      | 10           | 95,665,307              | 7,267,346              | -                    | 102,932,653         | 69,717,500                       | -  | 164,584,448                      | 10,262,511          | -                   | -                   | -                                | 10        | 88,935,468              | 6,729,839              | -                    | -                   | 95,665,307                       | 68,919,141   |
| Generator                  | 123,215,005                      | -                   | -                   | -                   | 123,215,005                      | 10           | 47,417,015              | 7,579,799              | -                    | 54,996,814          | 68,218,191                       | -  | 123,215,005                      | -                   | -                   | -                   | -                                | 10        | 38,995,016              | 8,421,999              | -                    | -                   | 47,417,015                       | 75,797,990   |
| Power house                | 166,911,487                      | 5,491,848           | -                   | -                   | 172,403,335                      | 10           | 97,421,500              | 7,084,204              | -                    | 104,505,704         | 67,897,631                       | -  | 166,911,487                      | -                   | -                   | -                   | -                                | 10        | 89,713,930              | 7,707,570              | -                    | -                   | 97,421,500                       | 69,489,987   |
| Factory equipment          | 2,443,756                        | 80,332              | -                   | -                   | 2,524,088                        | 10           | 1,699,173               | 78,368                 | -                    | 1,777,541           | 746,547                          | -  | 2,443,756                        | -                   | -                   | -                   | -                                | 10        | 1,652,963               | 46,210                 | -                    | -                   | 1,699,173                        | 744,583  |
| Office equipment           | 1,434,120                        | 208,349             | -                   | -                   | 1,642,469                        | 10           | 1,116,239               | 41,601                 | -                    | 1,157,840           | 484,629                          | -  | 1,434,120                        | -                   | -                   | -                   | -                                | 10        | 1,084,019               | 32,220                 | -                    | -                   | 1,116,239                        | 317,881  |
| Telephone installation     | 1,576,022                        | -                   | -                   | -                   | 1,576,022                        | 10           | 1,103,186               | 47,284                 | -                    | 1,150,470           | 425,552                          | -  | 1,576,022                        | -                   | -                   | -                   | -                                | 10        | 1,050,649               | 52,537                 | -                    | -                   | 1,103,186                        | 472,836  |
| Tarpaulin                  | 382,057                          | -                   | -                   | -                   | 382,057                          | 10           | 331,058                 | 5,100                  | -                    | 336,158             | 45,899                           | -  | 382,057                          | -                   | -                   | -                   | -                                | 10        | 325,391                 | 5,667                  | -                    | -                   | 331,058                          | 50,999   |
| Computers                  | 5,816,851                        | 152,125             | -                   | -                   | 5,968,976                        | 10           | 3,395,436               | 246,158                | -                    | 3,641,594           | 2,327,382                        | -  | 5,816,851                        | 123,626             | -                   | -                   | -                                | 10        | 5,816,851               | 255,348                | -                    | -                   | 3,395,436                        | 2,421,415  |
| Furniture and fixtures     | 5,742,006                        | 85,892              | -                   | -                   | 5,827,898                        | 10           | 3,801,534               | 198,056                | -                    | 3,999,590           | 1,828,308                        | -  | 5,742,006                        | 68,763              | -                   | -                   | -                                | 10        | 3,592,712               | 208,822                | -                    | -                   | 3,801,534                        | 1,940,472  |
| Vehicles                   | 10,061,047                       | -                   | (1,324,600)         | -                   | 8,736,447                        | 20           | 7,927,920               | 447,142                | (934,781)            | 7,440,281           | 1,296,166                        | -  | 10,061,047                       | 1,170,000           | (1,069,500)         | -                   | -                                | 20        | 8,290,391               | 340,878                | (703,349)            | -                   | 7,927,920                        | 2,133,127  |
|                            | 2,950,864,646                    | 46,704,590          | (44,115,559)        | -                   | 2,953,453,677                    |              | 570,783,070             | 122,524,650            | (35,592,119)         | 657,715,601         | 2,295,738,076                    | -  | 2,950,864,646                    | 73,350,067          | (1,069,500)         | -                   | -                                |           | 445,619,121             | 125,867,298            | (703,349)            | -                   | 570,783,070                      | 2,380,081,576                                      |

21.1.1 Free hold lands of the Company are located at Kasur with an area of 438,665 (2019: 438,665) square yards.



## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2020

#### 21.1.1.2 Disposal of operating fixed assets

| Particulars                | 2020           |                                       |                             |                                |                                      |                     | Particulars of buyer             |
|----------------------------|----------------|---------------------------------------|-----------------------------|--------------------------------|--------------------------------------|---------------------|----------------------------------|
|                            | Cost<br>Rupees | Accumulated<br>depreciation<br>Rupees | Net<br>book value<br>Rupees | Disposal<br>proceeds<br>Rupees | Gain/(loss)<br>on disposal<br>Rupees | Mode of<br>disposal |                                  |
| <b>Plant and machinery</b> |                |                                       |                             |                                |                                      |                     |                                  |
| Doubler Machines           | 31,865,520     | 26,710,416                            | 5,155,104                   | 990,000                        | (4,165,104)                          | Negotiation         | AMS Enterprises, Karachi         |
| Power Generators           | 10,925,439     | 7,946,922                             | 2,978,517                   | 6,550,000                      | 3,571,483                            | Negotiation         | Nagina Engineering Works, Lahore |
|                            | 42,790,959     | 34,657,338                            | 8,133,621                   | 7,540,000                      | (593,621)                            |                     |                                  |
| <b>Vehicles</b>            |                |                                       |                             |                                |                                      |                     |                                  |
| Suzuki Bolan               | 417,600        | 388,066                               | 29,534                      | 200,000                        | 170,466                              | Negotiation         | Muhammad Ijaz Butt, Lahore       |
| FAW / XPV                  | 907,000        | 546,715                               | 360,285                     | 380,000                        | 19,715                               | Negotiation         | Mr. Aman Naeem, Lahore           |
|                            | 1,324,600      | 934,781                               | 389,819                     | 580,000                        | 190,181                              |                     |                                  |
|                            | 44,115,559     | 35,592,119                            | 8,523,440                   | 8,120,000                      | (403,440)                            |                     |                                  |
| 2019                       |                |                                       |                             |                                |                                      |                     |                                  |
| Particulars                | Cost<br>Rupees | Accumulated<br>depreciation<br>Rupees | Net<br>book value<br>Rupees | Disposal<br>proceeds<br>Rupees | Gain/(loss)<br>on disposal<br>Rupees | Mode of<br>disposal | Particulars of buyer             |
| <b>Vehicles</b>            |                |                                       |                             |                                |                                      |                     |                                  |
| Suzuki Cultus              | 1,069,500      | 703,349                               | 366,151                     | 618,000                        | 251,849                              | Negotiation         | Mr. Gul Nawaz Kiyani, Lahore     |
| Toyota Fortuner            | 5,511,880      | 3,939,039                             | 1,572,841                   | 3,550,000                      | 1,977,159                            | Negotiation         | Mr. Farooq Ibrahim, Karachi      |
|                            | 6,581,380      | 4,642,388                             | 1,938,992                   | 4,168,000                      | 2,229,008                            |                     |                                  |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

|   | <i>Note</i> | <b>2020</b>        | 2019          |
|---|-------------|--------------------|---------------|
|   |             | <i>Rupees</i>      | <i>Rupees</i> |
| <b>21.1.3</b> The depreciation charge for the year has been allocated as follows: |             |                    |               |
| Cost of sales   | 32          | <b>120,074,157</b> | 123,349,952   |
| Administrative and general expenses   | 34          | <b>2,450,493</b>   | 2,517,346     |
|   |             | <b>122,524,650</b> | 125,867,298   |

**21.1.4** Most recent valuation of land, building, plant and machinery was carried out by an independent valuer Messrs Materials & Design Services (Private) Limited as at June 30, 2016. For basis of valuation and other fair value measurement disclosures, refer to note 44.

Had there been no revaluation, the cost, accumulated depreciation and net book value of revalued items would have been as follows:

|                           | <b>2020</b>          |                      |                      |
|---------------------------|----------------------|----------------------|----------------------|
|                           | Cost                 | Accumulated          | Net                  |
|                           | <i>Rupees</i>        | <i>Rupees</i>        | <i>Rupees</i>        |
| Freehold land             | <b>20,113,708</b>    | -                    | <b>20,113,708</b>    |
| Building on freehold land | <b>278,931,857</b>   | <b>148,296,220</b>   | <b>130,635,637</b>   |
| Plant and machinery       | <b>2,584,828,307</b> | <b>1,157,069,942</b> | <b>1,427,758,365</b> |
|                           | <b>2019</b>          |                      |                      |
|                           | Cost                 | Accumulated          | Net                  |
|                           | <i>Rupees</i>        | <i>Rupees</i>        | <i>Rupees</i>        |
| Freehold land             | 20,113,708           | -                    | 20,113,708           |
| Building on freehold land | 278,421,894          | 141,447,500          | 136,974,394          |
| Plant and machinery       | 2,590,519,463        | 1,112,435,728        | 1,478,083,735        |

**21.1.5** As per most recent valuation, forced sale values of freehold land, buildings on freehold land and plant and machinery are as follows:

|                           | <i>Rupees</i>        |
|---------------------------|----------------------|
| Free hold land            | <b>155,958,000</b>   |
| Building on freehold land | <b>293,769,350</b>   |
| Plant and machinery       | <b>1,386,400,000</b> |
|                           | <b>1,836,127,350</b> |

**21.1.6** Operating fixed assets include certain assets leased out under operating lease arrangements to a related party, Hira Terry Mills Limited. The net book values of these assets as at reporting date are as follows:

|                           | <b>2020</b>        | 2019          |
|---------------------------|--------------------|---------------|
|                           | <i>Rupees</i>      | <i>Rupees</i> |
| Free hold land            | <b>27,522,000</b>  | 27,522,000    |
| Building on freehold land | <b>33,510,787</b>  | 35,274,512    |
| Plant and machinery       | <b>288,479,247</b> | 303,662,366   |
|                           | <b>349,512,034</b> | 366,458,878   |

The portion of land and building leased out has not been classified as investment property' under IAS 40 - Investment Property, as the portion leased out cannot be sold separately and the remaining portion held for manufacturing and administrative purposes is not insignificant in relation to total area/value of land and buildings owned by the Company.

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 23 LONG TERM INVESTMENTS

This represents investment in ordinary shares of Hira Terry Mills Limited [‘the associated company’]. The investment has been accounted for by using equity method. The details of ownership and investment are as under:

|   | 2020                 | 2019          |
|---|----------------------|---------------|
|   | <i>Rupees</i>        | <i>Rupees</i> |
| <b>23.1 Hira Terry Mills Limited</b>                                    |                      |               |
| Percentage of ownership interest  | <b>46.90%</b>        | 46.90%        |
|   | 2020                 | 2019          |
|   | <i>Rupees</i>        | <i>Rupees</i> |
| Cost of investment  |                      |               |
| 18,450,000 (2019: 18,450,000) fully paid ordinary shares of Rs. 10 each | <b>184,500,000</b>   | 184,500,000   |
| Bonus Issue @ 20%   | <b>36,900,920</b>    | 36,900,920    |
| Share of post acquisition losses - <i>unrealized</i>                    | <b>(221,400,920)</b> | (152,533,372) |
|   | -                    | 68,867,548    |

#### 23.1.1 Extracts of financial statements of associated company

The assets and liabilities of Hira Terry Mills Limited as at the reporting date and related revenue and profit for the year then ended based on the un-audited financial statements are as follows:

|   | 2020                 | 2019            |
|---|----------------------|-----------------|
|   | <i>Rupees</i>        | <i>Rupees</i>   |
| Non-current assets                                    | <b>2,894,224,086</b> | 2,069,775,999   |
| Current assets  | <b>1,715,996,386</b> | 2,010,594,989   |
| Non-current liabilities                               | <b>1,520,556,357</b> | 478,984,175     |
| Current liabilities                                   | <b>2,894,113,940</b> | 3,457,906,396   |
| Revenue   | <b>1,172,677,460</b> | 2,214,694,162   |
| Loss for the year                                     | <b>(663,336,031)</b> | (1,211,069,918) |
| Other comprehensive loss                              | -                    | (2,221,712)     |
| Total comprehensive loss                              | <b>(663,336,031)</b> | (1,213,291,630) |
| Break-up value per share                              | <b>4.14</b>          | 3.04            |
| Share of loss - <i>unrealized</i>                     | <b>(68,867,548)</b>  | (567,991,792)   |
| Share of other comprehensive loss - <i>unrealized</i> | -                    | (1,041,983)     |

**23.1.2** The Company's share of losses of associate has exceeded its interest in the associate. Accordingly, recognition of share of further losses has been discontinued.

|  | 2020              | 2019          |
|--|-------------------|---------------|
|  | <i>Rupees</i>     | <i>Rupees</i> |
| <b>24 LONG TERM DEPOSITS</b>                 |                   |               |
| Utility companies and regulatory authorities | <b>42,333,812</b> | 20,567,037    |
| Financial institutions                       | <b>5,814,840</b>  | 12,459,804    |
|  | <b>48,148,652</b> | 33,026,841    |

### 25 STORES, SPARES AND LOOSE TOOLS

|                        |                   |            |
|------------------------|-------------------|------------|
| Stores                 | <b>290,446</b>    | 919,452    |
| Spares and loose tools | <b>37,076,501</b> | 35,498,110 |
|                        | <b>37,366,947</b> | 36,417,562 |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

25.1 There are no spare parts held exclusively for capitalization as at the reporting date.

|                          | <i>Note</i> | <b>2020</b>        | 2019          |
|--------------------------|-------------|--------------------|---------------|
|                          |             | <i>Rupees</i>      | <i>Rupees</i> |
| <b>26 STOCK IN TRADE</b> |             |                    |               |
| Raw material             |             | <b>191,704,710</b> | 188,613,565   |
| Packing material         |             | <b>3,100,836</b>   | 2,906,330     |
| Work in process          |             | <b>43,810,486</b>  | 39,802,358    |
| Finished goods           | 26.1        | <b>50,182,052</b>  | 20,352,646    |
|                          |             | <b>288,798,084</b> | 251,674,899   |

26.1 Stock of finished goods include stock of waste valued at Rs. 11.305 million (2019: Rs. 3.49 million). The entire stock of waste is valued at net realizable value.

26.2 Net realizable values of finished goods (yarn stock) were lower than their cost, which resulted in write-down of Rs. 6.651 million (2019: Rs. 0.678 million) which had been charged to cost of sales.

|   | <i>Note</i> | <b>2020</b>        | 2019          |
|---|-------------|--------------------|---------------|
|   |             | <i>Rupees</i>      | <i>Rupees</i> |
| <b>27 TRADE DEBTS</b>                           |             |                    |               |
| Local   | 27.1        | <b>184,218,388</b> | 606,080,008   |
| Impairment allowance for expected credit losses | 27.2        | <b>(11,833)</b>    | (763,478)     |
|   |             | <b>184,206,555</b> | 605,316,530   |

27.1 These include Rs. 23.601 million receivable from Hira Terry Mills Limited against the sale of yarn, a related party.

|   | <i>Note</i> | <b>2020</b>      | 2019          |
|---|-------------|------------------|---------------|
|   |             | <i>Rupees</i>    | <i>Rupees</i> |
| <b>27.2 Impairment allowance for expected credit losses</b> |             |                  |               |
| As at beginning of the year                                 |             | <b>763,478</b>   | -             |
| Recognized during the year                                  | 37          | <b>11,833</b>    | 763,478       |
| Written off during the year                                 | 35          | <b>(763,478)</b> | -             |
| As at end of the year                                       |             | <b>11,833</b>    | 763,478       |

**28 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

|                                 |      |                    |             |
|---------------------------------|------|--------------------|-------------|
| Advances to suppliers           |      | <b>173,234,619</b> | 24,871,469  |
| Advances to employees           | 28.1 | <b>6,863,169</b>   | 4,104,512   |
| Advance against sale of vehicle |      | <b>450,000</b>     | 900,000     |
| Letters of credit               |      | -                  | 600,000     |
| Prepayments                     |      | -                  | 10,000,000  |
| Sales tax refundable            |      | <b>35,714,310</b>  | 50,751,875  |
| Excise duty refundable          |      | <b>1,953,431</b>   | 1,953,431   |
| Export rebate receivable        |      | <b>5,630,401</b>   | 5,630,401   |
| Interest rebate receivable      | 28.2 | <b>28,996,716</b>  | 28,996,716  |
| Other receivables               |      | -                  | 7,427,275   |
| Due from related party          |      | -                  | 61,490,681  |
|                                 |      | <b>252,842,646</b> | 196,726,360 |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

- 28.1** These represent advances to employees against future salaries and post employment benefits in accordance with the Company policy. No advances have been given to any of the directors of the Company.
- 28.2** These represents interest rebate receivable against reimbursement on account of 5% interest subsidy through notification by Ministry of Commerce and Textile.

|   | <i>Note</i> | <b>2020</b><br><i>Rupees</i> | 2019<br><i>Rupees</i> |
|---|-------------|------------------------------|-----------------------|
| <b>29 ADVANCE INCOME TAX/INCOME TAX REFUNDABLE</b>  |             |                              |                       |
| Advance income tax/income tax refundable            |             | <b>69,261,710</b>            | 96,333,199            |
| Provision for taxation                              | 38          | <b>(26,263,854)</b>          | (30,021,218)          |
|   |             | <b>42,997,856</b>            | 66,311,981            |
| <b>30 CASH AND BANK BALANCES</b>                    |             |                              |                       |
| Cash in hand  |             | <b>772,378</b>               | 366,248               |
| Cash at banks<br>current accounts in local currency |             | <b>8,843,631</b>             | 7,950,428             |
|   |             | <b>9,616,009</b>             | 8,316,676             |

**31 SALES - NET**

|              | <i>Note</i> | <b>2020</b>                        |                         |                        |                        |
|--------------|-------------|------------------------------------|-------------------------|------------------------|------------------------|
|              |             | Finished<br>goods<br><i>Rupees</i> | Cotton<br><i>Rupees</i> | Waste<br><i>Rupees</i> | Total<br><i>Rupees</i> |
| Local        |             | 1,688,168,814                      | -                       | 62,754,811             | 1,750,923,625          |
| Sales return |             | -                                  | -                       | -                      | -                      |
| Sales tax    |             | (278,054,237)                      | -                       | (9,495,438)            | (287,549,675)          |
|              |             | <b>1,410,114,577</b>               | -                       | <b>53,259,373</b>      | <b>1,463,373,950</b>   |
|              |             | <b>2019</b>                        |                         |                        |                        |
|              |             | Finished<br>goods<br><i>Rupees</i> | Cotton<br><i>Rupees</i> | Waste<br><i>Rupees</i> | Total<br><i>Rupees</i> |
| Local        |             | 2,534,754,362                      | 27,933,110              | 119,802,023            | 2,682,489,495          |
| Sales return |             | (36,500,376)                       | -                       | -                      | (36,500,376)           |
| Sales tax    |             | -                                  | -                       | -                      | -                      |
|              |             | <b>2,498,253,986</b>               | <b>27,933,110</b>       | <b>119,802,023</b>     | <b>2,645,989,119</b>   |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

|  | <i>Note</i>   | <b>2020</b>          | <b>2019</b>   |
|--|---------------|----------------------|---------------|
|  |               | <i>Rupees</i>        | <i>Rupees</i> |
| <b>32 COST OF SALES</b>  |               |                      |               |
| Raw material consumed  | 32.1          | <b>920,962,912</b>   | 1,792,589,497 |
| Damaged stock written off  |               | -                    | 778,054,130   |
| Packing material consumed  |               | <b>23,840,980</b>    | 28,059,730    |
| Stores, spares and loose tools consumed  |               | <b>27,134,369</b>    | 61,792,063    |
| Salaries, wages and benefits   | 32.2          | <b>183,364,753</b>   | 257,208,938   |
| Insurance  |               | <b>6,341,487</b>     | 4,062,994     |
| Power and fuel   |               | <b>265,384,364</b>   | 290,742,780   |
| Dyes and chemicals   |               | <b>4,577,536</b>     | 6,199,007     |
| Depreciation   | 21.1.3 & 22.1 | <b>124,189,663</b>   | 128,468,620   |
| Others   |               | <b>7,830,715</b>     | 8,278,462     |
| <b>Manufacturing cost</b>  |               | <b>1,563,626,779</b> | 3,355,456,221 |
| Work in process  |               |                      |               |
| As at beginning of the year  |               | <b>39,802,358</b>    | 27,947,507    |
| Transferred to related party   |               | -                    | (1,572,905)   |
| As at end of the year  |               | <b>(43,810,486)</b>  | (39,802,358)  |
|  |               | <b>(4,008,128)</b>   | (13,427,756)  |
| <b>Cost of goods manufactured</b>  |               | <b>1,559,618,651</b> | 3,342,028,465 |
| Finished goods   |               |                      |               |
| As at beginning of the year  |               | <b>20,352,646</b>    | 361,192,001   |
| Transferred to related party   |               | -                    | (3,299,808)   |
| As at end of the year  |               | <b>(50,182,052)</b>  | (20,352,646)  |
|  |               | <b>(29,829,406)</b>  | 337,539,547   |
| <b>Cost of cotton sold</b>   |               | -                    | 27,933,110    |
|  |               | <b>1,529,789,245</b> | 3,707,501,122 |
| <b>32.1 Raw material consumed</b>  |               |                      |               |
| As at beginning of the year  |               | <b>188,613,565</b>   | 1,324,207,931 |
| Purchased during the year  |               | <b>924,054,057</b>   | 1,462,982,371 |
| Sold during the year   |               | -                    | (27,933,110)  |
| Damaged stock written off  |               | -                    | (778,054,130) |
| As at end of the year  |               | <b>(191,704,710)</b> | (188,613,565) |
|  |               | <b>920,962,912</b>   | 1,792,589,497 |
| <b>32.2</b> These include charge in respect of employees retirement benefits and contribution to provident fund amounting to Rs. 9.739 million and Rs. 1.466 million respectively (2019: Rs. 6.594 million and Rs. 0.883 million). |               |                      |               |
|  | <i>Note</i>   | <b>2020</b>          | <b>2019</b>   |
|  |               | <i>Rupees</i>        | <i>Rupees</i> |
| <b>33 DISTRIBUTION COST</b>  |               |                      |               |
| Commission   |               | <b>26,750</b>        | 1,408,265     |
| Others   |               | <b>9,660</b>         | 1,485,216     |
|  |               | <b>36,410</b>        | 2,893,481     |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2020

|                                   | <i>Note</i>   | <b>2020</b>       | 2019              |
|-----------------------------------|---------------|-------------------|-------------------|
|                                   |               | <i>Rupees</i>     | <i>Rupees</i>     |
| <b>34 ADMINISTRATIVE EXPENSES</b> |               |                   |                   |
| Salaries and benefits             | 34.1          | 23,478,057        | 19,309,245        |
| Rent, rates and taxes             |               | 65,418            | 31,023            |
| Printing and stationery           |               | 30,105            | 251,815           |
| Communication                     |               | 1,002,100         | 926,993           |
| Electricity, water and gas        |               | 1,121,980         | 1,832,537         |
| Repair and maintenance            |               | 107,910           | 193,014           |
| Vehicles running and maintenance  |               | 2,312,113         | 1,049,391         |
| Traveling and conveyance          |               | 2,185,285         | 1,177,142         |
| Legal and professional            |               | 5,568,007         | 3,293,019         |
| Auditor's remuneration            | 34.2          | 1,215,000         | 1,297,875         |
| Fee and subscription              |               | 726,375           | 1,354,738         |
| Entertainment                     |               | 43,449            | 151,245           |
| Insurance                         |               | 727,571           | 632,445           |
| Depreciation                      | 21.1.3 & 22.1 | 2,534,483         | 2,621,809         |
| Others                            |               | 1,511,832         | 1,815,540         |
|                                   |               | <b>42,629,685</b> | <b>35,937,831</b> |

34.1 These include charge in respect of contribution to provident fund amounting to Rs. 0.887 million (2019: Rs. 1.20 million).

|  | <i>Note</i> | <b>2020</b>      | 2019             |
|--|-------------|------------------|------------------|
|  |             | <i>Rupees</i>    | <i>Rupees</i>    |
| <b>34.2 Auditor's remuneration</b>               |             |                  |                  |
| Annual statutory audit                           |             | 600,000          | 600,000          |
| Limited scope review                             |             | 190,000          | 272,875          |
| Review report under Code of Corporate Governance |             | 175,000          | 175,000          |
| Out of pocket expenses                           |             | 250,000          | 250,000          |
|  |             | <b>1,215,000</b> | <b>1,297,875</b> |

#### 35 OTHER INCOME

##### Other income

|   |        |                   |                   |
|---|--------|-------------------|-------------------|
| Gain on disposal of property, plant and equipment | 21.1.2 | -                 | 2,229,008         |
| Rental income                                     |        | 45,920,000        | 28,000,000        |
|   |        | <b>45,920,000</b> | <b>30,229,008</b> |

35.1 This represents rental income against assets leased out to Hira Terry Mills Limited, a related party. (See note 21.1.6).

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

|                             | <i>Note</i> | 2020<br><i>Rupees</i> | 2019<br><i>Rupees</i> |
|-----------------------------|-------------|-----------------------|-----------------------|
| <b>36 FINANCE COST</b>      |             |                       |                       |
| Interest on borrowings:     |             |                       |                       |
| long term finances          | 36.1        | 91,710,916            | 93,577,600            |
| lease liabilities           |             | 1,156,608             | 2,309,370             |
| short term borrowings       |             | 72,453,388            | 123,297,639           |
|                             |             | <b>165,320,912</b>    | 219,184,609           |
| Bank charges and commission |             | 1,030,788             | 1,751,031             |
|                             |             | <b>166,351,700</b>    | 220,935,640           |

**36.1** During the year, interest of Rs. 32.152 million (2019: 22.78 million) on long term loans from directors and sponsors has been waived by the lenders on their discretion.

|   | <i>Note</i> | 2020<br><i>Rupees</i> | 2019<br><i>Rupees</i> |
|---|-------------|-----------------------|-----------------------|
| <b>37 OTHER CHARGES</b>                           |             |                       |                       |
| <b>Gain on financial instruments</b>              |             |                       |                       |
| Impairment allowance for expected credit losses   |             | 11,833                | 763,478               |
| <b>Others</b>                                     |             |                       |                       |
| Loss on disposal of property, plant and equipment |             | 403,440               | -                     |
|   |             | <b>415,273</b>        | 763,478               |

|                    |      |                     |             |
|--------------------|------|---------------------|-------------|
| <b>38 TAXATION</b> |      |                     |             |
| Current taxation   |      |                     |             |
| for current year   | 38.1 | 26,263,854          | 30,021,218  |
| for prior year     |      | (3,053,646)         | (113,016)   |
|                    |      | <b>23,210,208</b>   | 29,908,202  |
| Deferred taxation: | 15   | <b>(10,620,632)</b> | 126,128,690 |
|                    |      | <b>12,589,576</b>   | 156,036,892 |

**38.1** Provision for current tax has been made in accordance with section 113 of the Income Tax Ordinance 2001 ['the Ordinance']. There is no relationship between the aggregate tax expense and accounting profit and accordingly, no numerical reconciliation has been presented.

**38.2** The income tax assessments of the Company up to and including tax year 2019 have been completed by the concerned income tax authorities or are deemed to have been so completed under the provisions of section 120 of the Ordinance except for the tax years highlighted in note 20.1.

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

|  | <i>Unit</i>  | 2020                         | 2019   |
|--|--|------------------------------|--|
| <b>39</b>  | <b>LOSS PER SHARE - BASIC AND DILUTED</b>                                    |                              |  |
| Loss attributable to ordinary shareholders   | <i>Rupees</i>  | <b>(303,788,571)</b>         | (2,015,842,109)                                      |
| Weighted average number of ordinary shares outstanding during the year   | <i>No. of shares</i>   | <b>86,577,920</b>            | 86,577,920   |
| Loss per share   | <i>Rupees</i>  | <b>(3.51)</b>                | (23.28)  |
| <b>39.1</b>  | There is no anti-diluting effect on the basic loss per share of the Company. |                              |  |
|  |  | 2020                         | 2019   |
|  |  | <i>Rupees</i>                | <i>Rupees</i>  |
| <b>40</b>  | <b>CASH GENERATED FROM OPERATIONS</b>  |                              |  |
| <b>Loss before taxation</b>  |  | <b>(291,198,995)</b>         | (1,859,805,217)                                      |
| <b>Adjustments for non-cash and other items</b>  |  |                              |  |
| Finance cost   |  | <b>166,351,700</b>           | 219,184,609  |
| Gain on disposal of property, plant and equipment  |  | <b>403,440</b>               | (2,229,008)  |
| Provision for employees retirement benefits  |  | <b>9,738,962</b>             | 6,594,483  |
| Depreciation   |  | <b>126,724,146</b>           | 131,090,429  |
| Impairment allowance for expected credit losses  |  | <b>11,833</b>                | 763,478  |
| Share of loss from associate   |  | <b>68,867,548</b>            | 567,991,792  |
|  |  | <b>372,097,629</b>           | 923,395,783  |
|  |  | <b>80,898,634</b>            | (936,409,434)  |
| <b>Changes in working capital</b>  |  |                              |  |
| Stores, spares and loose tools   |  | <b>(949,385)</b>             | 62,820,959   |
| Stock in trade   |  | <b>(37,123,185)</b>          | 1,474,000,348  |
| Trade debts  |  | <b>421,098,142</b>           | (523,050,579)  |
| Advances, deposits, prepayments and other receivables  |  | <b>(56,116,286)</b>          | (4,725,813)  |
| Trade and other payables   |  | <b>(300,390,556)</b>         | 67,117,911   |
| Long term deposits   |  | <b>(15,121,811)</b>          | (157,264)  |
|  |  | <b>11,396,919</b>            | 1,076,005,562  |
| <b>Cash generated from operations</b>  |  | <b>92,295,553</b>            | 139,596,128  |
| <b>41</b>  | <b>CASH AND CASH EQUIVALENTS</b>   |                              |  |
| Cash and bank balances   |  | <b>9,616,009</b>             | 8,316,676  |
|  |  | <b>9,616,009</b>             | 8,316,676  |
| <b>42</b>  | <b>TRANSACTIONS AND BALANCES WITH RELATED PARTIES</b>                        |                              |  |
| <p>Related parties from the Company's perspective comprise associated companies and key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and includes the Chief Executive and Directors of the Company. The details of Company's related parties, with whom the Company had transactions during the year or has balances outstanding as at the reporting date are as follows:</p> |  |                              |  |
| <b>Name of related party</b>   | <b>Nature of relationship</b>  | <b>Basis of relationship</b> | <b>Aggregate %age of shareholding in the Company</b> |
| Hira Terry Mills Limited   | Associated company   | Investment                   | 46.9000%   |
| Muhammad Umer Virk   | Key management personnel   | Father of director           | 27.2800%   |
| Saeed Ahmad Khan   | Key management personnel   | Director                     | 0.0028%  |
| Muhammad Mehboob   | Key management personnel   | Director                     | 0.0006%  |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

| Name of related party | Nature of relationship          | Basis of relationship | Aggregate %age of shareholding in the Company |
|-----------------------|---------------------------------|-----------------------|---|
| Shahnaz Umer          | Key management personnel        | Director              | 6.6135%                                       |
| Sadiya Umair          | Key management personnel        | Director              | 6.5120%                                       |
| Umair Umer            | Close family member of director | Son of Director       | 0.0000%                                       |
| Umaira Umer           | Close family member of director | Daughter of Director  | 9.9400%                                       |

Transactions with key management personnel are limited to payment of short term employee benefits and office rent. The Company in the normal course of business carries out various transactions with associated companies and continues to have a policy whereby all such transactions are carried out on commercial terms and conditions which are equivalent to those prevailing in an orderly transaction between market participants at the date of transaction. Detail of transactions and balances with related parties is as follows:

|                               |   | 2020        | 2019        |
|-------------------------------|---|-------------|-------------|
|                               |   | Rupees      | Rupees      |
| <b>42.1</b>                   | <b>Transactions with related parties</b>              |             |             |
| <b>Nature of relationship</b> | <b>Nature of transactions</b>                         |             |             |
| Associated company            | Sales of yarn, cotton, dyes, scrap and chemicals      | 24,424,077  | 239,949,375 |
|                               | Purchases of towels, cotton, waste, stores and spares | 4,680       | -           |
|                               | Expenses charged                                      | 19,920,317  | 17,587,235  |
|                               | Transfer of work in progress                          | -           | 1,572,905   |
|                               | Transfer of finished good                             | -           | 3,299,808   |
|                               | Rental income   | 45,920,000  | 28,000,000  |
|                               | Debit note issued                                     | -           | 273,373,850 |
|                               | Debit note reversed                                   | 273,373,850 | -           |
| Sponsors                      | Interest on borrowings charged                        | 32,152,046  | 22,779,703  |
|                               | Interest on borrowings waived                         | 32,152,046  | 22,779,703  |
| Provident fund trust          | Contribution for the year                             | 2,352,050   | 2,090,508   |
| <b>42.2</b>                   | <b>Balances with related parties</b>                  |             |             |
| Associated company            | Advance against rent                                  | 189,127,049 | -           |
|                               | Receivable against expenses claimed                   | -           | 61,490,681  |
|                               | Receivable against sale of yarn                       | 23,601,006  | -           |
| Sponsors                      | Borrowings  | 481,500,000 | 531,583,673 |
|                               | Current account                                       | 49,939,673  | -           |
| Key management personnel      | Short Term employees benefits payable                 | 1,164,240   | 1,185,136   |
| Provident fund trust          | Payable to provident fund trust                       | 2,467,220   | 1,622,737   |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 43 FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial instruments by class and category are as follows:

|   | <i>Note</i> | <b>2020</b>          | <b>2019</b>   |
|---|-------------|----------------------|---------------|
|   |             | <i>Rupees</i>        | <i>Rupees</i> |
| <b>43.1 Financial assets</b>                          |             |                      |               |
| <b>Cash in hand</b>                                   | 30          | <b>772,378</b>       | 366,248       |
| <b><i>Financial assets at amortized cost</i></b>      |             |                      |               |
| Long term deposits                                    | 24          | <b>48,148,652</b>    | 33,026,841    |
| Trade debts   | 27          | <b>184,206,555</b>   | 605,316,530   |
| Advances to employess                                 | 28          | <b>6,863,169</b>     | 4,104,512     |
| Due from related party                                | 28          | -                    | 61,490,681    |
| Bank balances   | 30          | <b>8,843,631</b>     | 7,950,428     |
|   |             | <b>248,834,385</b>   | 712,255,240   |
| <b>43.2 Financial liabilities</b>                     |             |                      |               |
| <b><i>Financial liabilities at amortized cost</i></b> |             |                      |               |
| Long term finances                                    | 11          | <b>1,172,663,134</b> | 944,109,303   |
| Long term loan from directors and sponsors            | 10          | -                    | 213,493,000   |
| Lease liabilities                                     | 13          | <b>6,956,925</b>     | 22,086,409    |
| Short term borrowings                                 | 17          | <b>809,279,436</b>   | 1,345,646,184 |
| Accrued interest                                      | 18          | <b>366,899,587</b>   | 242,790,441   |
| Trade creditors                                       | 16          | <b>182,017,052</b>   | 698,912,708   |
| Due to related party                                  | 16          | <b>189,127,049</b>   | -             |
| Accrued liabilities                                   | 16          | <b>98,040,223</b>    | 86,057,950    |
| Other payables  | 16          | <b>49,939,673</b>    | -             |
| Unclaimed dividend                                    |             | <b>2,757,216</b>     | 2,757,216     |
|   |             | <b>2,877,680,295</b> | 3,555,853,211 |

### 44 FINANCIAL RISK EXPOSURE AND MANAGEMENT

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

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

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

#### 44.1 Credit risk

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

##### 44.1.1 Credit risk management practices

In order to minimise credit risk, the Company has adopted a policy of only dealing with credit worthy counterparties and limiting significant exposure to any single counterparty. The Company only transacts with counterparties that have reasonably high external credit ratings. Where an external rating is not available, the Company uses an internal credit risk grading mechanism. Particularly for customers, a dedicated team responsible for the determination of credit limits uses a credit scoring system to assess the potential as well as existing customers' credit quality and assigns or updates credit limits accordingly. The ageing profile of trade debts and individually significant balances, along with collection activities are reviewed on a regular basis. High risk customers are identified and restrictions are placed on future trading.

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The Company reviews the recoverable amount of each financial asset on an individual basis at each reporting date to ensure that adequate loss allowance is made in accordance with the assessment of credit risk for each financial asset.

The Company considers a financial asset to have low credit risk when the asset has reasonably high external credit rating or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has no past due amounts or otherwise there is no significant increase in credit risk if the amounts are past due in the normal course of business based on history with the counterparty.

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial asset at the reporting date with the risk of a default occurring on the financial asset at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise. This is usually the case with various customers of the Company where the Company has long standing business relationship with these customers and any amounts that are past due by more than 30 days in the normal course of business are considered 'performing' based on history with the customers. Therefore despite the foregoing, the Company considers some past due trade debts to have low credit risk where the debtor has a good history of meeting its contractual cash flow obligations and is expected to maintain the same in future.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk.

The Company considers 'default' to have occurred when the financial asset is credit-impaired. A financial asset is considered to be credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

The Company writes off a financial asset when there is information indicating that the counter-party is in severe financial condition and there is no realistic prospect of recovery.

The Company's credit risk grading framework comprises the following categories:

| Category   | Description   | Basis for recognizing ECL                                   |
|------------|---|---|
| Performing | The counterparty has low credit risk                              | Trade debts: Lifetime ECL<br>Other assets: Twelve month ECL |
| Doubtful   | Credit risk has increased significantly since initial recognition | Lifetime ECL  |
| In default | There is evidence indicating the assets is credit-impaired        | Lifetime ECL  |
| Write-off  | There is no realistic prospect of recovery                        | Amount is written-off                                       |

#### 44.1.2 Maximum exposure to credit risk

Credit risk principally arises from debt instruments held by the Company as at the reporting date. The maximum exposure to credit risk as at the reporting date is as follows:

|   | Note | 2020<br>Rupees     | 2019<br>Rupees     |
|---|------|--------------------|--------------------|
| <b>Financial assets at amortized cost</b> |      |                    |                    |
| Long term deposits                        | 24   | 48,148,652         | 33,026,841         |
| Trade debts                               | 27   | 184,206,555        | 605,316,530        |
| Advances to employees                     | 28   | 6,863,169          | 4,104,512          |
| Due from related party                    | 28   | -                  | 61,490,681         |
| Bank balances                             | 30   | 8,843,631          | 7,950,428          |
|   |      | <b>248,062,007</b> | <b>711,888,992</b> |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 44.1.3 Credit quality and impairment

Credit quality of financial assets is assessed by reference to external credit ratings, where available, or to internal credit risk grading. The credit quality of the Company's financial assets exposed to credit risk is as follows:

|                       | Note | External credit rating | Internal credit risk grading | 12-month or life-time ECL | Gross carrying amount | Loss allowance  |
|-----------------------|------|------------------------|------------------------------|---------------------------|-----------------------|-----------------|
|                       |      |                        |                              |                           | Rupees                | Rupees          |
| Long term deposits    | 24   | N/A                    | Performing                   | 12-month ECL              | 48,148,652            | -               |
| Trade debts           | 27   | N/A                    | Performing                   | Lifetime ECL              | 184,218,388           | (11,833)        |
| Advances to employees | 28   | N/A                    | Performing                   | Lifetime ECL              | 6,863,169             | -               |
| Bank balances         | 30   | A1 - A1+               | N/A                          | 12-month ECL              | 8,843,631             | -               |
|                       |      |                        |                              |                           | <b>248,073,840</b>    | <b>(11,833)</b> |

#### (a) Long term deposits

Long term deposits comprise security deposits placed with various financial institutions and utility companies. These deposits are placed for an indefinite period without any fixed maturity and will be due for refund only if the Company ceases to use the underlying services. Therefore, no credit risk has been associated with these financial assets and accordingly no loss allowance has been made.

#### (b) Trade debts

For trade debts, the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on trade debts by using internal credit risk gradings. As at the reporting date, trade debts are considered 'performing' including those past due amounting to Rs. 84.655 million as there is no significant increase in credit risk in respect of these debts since initial recognition. The ageing analysis of trade debts as at the reporting date is as follows:

|                                 | 2020               | 2019               |
|---------------------------------|--------------------|--------------------|
|                                 | Rupees             | Rupees             |
| Neither past due nor impaired   | 99,563,362         | 232,980,428        |
| Past due by upto 30 days        | 66,481,388         | 202,597,527        |
| Past due by 31 days to 180 days | 12,542,206         | 38,110,183         |
| Past due by 180 days or more    | 5,631,432          | 132,391,870        |
|                                 | <b>184,218,388</b> | <b>606,080,008</b> |

#### (c) Advances to employees

Advances to employees have been given against future salaries and post-employment benefits. Accordingly, these are considered to have no credit risk.

#### (d) Bank balances

The bankers of the Company have reasonably high credit ratings as determined by various independent credit rating agencies. Due to long standing business relationships with these counterparties and considering their strong financial standing, management does not expect any credit loss.

### 44.1.2 Concentration of credit risk

There are no significant concentrations of credit risk, except for trade debts. The Company's one (2019: two) significant customers account for Rs. 23.601 million (2019: Rs. 249.163 million) of trade debts as at the reporting date, apart from which, exposure to any single customer does not exceed 10% (2018: 10%) of trade debts as at the reporting date. These significant customers have long standing business relationships with the Company and have a good payment record and accordingly non-performance by these customers is not expected.

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 44.1.4 Collateral held

The Company does not hold any collateral to secure its financial assets with the exception advances to employees which are secured against future salaries and post-employment benefits.

### 44.1.5 Changes in impairment allowance for expected credit losses

The changes in impairment allowance for expected credit losses have been presented in note 37.

### 44.2 Liquidity risk

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

#### 44.2.1 Liquidity risk management

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

#### 44.2.2 Exposure to liquidity risk

The following presents the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The analysis have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay and includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the reporting date.

|  | 2020                      |                                  |                            |                              |                                 |
|--|---------------------------|----------------------------------|----------------------------|------------------------------|---------------------------------|
|  | Carrying amount<br>Rupees | Contractual cash flows<br>Rupees | One year or less<br>Rupees | One to three years<br>Rupees | More than three years<br>Rupees |
| Long term finances                         | 1,180,260,050             | 1,473,146,488                    | 402,647,791                | 541,117,162                  | 529,381,535                     |
| Long term loan from directors and sponsors | -                         | -                                | -                          | -                            | -                               |
| Liabilities liabilities                    | 6,956,925                 | 7,499,004                        | 7,499,004                  | -                            | -                               |
| Short term borrowings                      | 809,279,436               | 809,279,436                      | 809,279,436                | -                            | -                               |
| Accrued interest                           | 366,899,587               | 366,899,587                      | 366,899,587                | -                            | -                               |
| Trade creditors                            | 182,017,052               | 182,017,052                      | 182,017,052                | -                            | -                               |
| Accrued liabilities                        | 98,040,223                | 98,040,223                       | 98,040,223                 | -                            | -                               |
| Other payables                             | 49,939,673                | 49,939,673                       | 49,939,673                 | -                            | -                               |
| Unclaimed dividend                         | 2,757,216                 | 2,757,216                        | 2,757,216                  | -                            | -                               |
| Due to related party                       | 189,127,049               | 189,127,049                      | 189,127,049                | -                            | -                               |
|  | <b>2,885,277,211</b>      | <b>3,178,705,728</b>             | <b>2,108,207,031</b>       | <b>541,117,162</b>           | <b>529,381,535</b>              |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

|  | 2019                             |   |                                   |                                     |  |
|--|----------------------------------|---|-----------------------------------|-------------------------------------|--|
|  | Carrying amount<br><i>Rupees</i> | Contractual cash flows<br><i>Rupees</i> | One year or less<br><i>Rupees</i> | One to three years<br><i>Rupees</i> | More than three years<br><i>Rupees</i> |
| Long term finances                         | 944,109,303                      | 1,378,274,230                           | 202,125,488                       | 565,171,992                         | 610,976,750                            |
| Long term loan from directors and sponsors | 213,493,000                      | 213,493,000                             | 213,493,000                       | -                                   | -                                      |
| Liabilities liabilities                    | 22,086,409                       | 22,947,938                              | 22,947,938                        | -                                   | -                                      |
| Short term borrowings                      | 1,345,646,184                    | 1,345,646,184                           | 1,345,646,184                     | -                                   | -                                      |
| Accrued interest                           | 242,790,441                      | 242,790,441                             | 242,790,441                       | -                                   | -                                      |
| Trade creditors                            | 698,912,708                      | 698,912,708                             | 698,912,708                       | -                                   | -                                      |
| Accrued liabilities                        | 86,057,950                       | 86,057,950                              | 86,057,950                        | -                                   | -                                      |
| Other payables                             | -                                | -                                       | -                                 | -                                   | -                                      |
| Unclaimed dividend                         | 2,757,216                        | 2,757,216                               | 2,757,216                         | -                                   | -                                      |
| Due to related party                       | -                                | -                                       | -                                 | -                                   | -                                      |
|  | <b>3,555,853,211</b>             | <b>3,990,879,667</b>                    | <b>2,814,730,925</b>              | <b>565,171,992</b>                  | <b>610,976,750</b>                     |

### 44.2.3 Overdue financial liabilities

The Company is facing a temporary liquidity shortfall as a result of which it was unable to meet its obligations in respect of various debt finances. The details are as follows:

|                       | Principal<br><i>Rupees</i> | interest<br><i>Rupees</i> | Total<br><i>Rupees</i> |
|-----------------------|----------------------------|---------------------------|------------------------|
| Long term finances    | 26,584,005                 | 159,660,604               | 186,244,609            |
| Short term borrowings | 809,279,436                | 157,505,476               | 966,784,912            |
|                       | <b>835,863,441</b>         | <b>317,166,080</b>        | <b>1,153,029,521</b>   |

### 44.3 Market risk

#### 44.3.1 Currency risk

Currency risk is the risk that fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises from transactions and resulting balances that are denominated in a currency other than functional currency. The Company is not exposed to currency risk

#### 44.3.2 Interest rate risk

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

##### (a) Interest rate risk management

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

##### (b) Interest bearing financial instruments

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

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

|                                  | 2020          | 2019          |
|----------------------------------|---------------|---------------|
|                                  | <i>Rupees</i> | <i>Rupees</i> |
| <b>Fixed rate instruments</b>    |               |               |
| Financial assets                 | -             | -             |
| Financial liabilities            | 17,276,667    | 21,575,000    |
| <b>Variable rate instruments</b> |               |               |
| Financial assets                 | -             | -             |
| Financial liabilities            | 1,169,940,308 | 1,158,113,712 |

**(c) Fair value sensitivity analysis for fixed rate instruments**

The Company does not account for its fixed rate instruments at fair value

**(d) Cash flow sensitivity analysis for variable rate instruments**

An increase of 100 basis points in interest rates as at the reporting date would have decreased profit for the year by Rs. 11.7 million (2019: Rs. 11.58 million). A decrease of 100 basis points would have had an equal but opposite effect on profit for the year. The analysis assumes that all other variables, in particular foreign exchange rates, remain constant and ignores the impact, if any, on provision for taxation for the year.

#### 44.3.3 Other Price risk

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

#### 45 CAPITAL MANAGEMENT

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

|                        | <i>Unit</i>   | 2020          | 2019          |
|------------------------|---------------|---------------|---------------|
| Total debt             | <i>Rupees</i> | 1,187,216,975 | 1,179,688,712 |
| Total equity           | <i>Rupees</i> | 68,981,598    | (97,438,954)  |
| Total capital employed |               | 1,256,198,573 | 1,082,249,758 |
| Gearing                | <i>% age</i>  | 94.51         | 109.00        |

There were no changes in the Company's approach to capital management during the year. The Company is not subject to any other externally imposed capital requirements, except those, related to maintenance of debt covenants, commonly imposed by the providers of debt finance and subordination of long term loan from directors and sponsors (see note 10).

#### 46 FAIR VALUE MEASUREMENTS

##### 46.1 Financial Instruments

##### 46.1.1 Financial instruments measured at fair value

The Company measures some of its financial assets at fair value. Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements and has the following levels.

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value hierarchy of assets measured at fair value and the information about how the fair values of these financial instruments are determined are as follows:

**a) Recurring fair value measurements**

There are no recurring fair value measurements as at the reporting date.

**b) Non-recurring fair value measurements**

There are no non-recurring fair value measurements as at the reporting date.

### 46.2 Financial instruments not measured at fair value

The management considers the carrying amount of all financial instruments not measured at fair value to approximate their carrying values.

### 46.3 Assets and liabilities other than financial instruments.

#### 46.3.1 Recurring fair value measurements

For recurring fair value measurements, the fair value hierarchy and information about how the fair values are determined is as follows:

|                     | Level 1 | Level 2       | Level 3 | 2020<br>Rupees | 2019<br>Rupees |
|---------------------|---------|---------------|---------|----------------|----------------|
| Freehold land       | -       | 183,480,000   | -       | 183,480,000    | 183,480,000    |
| Buildings           | -       | 286,434,771   | -       | 286,434,771    | 300,981,343    |
| Plant and machinery | -       | 1,612,835,500 | -       | 1,612,835,500  | 1,673,331,802  |

For fair value measurements categorized into Level 2 the following information is relevant:

|                      | Valuation technique  | Significant inputs  | Sensitivity   |
|----------------------|--|---|---|
| <b>Freehold land</b> | Market comparable approach that reflects recent transaction prices for similar properties  | Estimated purchase price, including non-refundable purchase taxes and other costs directly attributable to the acquisition. | A 5% increase in estimated purchase price, including non-refundable purchase taxes and other costs directly attributable to the acquisition would result in a significant increase in fair value of buildings by Rs. 9.174 million (2019: Rs. 9.174 million). |
| <b>Buildings</b>     | Cost approach that reflects the cost to the market participants to construct assets of comparable utility and age, adjusted for obsolescence and depreciation. There was no change in valuation technique during the year. | Estimated construction costs and other ancillary expenditure.   | A 5% increase in estimated construction and other ancillary expenditure would result in an increase in fair value of buildings by Rs. 14.322 million (2019: Rs. 15.049 million).  |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

| Valuation technique        | Significant inputs   | Sensitivity  |
|----------------------------|--|--|
| <b>Plant and machinery</b> | Cost approach that reflects the cost to the market participants to acquire assets of comparable utility and age, adjusted for obsolescence and depreciation. There was no change in valuation technique during the year. | Estimated purchase price, including import duties and non-refundable purchase taxes and other costs directly attributable to the acquisition or construction, erection and installation.   |
|                            |  | A 5% increase in estimated purchase price, including import duties and non-refundable purchase taxes and other directly attributable costs would results in an increase in fair value of plant and machinery by Rs. 80.642 million (2019: Rs. 83.667 million). |

Reconciliation of fair value measurements categorized in Level 2 is presented in note 46.3.1.

There were no transfers between fair value hierarchies during the year.

### 46.3.2 Non-recurring fair value measurements

There are no non-recurring fair value measurements as at the reporting date.

|  | 2020          | 2019          |
|--|---------------|---------------|
|  | Rupees        | Rupees        |
| <b>47 RESTRICTION ON TITLE, AND ASSETS PLEDGED AS SECURITY</b> |               |               |
| <b>Mortgages and charges</b>                                   |               |               |
| Charge over current assets                                     | 3,007,000,000 | 3,007,000,000 |
| Charge over fixed assets                                       | 2,744,384,404 | 2,744,384,404 |

### 48 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

|                          | 2020                      |                     |                      |
|--------------------------|---------------------------|---------------------|----------------------|
|                          | Chief Executive<br>Rupees | Directors<br>Rupees | Executives<br>Rupees |
| Managerial remuneration  | 1,760,004                 | 1,456,956           | 7,382,676            |
| House rent               | 639,996                   | 800,004             | 1,814,151            |
| Motor vehicle expenses   | 437,125                   | 437,816             | 1,256,371            |
| Utilities                | 47,965                    | 14,894              | 114,944              |
| Post employment benefits | 133,284                   | 122,124             | 331,114              |
|                          | <b>3,018,374</b>          | <b>2,831,794</b>    | <b>10,899,256</b>    |
| Number of persons        | 1                         | 1                   | 4                    |
|                          | 2019                      |                     |                      |
|                          | Chief Executive<br>Rupees | Directors<br>Rupees | Executives<br>Rupees |
| Managerial remuneration  | 2,250,000                 | 1,354,176           | 2,257,170            |
| House rent               | 1,500,000                 | 902,784             | 1,504,780            |
| Motor vehicle expenses   | 229,056                   | 317,340             | 181,899              |
| Utilities                | 33,936                    | 8,391               | 22,475               |
| Post employment benefits | 111,069                   | 122,124             | 186,061              |
|                          | <b>4,124,061</b>          | <b>2,704,815</b>    | <b>4,152,385</b>     |
| Number of persons        | 1                         | 1                   | 2                    |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 49 NON-CASH FINANCING ACTIVITIES

- 49.1** During the year, short term borrowings amounting to Rs. 346.329 million, lease liabilities amounting to Rs. 14.29 million and accrued interest amounting to Rs. 18.496 million were converted into long term finances as referred to in note 11.4, 11.6, 11.7, 13.1, 17.1 and 18.1.
- 49.2** During the year, short term borrowings and long term loan from directors and sponsors amounting to Rs. 266.007 million, and Rs. 213.493 million were transferred to equity as referred to in note 10, 12 and 17.2.

### 50 SEGMENT INFORMATION

- 50.1** The Company is a single reportable segment.
- 50.2** All non-current assets of the Company are situated in Pakistan.
- 50.3** All sales of the Company have originated from Pakistan.

### 51 EMPLOYEES PROVIDENT FUND TRUST

The following information is based on the latest audited financial statements of the Hira Textile Mills Limited Employees Provident Fund for the year ended June 30, 2020.

|  | <i>Unit</i>   | 2020              | 2019       |
|--|---------------|-------------------|------------|
| Size of the fund - <i>total assets</i> | <i>Rupees</i> | <b>13,037,284</b> | 15,668,238 |
| Cost/fair value of investments         | <i>Rupees</i> | <b>9,600,000</b>  | 12,802,000 |
| Percentage of investments made         | <i>% age</i>  | <b>73.63%</b>     | 81.71%     |

The break-up of investments is as follows:

|                                   | 2020             |              | 2019          |              |
|-----------------------------------|------------------|--------------|---------------|--------------|
|                                   | <i>Rupees</i>    | <i>% age</i> | <i>Rupees</i> | <i>% age</i> |
| Government securities             | <b>9,300,000</b> | <b>71.33</b> | 11,800,000    | 75.31        |
| Interest bearing loans to members | <b>300,000</b>   | <b>3.13</b>  | 1,002,000     | 7.83         |
|                                   | <b>9,600,000</b> | <b>74.46</b> | 12,802,000    | 83.14        |

The Company has complied with all the requirements set out by the provisions of section 218 of the Companies Act, 2017 for investments out of provident fund.

### 52 PLANT CAPACITY AND ACTUAL PRODUCTION

|  | <i>Unit</i> | 2020              | 2019       |
|--|-------------|-------------------|------------|
| <b>52.1 Spinning</b>                                 |             |                   |            |
| <b>Production capacity</b>                           |             |                   |            |
| Number of spindles installed                         | <i>No.</i>  | <b>41,424</b>     | 41,424     |
| Production Capacity after conversion into 20's count | <i>Kgs</i>  | <b>15,826,920</b> | 15,826,920 |
| <b>Actual production</b>                             |             |                   |            |
| Actual Production after conversion into 20's count   | <i>Kgs</i>  | <b>10,195,318</b> | 11,996,095 |

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

|   | <i>Unit</i> | 2020 | 2019   |
|---|-------------|------|--------|
| <b>52.2 Doubling</b>                                |             |      |        |
| <b>Production capacity</b>                          |             |      |        |
| Number of spindles installed                        | <i>No.</i>  | -    | 1,094  |
| Installed capacity after conversion into 20's count | <i>Bags</i> | -    | 51,560 |
| <b>Actual production</b>                            |             |      |        |
| Actual production after conversion into 20's count  | <i>Bags</i> | -    | -      |

|                            |            |         |         |
|----------------------------|------------|---------|---------|
| <b>52.3 Dyeing</b>         |            |         |         |
| <b>Production capacity</b> |            |         |         |
| Installed machines         | <i>No.</i> | 4       | 4       |
| Dyeing capacity            | <i>Kgs</i> | 150,000 | 750,000 |
| <b>Actual production</b>   |            |         |         |
| Actual dyeing production   | <i>Kgs</i> | 53,592  | 520,334 |

It is difficult to describe precisely the production capacity in textile industry since it fluctuates widely depending on various factors such as count of yarn spun, spindles speed, twist per inch and raw materials used, etc. It also varies according to the pattern of production adopted. Difference of actual production with installed capacity is in normal course of business. During the year, dyeing unit has been leased out to the Hira Terry Mills Limited, a related party.

### 53 MINIMUM LEASE PAYMENTS UNDER OPERATING LEASE

The Company has leased out certain assets under operating lease arrangements to a related party, Hira Terry Mills Limited. Amounts of minimum lease payments receivable under the lease agreement are as follows:

|   | <i>Note</i> | 2020               | 2019               |
|---|-------------|--------------------|--------------------|
|   |             | <i>Rupees</i>      | <i>Rupees</i>      |
| - not later than one year                           |             | 54,259,200         | 50,240,000         |
| - later than one year but not later than five years |             | 149,097,646        | 203,356,846        |
| - later than five year                              |             | -                  | -                  |
|   |             | <b>203,356,846</b> | <b>253,596,846</b> |

### 54 NUMBER OF EMPLOYEES

|                             | 2020 | 2019  |
|-----------------------------|------|-------|
| Total number of employees   | 826  | 1,169 |
| Average number of employees | 769  | 1,068 |

### 55 EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period which may require adjustment of and/or disclosure in these financial statements

## NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### 56 IMPACT OF COVID - 19 ON THE FINANCIAL STATEMENTS

COVID-19 pandemic started at the end of December 2019 and broke out in China in January 2020. The slow down in Pakistan started in February 2020 following which a nationwide lockdown was imposed in Pakistan. Although, the Company's production facilities remained closed for about one and half month, material sales remained suspended throughout the last quarter of the financial year or were otherwise slow as the Company's buyers renegotiated contracts. However, things are now seen getting back to track and as sales continue to pick up with the pandemic easing out, the management expects sustainable growth in revenue and profit margins in the ensuing financial year. There is no financial impact of COVID-19 on the carrying amounts of assets and liabilities or items of income and expenses reported in these financial statements except adjustment for Net Realizable Value as disclosed in note 26.2.

### 57 RECOVERABLE AMOUNTS AND IMPAIRMENT

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

### 58 GENERAL

58.1 Figures have been rounded off to the nearest rupee.

58.2 Comparative figures have been rearranged and reclassified, where necessary, for the purpose of comparison. However, there were no significant reclassifications during the year.



CHIEF EXECUTIVE



CHIEF FINANCIAL OFFICER



DIRECTOR/CHAIRPERSON

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## PROXY FORM

The Company Secretary  
Hira Textile Mills Limited  
44 E/1 Gulberg III  
Lahore.

I / We \_\_\_\_\_ of \_\_\_\_\_ being a member(s) of Hira Textile Mills Limited, and a holder of \_\_\_\_\_ Ordinary Shares as per Share Register Folio No. \_\_\_\_\_ (in case of Central Depository System Account Holder A/C No. \_\_\_\_\_ Participant I.D No. \_\_\_\_\_) hereby appoint \_\_\_\_\_ of \_\_\_\_\_ another member of the Company as per Share Register Folio No. \_\_\_\_\_ or (Failing him / her \_\_\_\_\_ of \_\_\_\_\_ another member of the Company) as my / our proxy to attend and vote for me / us and on my / our behalf at Annual General Meeting of the Company, to be held on October 28, 2020 (WEDNESDAY) at 02:30 PM at the Registered Office (MILL SITE) of the company (i.e. 8-KM, Manga Raiwind Road, District Kasur) and at any adjournment thereof.

As witness my hand this \_\_\_\_\_ day of \_\_\_\_\_ 2020 signed by the said \_\_\_\_\_ in presence of \_\_\_\_\_

Witness

Signature

Signature

Affix  
Revenue  
Stamp

Notes:

- a. Proxies, in order to be effective, must be received at the Company's Registered Office / head Office not less than 48 hours before the meeting duly stamped, signed and witnessed.
- b. Signature must agree with the specimen signature registered with the Company.
- c. In case of Central Depository System Account Holder, an attested copy of identity Card should be attached to this proxy form.
- d. No person shall act as proxy unless he is member of the company.

**HIRA TEXTILE MILLS**  
L I M I T E D



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